



Slammed! How Trademark Laws Hurt the Little Guy

IT'S THE SAME SAD STORY ALL OVER AGAIN. A small business owner walks into the law office with a rejection of his U.S. trademark application. He's been in business for twenty or more years under this trademark. He has a name, signage, advertising, business cards, letterhead, a website, a corporate name and a domain name using this exact trademark. Can you help him? Possibly, but probably not.

This small business owner has just been slammed. He thought it was easy to apply for federal trademark registration—just access www.uspto.gov, fill out the form, and pay the fee. If that's too hard, there are non-lawyer shops that will provide those services for less than \$100. He also understood that the first person to use a trademark owns the trademark. So he hasn't been in a big hurry to file a trademark application—he'll rely on his common law rights. He's never had a trademark problem, and with so many years of use, there shouldn't be one now, right? Wrong. Very, very wrong. This small business owner is now in a far worse legal position than if he had never filed a federal trademark application.

In the U.S., paperwork now is more important than actual trademark use. For some time now, a third party can file a federal trademark application and limit the small business owner's right to use his trademark to his geographical "trading area" as it existed on the date of the third party's federal trademark registration. Unfortunately, that "trading area," if contested, is likely to be far smaller than the geographical area in which the small business owner actually trades because ultimately he will have to prove where his sales took place prior to the date of the third party's registration. Trying to prove up sales many years later can be excruciating because no one, in the ordinary course of business, keeps invoices for so many years or a history of website orders or even copies of what the website looked like over time. So the small business owner almost always loses ground because he rarely can prove up the entire geographical area of his preexisting use.

Worse, once his federal application has been rejected, the small business owner will be hesitant to get a state trademark registration to record his regional rights in many states like California. That's because California and a number of other states have adopted the "Model State Trademark Act," which sounds progressive but was drafted by big trademark owners who don't want to be bothered by pesky state trademark registrations owned by local businesses. Under the "Model State Trademark Act," the California Secretary of State requires the applicant to state whether it or any predecessor in interest has filed a federal trademark application, and if registration was refused, why it was refused. Although a California registration will be granted, this negative information will become part of the registration record, so the small business owner must be advised that this is an admission against interest and generally considered not advisable to the extent it places negative information on the public record. Why this is so is a mystery because the statute makes these admissions optional, but the California Secretary of State has chosen to make them mandatory.

The rejection of the small business owner's federal trademark application is most maddening when it is based on a foreign trademark which has never been used in the U.S. and sometimes never been used even in the home country. That is because there is now a procedure (called the "Madrid Protocol") whereby the U.S. will register foreign trademarks based on foreign applications, even if there is no use anywhere. This is completely contrary to what U.S. trademark law used to be, namely, a system for registering trademark rights that already existed under the common law because they were created by use. The big trade-



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mark owners talk about "harmonization" with the trademark laws of other countries, but this is a gimmick, because U.S. trademark law always has been different from the trademark laws of most other countries, who generally view trademarks as monopolies to be bought and sold.

That is because, in the United States and other English law countries, trademark registrations existed for the purpose of registering common law trademark rights. Trademark rights arose automatically upon the use of a trademark, and were registered in order to be documented and more easily enforced. In fact, U.S. trademark owners still need to show use in the U.S. before they can obtain a U.S. trademark registration, but foreign trademark owners do not need to show use in the U.S. (or anywhere else) in order to obtain a U.S. trademark registration.

Apart from basic issues of fairness, there are constitutional reasons to be concerned about current U.S. trademark law. While the U.S. Constitution allows the federal government to issue monopolies for patents and copyrights, there is no such provision



for trademarks. Instead, federal trademark laws are based on Congress' ability to regulate interstate commerce. So where's the interstate commerce for a foreign trademark that has not been used in the U.S.? Indeed, the U.S. is granting trademark rights in the absence of any commerce at all—in other words, selling monopolies. Sadly, this really is the sale of monopolies because the federal government is siphoning off a huge portion of trademark registration fees for use elsewhere in the budget. This is exactly what our Founding Fathers hated about Europe—the selling of all kinds of monopolies (to trade in silk, wool, tea, slaves, etc.) by kings and queens looking to fill their coffers at the expense of consumers and free trade. This is why under the Constitution, the only monopolies Congress can grant are supposed to be patents and copyrights because they are limited monopolies, and only these monopolies were believed to promote science and the useful arts.

Meanwhile, small business owners in the United States are being slammed with refusals to register their clearly viable common law trademark rights based on their many years of doing business under the trademark without any likelihood of confusion by consumers. The story usually goes something like this. There is a small shoe repair business called “Kathy’s Shoes” with a couple locations, that has been in business for over 30 years in Los Angeles. Upon filing its federal trademark application, “Kathy’s Shoes” is refused registration due to a pre-existing federal registration of “Kathy” for a major French retail shoe store chain (that incidentally offers shoe repair),

which filed for and obtained a U.S. trademark registration under the Madrid Protocol, but has no use in the United States, or perhaps has use in the U.S. postdating Kathy’s Shoes.

What are the options for Kathy’s Shoes? To argue against the refusal based on the differences between the trademarks, the goods and services, the consumers, and the channels of trade will cost approximately \$1,500 to \$2,500 (or considerably more) and is not likely to be successful. To petition to cancel the “Kathy” registration based on nonuse in the U.S. will cost a minimum of \$3,000 to \$5,000, and if contested, a minimum of \$20,000 to \$50,000 and sometimes as much as \$300,000. If the matter goes to court, the cost could be over \$1 million. (This is why they say that trademarks are not a poor man’s game.)

Most small business owners can’t afford this. Meanwhile, “Kathy’s Shoes” can’t even get a California trademark registration without acknowledging the preexisting federal registration of “Kathy” by the French shoe store chain. So what really happens is nothing at all and “Kathy’s Shoes” shrinks away as a business—it can’t really expand or franchise and will be lucky to just hold on, especially if the French company comes to California and sends “Kathy’s Shoes” a cease and desist letter. And when it is time to sell “Kathy’s Shoes,” the trademark will have little or no value.

What should small business owners do? Given that the current structure works for big business and is not likely to be changed, small business owners should get on top of their trademark paperwork, but should never file a trademark application blind. At a minimum, a preliminary search should be done to determine if there are any major obstacles to registration, and steps taken to steer around them. It may be advisable to file the trademark in the unique font or script in which it appears, together with a design if appropriate, to make the trademark as different as possible from any trademark registration or application. The description of goods and services should be tailored to make them as different as possible from the goods and services of any similar trademark registration or application. Perhaps it may be advisable not to file a federal application at all, but to file a state application to at least protect the longstanding regional business. In any event, the small business owner should assume that the law is not on his or her side, and cannot be put on his or her side without expert legal advice. ◀◀

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