

STATEMENT OF
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BEFORE THE
COMMITTEE ON THE JUDICIARY
SUBCOMMITTEE ON INTELLECTUAL PROPERTY
UNITED STATES SENATE

“Fraudulent Trademarks: How they undermine the Trademark System and harm American consumers and businesses”

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Introduction

Chairman Tillis, Ranking Member Coons and Members of the Subcommittee:

Good afternoon. Thank you for this opportunity to discuss fraudulent trademarks and their impact on American consumers and businesses. I am honored to be here with you today to share my views on this important issue and to help explain the background and some potential solutions to be explored.

For more than a decade, I have worked as an attorney at Debevoise & Plimpton LLP, helping to protect the trademark rights of our clients. As part of that practice, I regularly advise clients on the best practices for protection of their trademarks and brands, registration of their trademarks on the United States Patent and Trademark Office (USPTO) trademark register, enforcement of their rights against third party infringers, and defense of those rights in federal court and before the Trademark Trial and Appeal Board (TTAB). I am active in several intellectual property-related professional organizations, including the International Trademark Association, where I spearheaded the development of its Pro Bono Trademark Clearinghouse and recently served on the Presidential Task Force related to corporate social responsibility and building brands for a better society. I also serve as Chair of the Trademark Litigation Committee for the American Bar Association’s Intellectual Property Law Section. In addition, I am an

adjunct professor, teaching intellectual property-related classes, most recently fashion law at Rutgers School of Law. I am testifying today solely on my own behalf, and all views and opinions I offer are my own.

Trademarks

Trademarks are critical to protecting our nation's businesses, consumers, trade and economy. They are words or symbols that allow a business to distinguish its goods and services from those of another. Unlike patents, which protect ideas, and copyrights, which protect expressions, trademarks protect both businesses and consumers from unfair competition by indicating the source of products and services and distinguishing the goods or services of one business from another. A strong trademark may, in a single word or symbol, convey a wide range of attributes about a product or service to consumers. For example, when a consumer sees the famous Swoosh design on an article of clothing, he or she immediately recognizes it as coming from Nike and can quickly make a reasonably informed decision about whether that is a product he or she might want to purchase. For this reason, trademarks are among the most valuable assets companies may own, with several worth billions of dollars. The more a business's reputation grows, the more valuable its trademark will be.

Trademark rights are based on use of the mark in commerce. With a few limited exceptions, applicants for trademarks generally must show that they are using their mark in commerce as a condition of federal registration. Unlike patents and copyrights, once trademarks are registered, the registration is renewable indefinitely provided the owner continues to use the mark.¹ Some of the most recognized, and valuable, trademarks in the United States have been around for over a hundred years—Merck was first registered in 1910, Coca-Cola in 1893.

It is critical to the United States economy and American competitiveness around the world that American trademarks be protected.² Trademarks drive innovation by allowing businesses to capitalize on the goodwill and competitive advantages unique to their products and services, thereby encouraging investment. Trademarks are also critically important to consumers, who would not be able to distinguish between different products and services without protected trademarks.

¹ See 15 U.S.C. §§1051(a), 105, 1127.

² See, e.g., ECONOMICS & STATISTICS ADMINISTRATION & UNITED STATES PATENT AND TRADEMARK OFFICE, INTELLECTUAL PROPERTY AND THE ECONOMY: 2016 UPDATE 13, 22 (2016) (In 2014 alone, "trademark-intensive" industries accounted for 23.7 million jobs (and supported a further 17.3 million jobs through supply chains) and \$6.1 trillion in GDP.).

But trademarks should not be overprotected. Overprotection can lead to a number of negative repercussions. As one example, companies may find it difficult to compete if all the potential brand names they develop are taken on the register and if they cannot find a suitable trademark to use. A recent study, about which I understand we will hear testimony today, demonstrated that businesses are finding it increasingly difficult and costly to find unused trademarks.³ The Lanham Act seeks to ensure that companies do not unfairly monopolize trademarks – in particular, by requiring that every trademark application list the exact goods or services with which the trademark is being used; in addition, every trademark owner must affirm that it is still using its mark in connection with those goods and services after five and ten years, and then every ten years thereafter.⁴ Even with these protections, two problems have recently become especially noteworthy:

- *First*, some applicants for trademark registrations are committing fraud by reserving brand names to which they have no rights.
- *Second*, some trademark owners are applying for, or renewing, registrations for goods or services that are not actually being used with the mark, creating what is known as “deadwood”—registrations that protect marks that are not in use at all, or are not in use with all of the listed goods or services.

Both are serious problems because they clutter the USPTO trademark register with marks that are not actually valid, and bar future applicants from legitimately using those trademarks.

An accurate trademark register is critical for the United States trademark system to function efficiently. The register today consists of over two million registrations. The register provides notice of a registrant’s claim of ownership and use of the mark to potential applicants, other trademark owners, and the USPTO examining attorneys. When a new business is starting, or an existing brand decides to expand its offerings, it typically will conduct a search of the register to ensure the trademarks they are selecting to identify their goods and services are actually available and not already in use. If the register uncovers registered trademarks that are the same as or confusingly similar to the mark the business desired, the business will generally be dissuaded from using the trademark on that basis. But, if the same or similar trademarks that appeared on the

³ Barton Beebe & Jeanne C. Fromer, *Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion*, 131 HARV. L. REV. 945 (2018).

⁴ See 15 U.S.C. § 1058.

clearance search were fraudulently obtained – or even just negligently retained due to changes in goods and services or subsequent abandonment – the business would have been inappropriately dissuaded from using a trademark it should have been able to use. Some businesses who are aware of this problem engage in a process of investigating the blocking mark and, if they find it is not really in use, filing a petition to cancel the registration, but that is a time consuming and costly process that eviscerates the efficiency that an accurate trademark register is supposed to provide. Other businesses, unaware that the identified registration is not in use, will instead abandon their plan to use that mark and try to find an alternative, sometimes less suitable, mark for their goods or services. Neither are good results, and as a practitioner helping clients with these searches and proceedings, I have seen first-hand the burden and harm that a cluttered trademark register leads to.

Fraud

Fraud on the trademark register takes many forms. In one of the most egregious forms, doctored or photoshopped specimens purport to show that the mark is being used in United States commerce. The sophistication of fake specimens has significantly increased over time, and the USPTO is today encountering many fraudulent registrations of this type from applicants based in China and other jurisdictions hoping to enter the lucrative United States market. In other cases the applicant knowingly makes a false statement about its use or intent to use the proposed mark. For example, an applicant may make fraudulent statements to obtain registration for a broader scope of goods or services than are actually offered or intended to be offered under its mark. Fraud may also arise where the applicant applies to register a mark that it knows is owned by another party for purposes of blocking the rightful mark owner from obtaining a registration or selling the application or resulting registration to the rightful mark owner. We have seen schemes like this when sports teams are searching for names for new franchises or for teams moving to new cities.

To the extent the fraud is not caught by the USPTO, a third party who is impacted by it may oppose an application to the TTAB or petition the TTAB or federal courts to cancel the mark.⁵ To prove fraud, the petitioner must meet a high burden – in particular, it must show the trademark applicant or registrant had “a willful intent to deceive.”⁶ False representations “occasioned by an honest misunderstanding or inadvertence” are simply not enough to infer fraud; there must be clear and convincing evidence that an

⁵ 15 U.S.C. §§ 1063, 1064, 1120.

⁶ *In re Bose Corp.*, 580 F.3d 1240, 1245 (Fed. Cir. 2009).

applicant or registrant knowingly made a false, material misrepresentation with the intent to deceive the USPTO.⁷

Prior to 2009 when this high standard was set out by the Federal Circuit, the standard was lower, allowing fraud to be demonstrated simply by misstatements that were arguably the result of mere negligence or justifiable mistake.⁸ The earlier standard essentially required trademark registrants and applicants to allege or verify use of a mark with exacting care and attention because any goods or services listed in a registration without evidence of their actual use could subject the registration to cancellation as a matter of law. During this period, numerous registrations were cancelled in their entirety or in relation to entire classes of goods and services on the ground of fraud before the USPTO, which put enormous pressure on trademark owners and attorneys.

The purpose of the higher threshold today is to draw a bright line between real fraud and innocent mistake. But this standard also makes it incredibly difficult to prove fraud. Subjective intent to defraud is not easy to show. Even if such wilful misconduct was at play, it may require forensic review of documents and detailed questioning in depositions in order to establish the applicant's deceitful intent. Many businesses simply cannot afford the time and expense of that process. In fact, my research shows that, since the Federal Circuit's standard was implemented in 2009, there has been only one instance of the TTAB finding fraud on the PTO,⁹ and only a dozen cases from federal courts.¹⁰

⁷ *Id.* See also, e.g., *A.V.E.L.A., Inc. v. Estate of Marilyn Monroe, LLC*, 241 F. Supp. 3d 461, 480 (S.D.N.Y. 2017) (stating that proof of fraud must leave nothing to speculation, conjecture or surmise).

⁸ *Medinol Ltd. v. Neuro Vasx, Inc.*, 67 U.S.P.Q.2d 1205 (T.T.A.B. 2003) (“A trademark applicant commits fraud in procuring a registration when it makes material representations of fact in its declaration which it knows or *should know* to be false or misleading.”) (emphasis added).

⁹ *Nationstar Mortgage LLC v. Ahmad*, 112 U.S.P.Q.2d 1361 (T.T.A.B. 2014) (finding fraud where applicant applied for real estate brokerage, insurance brokerage, and mortgage brokerage services even though he was not licensed to provide any such services, and where the company in which he was using the mark did not even exist at the time of his application).

¹⁰ See, e.g., *Coverttech Fabricating Inc. v. TVM Building Prods. Inc.*, 855 F.3d 163 (3d Cir. 2017) (finding fraud where distributor had a prior relationship with the manufacturer and still tried to register the mark, clearly knowing that the manufacturer had superior rights); *Anello Fence, LLC v. VCA Sons, Inc.*, No. CV133074JMVJBC, 2019 WL 351899, at *15 (D.N.J. Jan. 28, 2019) (trademark owner claimed continuous use for three decades, but admitted at deposition that in

The dearth of fraud rulings in the past ten years is troubling and has serious implications: Many fraudulent registrations for unused marks are able to remain on and clutter the register. The fact that so few instances of fraud have been found by the courts raises the question of whether the standard is too high. However, that concern needs to be balanced against the risk that marks will be canceled based on innocent mistakes. A less stringent standard, if it were to penalize negligence and inadvertent mistakes, might cast a chilling effect on trademark registrations and innovation, especially among owners of smaller businesses, who would be less equipped to prevent such mistakes and defend against challenges of fraud. On balance, I believe the Federal Circuit is correct to require proof of an intentional misrepresentation, but I also believe that courts should allow that to be proven by a preponderance of the evidence rather than requiring clear and convincing evidence of the fraud.

In addition to lowering the standard for proving fraud, there are other approaches that might deter fraudulent applications and declutter the trademark register. One option could be to create a rebuttable presumption of intent to deceive if non-use can be shown. This would put the onus on the trademark registrant or applicant who submitted an incorrect application or renewal to prove that it did not in fact intend to deceive. But such evidence may be hard to present, which could also make this option too harsh.

Another option would be to impose a heavier penalty for fraud on the USPTO as a greater deterrent. Currently, the penalty for fraud on the USPTO is cancellation of the entire registration (even if the fraud pertained to only part of the registration). The imposition of additional penalties to further deter fraud and incentivize parties to challenge fraud, such as forcing the fraudulent party to pay the accuser's attorneys' fees or canceling the fraudulent party's other, unrelated registrations, could create stronger

fact the trademark had been owned by another party, which did not give him permission to use the trademark); *Dead End Survival, LLC v. Does 1-3*, No. 1:18-CV-2008-MHC, 2018 WL 6380796, at *5 (N.D. Ga. Oct. 31, 2018) (fraud found where defendants used plaintiff's images in their trademark application, misrepresenting them as defendants' own specimens); *Leo Kleven v. Hereford*, No. CV1302783ABAGRX, 2015 WL 4977185, at *24 (C.D. Cal. Aug. 21, 2015) (fraud found where defendant admitted that plaintiff had superior trademark rights in an earlier settlement agreement, but still applied to register the mark); *Melodrama Pub., LLC v. Santiago*, No. 12 CIV. 7830 JSR, 2013 WL 1700929, at *6 (S.D.N.Y. Apr. 11, 2013) (fraud found where defendant never used the mark in connection with the goods identified in the application and submitted images of plaintiff's books as fake specimens of her own use).

incentives to prevent fraud.¹¹ To properly conduct this analysis, one would have to look at whether the current penalty for fraud provides enough balance between enforceability and punishment and deterrence, and whether the addition of these new penalties might create perverse incentives on challengers to attack potentially vulnerable registrations that may have been obtained through innocent error rather than wilful misconduct.

Deadwood

Another frequently encountered problem is when an applicant claims on a trademark application (or when renewing a registration) that the trademark is being used on more goods and services than it is actually being used on. Although these overlay expansive claims of use are sometimes the result of fraud, they are more often the result of negligence or innocent errors. Either way, these registrations are known as “deadwood” as they represent invalid marks that nevertheless clutter the register and should be pruned back in order to make room for new, valid trademarks.

When registering a trademark, the USPTO requires that an applicant state the goods and services for which it will be used, but only requires that the applicant submit one specimen showing use for each “class” of goods and services (essentially, each category of goods and services). The classes are quite broad. For example, if an applicant seeks to register a mark in connection with sweaters, shirts and pants, all three would be categorized as class 25 (clothing), and the USPTO would only require proof that the mark is being used in connection with one of the three goods, not all three. If the applicant also seeks to register in Class 27 (carpets) for yoga mats and bathmats, the USPTO would also require a specimen showing the mark in use on either yoga mats or bathmats, but not both. This creates a scenario in which trademark owners have an incentive to identify as many broad types of goods or services as possible in each class, knowing they will receive protection for all the goods or services even if they can only produce evidence of use on one. In my experience, this often is the result of an expansive “intent to use” application – which is the type of application that a trademark owner might file to indicate its future intention to offer all the listed goods and services – and then a failure by the trademark owner to trim back the list of goods and services once use has begun on some (though not all) of the listed goods and services. Either way, the result is deadwood on the registry.

The deadwood problem is extensive. From 2012 to 2014, the USPTO conducted a Post Registration Proof of Use Pilot Program through which it audited 500 registrations, asking the owners to submit specimens for additional goods and services listed in the

¹¹ To the extent that the fraud claim was before the TTAB, the TTAB’s ability to award and enforce damages or fees would need to be addressed. It is possible that the petitioner would then have to move in federal court to enforce such a judgment.

registration. Approximately 51% of the owners did not or were unable to prove use for all goods and services on their registrations.¹² These results were staggering, proving that a significant number of registrations cover more goods and/or services than are actually in use.

Current Solutions

The USPTO is taking both the fraud and deadwood problems seriously and has embarked on aggressive efforts to strengthen the accuracy and integrity of the trademark register. Several successful programs have been implemented as a result, including:

- Implementation of the 2012 pilot program as a permanent process – now called the Post Registration Proof of Use Audit Program.¹³ Under this program, the USPTO may request specimens for two additional goods or services for each audited class with respect to any registration that has been renewed (*i.e.*, the owner has filed a declaration of use) that includes at least one class with four or more goods or services or at least two classes with two or more goods or services. Failure to submit appropriate specimens will result in deletion of any goods or services from the registration for which no specimens were submitted.
- Implementation of the TM Specimen Protests Email Pilot Program to combat fraud during the application process.¹⁴ This program is aimed at catching specimens that have been doctored by photoshopping the mark at issue onto another image. Third parties who have evidence of such fake specimens (such as the un-doctored photograph without the mark) may e-mail the information to the USPTO.
- Promulgation of a new rule, effective in August 2019, requiring non-United States trademark owners to be represented by United States

¹² United States Patent and Trademark Office, POST REGISTRATION PROOF OF USE PILOT FINAL REPORT (Aug. 25, 2015).

¹³ See 37 C.F.R §§2.161(h), 7.37(h); United States Patent and Trademark Office, Post Registration Proof of Use Audit Program, available at <https://www.uspto.gov/trademarks-maintaining-trademark-registration/post-registration-audit-program> (last visited November 30, 2019).

¹⁴ United States Patent and Trademark Office, TM Specimen Protests Email Pilot Program, available at <https://www.uspto.gov/sites/default/files/documents/Specimen%20Protests%20Email%20Pilot%20Program.pdf> (last visited Nov. 29, 2019).

counsel when applying for or renewing registrations.¹⁵ In light of the many recent fraudulent applications coming from foreign parties (especially China), requiring United States counsel to represent all foreign applicants and registrants should increase the accuracy of the registry and compliance with United States law.

From my viewpoint as a practitioner, these measures have been effective in helping to curtail fraudulent and deadwood applications and registrations. Our clients – and I assume all trademark applicants – are now more careful to ensure the accuracy of all of the information in their trademark filings. But these measures have not eliminated the problems of fraudulent trademarks and deadwood; there is still a ways to go.

Potential Future Approaches

There are a number of approaches that can be explored to continue to address the fraud and deadwood problems, some of which have already been suggested and studied by the USPTO. These proposed solutions are not necessarily mutually exclusive and may be implemented in conjunction with one another. Because it is critical to maintain a careful balance between fair competition and trademark protection, each of these approaches warrants careful study before implementation to understand any negative repercussions and/or drawbacks.

1. Require all applicants and registrants to submit specimens of the mark being used with all goods and services listed on an application or registration.

One approach to declutter the registry is to require applicants and registrants to provide a specimen for each good and service for which it is registered, not just one per class. Under this approach, if the owners are unable to produce specimens, the specific goods or services tied to those specimens would be deleted from the registrations. Because this process would not require the USPTO to assess whether any overbreadth of the application is due to deliberate fraud or mistake, there would be no additional penalty to the trademark owner.¹⁶

¹⁵ United States Patent and Trademark Office, Trademark rule requires foreign-domiciled applicants and registrants to have a U.S.-licensed attorney, available at <https://www.uspto.gov/trademark/laws-regulations/trademark-rule-requires-foreign-applicants-and-registrants-have-us> (last visited Nov. 29, 2019).

¹⁶ Of course, if it is determined that the trademark applicant or owner did engage in fraud (such as doctoring of specimens), the registrant would be subject to the appropriate sanctions for fraud.

The advantage of this approach is that it is comprehensive—by requiring specimens for all goods and services, this method may be the most effective way to remove deadwood from the trademark register of all the proposed approaches. This approach would also remove the need for the current audit program or any additional proceedings. Further, by requiring trademark applicants to submit specimens showing use of the mark on all goods and services, it would help other applicants understand the precise nature of the use and to assess whether confusion would be likely if they were to use the same or a similar mark in connection with their own goods or services.

The primary disadvantage is that this approach would impose additional burdens, both in terms of time and expense, on trademark owners and the USPTO staff. However, because trademark owners should, by law, already be using the mark in connection with all goods and services on the registration, the additional burden to applicants should not be substantial.

2. Require all applicants and registrants to be represented by United States counsel.

Another possible approach would be to require all trademark applicants – not just foreign applicants – to be represented by United States counsel when filing trademark applications. This would be an expansion of the recent rule enacted requiring all foreign trademark applicants to be represented by United States counsel. Such a requirement would, in theory, help limit fraudulent filings as United States counsel are accountable to rules of professional responsibility and will provide an extra level of review before applications are submitted. It would also help solve the problem of the deadwood that exists due to inexperience with trademark law and filing requirements, as having counsel file the applications should reduce such errors.

This approach has the advantage of being fairly easy to implement, and it would lower the burden on the USPTO more generally, as applications are less likely to have deficiencies. On the flip side, it would increase costs for applicants and certainly be harder for smaller businesses and individuals to apply for trademarks, as they would need to bear the cost of retaining counsel.

3. Implement an expungement procedure.

Another approach under consideration would be to implement a streamlined process through which third parties may notify the USPTO of potential deadwood, and the USPTO would request the trademark owner to prove that it was using the mark in connection with all the goods or services in the application or registration.¹⁷ The process

¹⁷ Canada uses a similar expungement proceeding, which allows anyone to request a registration to be removed if the owner is unable to show use of the trademark in Canada during the preceding three years. The procedure allows for the submission

would allow a third party to notify the USPTO, either during the application process or after registration, that it has a good faith basis to believe that the mark in question is not being used on all of the goods or services listed on the application or registration, and the USPTO would then be tasked with evaluating the notice and, if it finds there to be a reasonable basis, requiring the trademark owner to submit additional specimens showing use of the mark in all goods and services listed in the application or registration within a set period of time.¹⁸ Failure to do so would result in deletion of the goods and services for which the owner was unable to submit a specimen.

The advantage of this approach is that it is a low-cost, low-burden alternative to opposition and cancellation proceedings before the TTAB. The disadvantage would be that it may be of limited efficiency because the USPTO would have to wait for a third party to raise the issue of nonuse before making a determination. This may help to improve the accuracy of some identifications of goods and services, but it would not capture all offenders. Moreover, it would increase the burden on the trademark office (though perhaps that could be offset by requiring a filing fee to cover the expected cost to the USPTO of an expungement review). The USPTO might also consider addressing whether a challenger should be required to have standing to bring the action to ensure that only parties with a legitimate concern are able to bring an expungement inquiry.

Conclusion

Chairman Tillis, Ranking Member Coons and Members of the Subcommittee, I appreciate this opportunity to discuss fraudulent trademarks, deadwood and their impact on the United States economy this afternoon. I hope my testimony today provides relevant background to help illustrate how important it is that we continue to assess and develop ways to declutter the trademark register. A clear trademark registry is critical for American businesses and consumers. There are many options to help get us there, which we should continue to study, test and, if applicable, implement. Thank you.

of evidence by the registrant in the form of affidavits and declarations, written argument, and an oral hearing. Government of Canada, Section 45 Proceedings, https://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/h_wr01843.html (last visited Nov. 29, 2019).

¹⁸ An expungement procedure can have many variations and nuances that are beyond the scope of the testimony here today. This testimony does not propose to lock down any particular process, but only to lay out the broad concept of one example.