

TM Bill Would Combat Application Fraud, Resolve Circuit Split

By **Thomas Brooke** (April 30, 2020)

A bipartisan group of senators and representatives recently introduced legislation to address problems with U.S. trademark law.

The proposed statutory fix will help combat an influx of trademark applications from China-based applicants that rely on doctored photographs and faked documents, and it will rectify a long-standing circuit split over the definition of irreparable harm in trademark cases.



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The Value of a Federal Trademark Registration

Obtaining a federal trademark registration is one key to doing business and establishing a brand in the U.S. The federal trademark statute,[1] often referred to as the Lanham Act, grants trademark owners the right to obtain injunctive and monetary relief. Owners of registered trademarks are granted additional presumptions under the law.[2] A federally registered trademark also means that the owner can block third parties from obtaining a domain name that includes the mark.

Having a registered trademark is also crucial for those trading on Amazon and other e-commerce sites, as the sites reward officially trademarked products with higher visibility and search-generated listing results. Owners of federal trademark registrations may bar others from using the mark on Amazon, eBay and other popular sites, even without a court order.

In the U.S., with some limited exceptions, a trademark must be used in commerce in connection with the goods or services applied for in order to qualify for trademark registration. Under the provisions of the Lanham Act, the U.S. Patent and Trademark Office takes at face value the representations submitted under oath by the applicant for registration.

As part of the application process, an applicant must submit a specimen of use in the form of image that appears on its face to display the mark on or in connection with the goods or services listed in the application in use in commerce as of the claimed date, accompanied by the applicant's sworn statement that the image is genuine. For products, the mark must be shown on the product itself or on packaging, labels or tags. For software, a link to download the program will typically work.

Advertising and promotional material alone will not suffice to show use for products. Advertising and promotional material may be used to show use of a mark with services, but the services must be clearly associated with the mark. At least one specimen must accompany each application. If the application covers multiple classes of goods and services, a specimen must be submitted for each class. In some cases, the USPTO will require a specimen for every product listed.

So long as proper use is demonstrated, the specimen(s) of use will be accepted. The application will then be published for opposition. Unless a third party claiming prior rights to the subject mark files a timely notice of opposition, a relatively expensive and time-consuming adversary proceeding between the applicant and the opposer, typically involving attorneys on both sides, the application will proceed to registration.

Combatting the Rise in Fraudulent Applications

Increasingly, trademark registrations are issuing and being maintained for marks that have never been used or were not used as required before registration; the specimens of use are actually fakes and do not actually support the claims of use in commerce in the U.S.

The Trademark Modernization Act aims to combat the influx of trademark applications that rely on doctored photographs and faked documents. These provisions are a reaction to the many applications filed with doctored or dubious images intended to show actual use of the applied-for marks.

Over the past few years, applicants have attempted to demonstrate use of a mark in U.S. commerce by submitting a screenshot of a preexisting, digitally altered Amazon or eBay listing. In many cases, examiners have asked questions or requested details and found that the images did not actually support the claims in the applications.

The legislation will create better practices and give more authority to examining attorneys at the U.S. Patent and Trademark Office. Examiners' authority to collect evidence while reviewing new applications, including evidence from third parties, will be codified.

In 2019, the USPTO promulgated new regulations stating that foreign applicants would no longer be able to represent themselves before the USPTO and must appoint a U.S.-licensed attorney. Earlier this year, the USPTO required all applicants to provide an email address for each application, in addition to the address provided by outside counsel.

At a House Judiciary Subcommittee hearing in 2019, then-commissioner for trademarks at the USPTO, Mary Boney Denison, told subcommittee members that the USPTO is aggressively tackling the problem of inaccurate trademark filings via examiner training, the new requirement that foreign applicants use U.S. attorneys, and better technology solutions for identifying fraudulent specimens, among other efforts. She added that, between 2013 and 2017, there was a 1,200% increase in filings from China.

At the same hearing, professor Barton Beebe of New York University School of Law, and co-author of the article, "Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion," testified that he and fellow researchers found that at least one-quarter of applications from China-based companies covering clothing contained clearly doctored photos. He and his team estimated that two-thirds of the applications filed in 2017 in Class 25 were fraudulent in nature, and yet 60% of those were approved for publication and 39% proceeded to registration.

In response to the increase in trademark applications that have inaccurate and possibly fraudulent statements regarding use, in March 2018 the USPTO initiated the trademark specimen protest pilot program. The program allowed third-party trademark owners to send an email to TMSpecimenProtest@uspto.gov at the USPTO if they can prove the images submitted with the new applications have been digitally altered. However, under current law, even if fraud is discovered, third parties still must file cancellation proceedings, which can be prohibitively expensive for some businesses.

The proposed Trademark Modernization Act will take the trademark specimen protest pilot program and make it a formal process. A key feature of the legislation will be a requirement that trademark applicants must be prepared to provide tangible and trustworthy evidence that consumers actually see products bearing the trademark applied for or that the services

in question are truly promoted under the service mark as applied for.

Mockups, prototypes and questionable photographs will not be accepted. Applicants should expect additional scrutiny and be sure that evidence of use is comprehensive and complete.

Those seeking trademark registrations should be prepared to provide evidence of sales such as invoices, bills of lading or other shipping documents, along with images of the mark on the products, packaging, labels or tags. Mere promotional material will not suffice. Applicants should avoid submitting any evidence of use from third party sites such as Amazon or eBay. This material will almost assuredly create doubt in the mind of an examining attorney.

New Procedures to Cancel Fraudulent Registrations

The Trademark Modernization Act will create new cancellation procedures, allowing legitimate trademark owners to challenge what appear to be fraudulent registrations and request the termination of these trademark registrations when the marks in question were not used before registration.

The new processes, namely, expungement and reexamination, would be alternatives to traditional inter partes cancellation proceedings, which are often time-consuming and expensive.

With respect to expungement, which would create a new Section 16A of the Trademark Act, the text of the bill explains:

Although various bases for "nonuse" cancellation exist in the current statute, the concept of a mark having never been used is not expressly spelled out in the current statute. Because the law requires a "mark" to be used in U.S. commerce, the premise of an expungement proceeding is that the subject registration does not cover a "mark" because the subject of the registration was never used for the particular goods or services.

The bill also creates a new Section 16B of the Trademark Act, which provides procedures for ex parte reexamination of trademark registrations "covering marks for which improper use claims were made during the examination process before registration."

The key difference between expungement and ex parte reexamination is that in a reexamination procedure, the registrant must show commercial use in the U.S. during the time before the registration issued. In an expungement proceeding, a challenged registrant must provide evidence demonstrating, effectively, that it ever used the mark in commerce in the U.S.

These new, more efficient, timely procedures to challenge lack of use for registered trademarks, along with heightened examination techniques, will ease the burden on new market entrants created by registrations that should not have been registered because the registrants lacked proper use of the marks.

Fixing the Split on Irreparable Harm

In addition, the Trademark Modernization Act promotes remedies designed to protect consumers in trademark cases. Historically, if a trademark owner prevailed in an infringement lawsuit, the owner would be entitled to a presumption that the court would award an injunction against the competitor's continuing use of a confusingly similar

trademark so that consumers would not be misled about the source of a good or service.

This presumption flowed from the inherent nature of trademark injury, in which a trademark owner loses control over goods and services sold under a confusingly similar mark, resulting in actual or threatened harm to its goodwill and reputation; and the inherent difficulty in quantifying damages.[3]

Unfortunately, following the U.S. Supreme Court's ruling in a patent infringement lawsuit, *eBay Inc. v. MercExchange LLC*,^[4] holding that injunctions could not be presumed in that context, a circuit split developed as to whether irreparable harm can be presumed when a trademark violation has been proven.

In 2013, U.S. Court of Appeals for the the Ninth Circuit held in *Herb Reed Enterprises LLC v. Florida Entertainment Management Inc.*^[5] that, after *eBay*, the presumption of irreparable harm did not apply in a trademark case. The Supreme Court did not grant a petition for certiorari filed in that case, so a split among the circuits continues.

The differing views of the courts on this issue have created uncertainty for Lanham Act claimants and an incentive for forum shopping. In circuits where the presumption is no longer recognized in trademark cases, parties seeking to protect trademarks now face additional hurdles in order to obtain relief. A claimant must demonstrate irreparable injury even after proving liability or likely success on the merits.

The goal of the Trademark Modernization Act is to codify a presumption of irreparable harm. It will eliminate obstacles to injunctive relief for trademark owners who prevail on the merits of their claim or who, in preliminary injunction proceedings, demonstrate that they are likely to prevail on the merits.

This legislation will also protect consumers from harm arising from confusion about the source of products or services. A rebuttable presumption of irreparable harm is an important and logical avenue to adequate relief.

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[1] 15 U.S.C. §1051 et seq.

[2] *Id.* §1115.

[3] See, e.g., *Ty, Inc. v. Jones Grp., Inc.*, 237 F.3d 891, 902–3 (7th Cir. 2001); *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 640 (1st Cir. 1992).

[4] 547 U.S. 388 (2006).

[5] 736 F.3d 1239 (9th Cir. 2013).