

Statement for the Record of

Mr. Stephen Lee, Chief Intellectual Property Counsel, Target

Before the Senate Committee on the Judiciary, Subcommittee on
Intellectual Property On

“Fraudulent Trademarks: How They Undermine the Trademark System
and Harm American Consumers and Businesses”

December 3, 2019

Good afternoon Chairman Tillis, Ranking Member Coons, and Members of the Committee. Thank you for holding a hearing to focus on emerging threats to the US trademark system and the impact on American consumers and U.S. businesses. My name is Stephen Lee and I am the Chief Intellectual Property Counsel for Target. Target is one of America's largest retailers – with more than 360,000 team members supporting almost 1,900 stores across all 50 states. As a company, we're in the midst of a multi-year transformation strategy. We've invested in remodeling our stores, increasing wages, and re-inventing our portfolio of owned brands, also known as private label.

In fact, since 2017, Target has introduced more than three dozen new brands – from food, to apparel, to home goods. This work makes Target the leading trademark filer in the United States and one of the top five globally.

The development of intellectual property and a strong means to protect our designs is a key to our success. Yet, we are concerned about fraudulent trademark filers flooding the U.S. trademark register and more importantly, the manner in which current enforcement and policing fall short in addressing these bad actors. When the United States Patent and Trademark Office (USPTO) approves a fraudulent trademark application, it can effectively block our legitimate efforts to trademark our owned brand products that we develop within our teams at Target. It is imperative to maintain the integrity of our U.S. trademark system and not allow bad actors to gain valid trademarks in the largest, most developed market in the world.

A number of divisions at Target are involved in bringing these brands to market, working for approximately 18 months prior to the products being available in stores. Approximately 1,000 team members are involved across Merchandising, Marketing, Creative, Product Design & Development, Legal, and Stores teams. When a consumer sees a brand for the first time, we have about three seconds to communicate to them what the brand is about and each brand's identity has to be intentional and easy for the guest to understand. For each brand, it takes hundreds, often thousands of potential names that are researched before we ultimately land on the right one. We consider dozens of factors, including how that name will resonate with our guests. The process to create, develop and adopt a new owned brand designed by the team at Target is time-consuming and the related costs are significant. The intellectual property that goes into development and design of a brand resides in Minneapolis at our Target headquarters.

At Target, we became aware of the fraudulent filing problem when we were in the process of selecting a new trademark for an upcoming product launch. We landed on a preferred name, but our trademark search uncovered a prior application that would likely block our registration of our proposed mark. We considered trying to purchase the rights from this application, but additional research showed that the prior mark was not in use in the U.S. We retained a trademark investigative firm, and they could not find the company, name, or contact information. We could not locate this applicant because all of the contact information did not lead to an actual company or person. We had little recourse and moved on to another mark, costing us millions of dollars in time and expense.

Given the current limited avenues for recourse at the USPTO, it would take over a year to oppose the application or cancel the eventual registration. When you are launching over ten brands each year that are set to be brought to market timed with seasons and holidays, all of which are driving Target's strategic growth, there isn't time to pursue the current only recourse, the opposition or cancellation process. The current opposition and cancellation proceedings can be costly and take too long for a business to utilize effectively.

After this finding, we audited a representative sampling of recent trademark searches we had conducted for several brand launches. In nearly all cases, at least one bad faith filing was uncovered that would have been a potential block to our proposed mark, and in many cases, we identified multiple bad faith filings. Again, in all of these cases, we were not able to find evidence that the trademarks are or have ever been in use in the U.S. A more comprehensive review conducted by outside counsel of the USPTO public filings uncovered some of the hallmarks of fraudulent filers including:

- Filing as use in commerce, not intent to use. This indicates they are actively using the trademark in the US.
- Filing as a single class application. This indicates the applicant is seeking a trademark for use in only one class or category. Applications select from over 40 classes or categories in which to register a mark.
- Submitted photo shopped images that are visibly noticeable on sight.
- use of stock photography with a brand name placed on the image.
- Duplicative images – the same image is submitted repeatedly from a different company for a different trademark. For example, we found evidence of one image submitted three times in the same day by supposedly three different filers.
- Photos of items with other companies' trademarks visible. These applications have two trademarks that are visible including one that is already registered and active.
- Tags on the clothing of the alleged trademark are simplistic such as index card that has been hole-punched or a name printed on it, with no affixed tag to match.
- Pricing is not in US dollars on the tags. This is significant as they are filing that the trademark is already in use in the U.S. and tags should reflect sale in the United States.

The vast majority of these were successfully registered by the USPTO examination team. We reached the conclusion we has stumbled upon a systemic problem.

We approached the USPTO at the beginning of the year and it was apparent in our first conversation that they were aware of the problem. The USPTO deserves recognition for beginning to address this fraudulent filing increase. The USPTO has developed several approaches including the specimens pilot mailbox for third parties to report suspicious actors, a post-registration audit program in an attempt to remove unused marks, and the US local counsel requirement for foreign filers. In addition, evaluation of technology solutions that would help detect digitally altered or duplicative images has been underway for over a year. While all of these approaches are well-intentioned and have provided some limited deterrent value, they have been largely ineffective in preventing suspicious actors from successfully registered trademarks. Therefore, we believe

Congress should give direction to the USPTO on examination practices and consider changes to their current authority to allow them to develop more vigilant enforcement mechanisms.

The House Judiciary Subcommittee held a hearing this past summer and a follow up roundtable to discuss legislative concepts. Target supports some of the legislative concepts changes under discussion. We believe that changes in practices at the USPTO and to their current legal authority must focus on shoring up our own enforcement system. For example, trademark examiners at the USPTO seem challenged to detect these types of problems, which leads to an increasingly cluttered trademark register creating a minefield that blocks legitimate, innovative filers from securing a trademark. The USPTO needs to strengthen and even change examination practices using people, process and technology to mitigate the successful registration of fraudulent trademarks that we believe is occurring at an alarming rate.

Target recommends the committee consider the following concepts:

- **Modernize the USPTO toolkit for reviewing fraudulent applications.** Examiners need the opportunity to have a specialized review team to assess and look for systemic problems and stop fraudulent applications from being approved during initial examination. The role of an examiner is to view individual applications, not to look for systemic problems. The USPTO needs to consider creating a specialized review team to protect the integrity of the system. By doing so, they could more effectively assess applications coming from known sources of bad faith or fraudulent filings and have consistent review of trademark applications in classes that are known to be the subject of rampant abuse. In addition, they could develop more stringent review of suspicious specimens, and thereby apply more overall rigor and consistency during the examination process while working within their existing resource constraints.
- **Give the USPTO the flexibility to set response timelines.** Today, the USPTO must allow applicants six months to respond to an Office action or inquiry by an examiner because of statutory limitations. This does not reflect the current reality of the application process, which is completed almost exclusively online as opposed to traditional mail. This timeframe is currently in statute. Shortening the time to respond from, for example, six months to 90 days would keep the process moving and bring issues to resolution sooner.
- **Allow a third party to object and offer evidence regarding pending applications.** Today, a third party has no effective and timely path to present evidence of bad faith or challenge a pending application or, for that matter, an issued registration. A letter of protest, the current process that allows third parties to challenge an application, is subjective. In addition, the process for consideration is not defined and often too slow to get to the examiner's attention. Opposition and cancellation proceedings to challenge a registered trademark take too long to get to resolution and for some, the costs to begin such actions can be prohibitive. These remedies need to be improved or new solutions developed to allow third parties to raise challenges against applications and challenge registrations on an expedited resolution schedule. These avenues could become a viable means of removing an obstacle for third parties to challenge fraudulent applications and registrations that in effect mitigates the cluttering of the register.

- **Annual report to Congress on fraudulent filings and decluttering efforts.** We believe that legislation should require a report back to the Committee or a report for the Committee to be completed by the Governmental Accountability Office (GAO) on the state of fraudulent filings, efforts to declutter the register, a list of all the current programs being used by the USPTO to mitigate fraudulent filers and the numbers of trademarks such programs expunge and the number of cases considered by these programs. Accountability is the role of Congress and vigilant oversight is needed to effect systemic change.

Thank you for providing me an opportunity to testify about this issue. I support the Committee's efforts and hope to continue working with you as you develop policy approaches to address the integrity of the trademark register. We also appreciate the partnership and dialogue with the USPTO as concepts are considered. In closing, I look forward to questions from the Committee.