

User-friendly? Strategies for navigating the USPTO's use audits for global brand owners

The USPTO in 2017 began randomly auditing trade mark registrations. **Andrea Anderson** provides tips for what to do if you are audited

The USPTO's rigid proof of use requirements have long vexed brand owners based outside the US, given the challenge of producing acceptable specimens of use that satisfy the Office's detailed and somewhat arbitrary requirements. The impact and reach of these use requirements is about to increase significantly as the USPTO embarks on a programme to audit US trade mark registrations to verify use in US commerce.

In November 2017, the USPTO began randomly auditing US trade mark registrations upon receipt of Declarations of Continuing Use under Lanham Act Sections 8 and 71. The purpose of the audits is to ensure that the registered mark is in use with all goods or services set forth in the registration. As of September 30 2018, the USPTO had initiated approximately 2,513 audits, according to a presentation of Mary Boney Dennison, commissioner for trade marks, on October 26. For context, during fiscal year 2018 (October 1 2017-September 30 2018) registrants filed more than 181,654 of these Declarations of Continuing Use. So, fewer than 2% of maintenance filings have triggered an audit, and chances of an audit remain low. Although the audit programme is still small and affects only a tiny percentage of use filings, brand owners should expect it to grow. The USPTO has revealed that a surprising number of audited registrations have contained goods or services for which no proof of use could be provided, and this has only strengthened the USPTO's resolve to expand the audit programme. For example, it plans to hire more than 100 new examining attorneys during the 2019 fiscal year, which will presumably lead directly to an increased number of audits.

Despite the slim chances of receiving an audit request, when your company or client receives one, it can add unexpected cost and inconvenience to the post-registration maintenance

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The USPTO in November 2017 began randomly auditing US trade mark registrations upon receipt of Declarations of Continuing Use. This can add unexpected cost and inconvenience to the post-registration maintenance process. Preparation is key to avoiding or minimising the impact of any audit, and can also increase the value of a trade mark portfolio and improve efficiencies for companies. Companies can implement audit-proofing procedures both at the maintenance filing stage and at the application filing stage. Collectively, these measures can reduce the investment of staff time and other costs associated with potential audits without materially compromising your trade mark protection. For true advance planners, it is possible to even further minimise the inconvenience associated with audits by tweaking application filing strategies.

process. What was a straightforward administrative filing can become a time-consuming ordeal. But with some advance planning and the adoption of a few strategies, the costs and hassle factor associated with an audit can be minimised.

Background on “use” requirements

Like many former British colonies, the US is a “common law” rights system. Trade mark rights in the US do not arise from registration of a mark. Rather, they arise from use (as outlined by the Supreme Court in *Matal v Tam* in 2017 and in J Thomas McCarthy, *McCarthy on Trade Marks and Unfair Competition* (5th edition 2018)). Although foreign registrants utilising the Paris Convention are exempted from the use requirement for registration, use remains critical to the US system. For example, even where a trade mark is registered, a brand owner cannot bring an infringement action unless its mark is in use in the US. Therefore, registration in the US must be viewed, not as a mechanism for conferring trade mark rights, but rather as an additional protection that provides certain legal presumptions and benefits in enforcement of rights, such as constructive nationwide use, a legal presumption of validity of a mark, and incontestability.

To maintain US trade mark registrations regardless of whether they were based on use in US commerce or on a foreign or international registration, registrants must submit Declarations of Continuing Use six years after registration and then every 10 years after registration, pursuant to the US Trademark Act Sections 8 and 71. These declarations must attest under penalty of perjury that the mark is in use for all goods set forth in the registration and must include at least one specimen of use for each class of goods or services. To the extent that a mark is not in use with a specific good or service, that good or service must be deleted from the registration.

Therefore, theoretically, every US registration that is more than six years old reflects only goods for which the mark is used in US commerce. That said, for years it has been an open secret that the federal trade mark register is cluttered with registrations that are broader than their marketplace use. These wide-ranging registrations create significant inefficiencies within the trade mark system. For example, they can provoke refusals by the USPTO during *ex parte* examination based on an overlap between the respective goods and services, increasing the USPTO’s workload and costs. In addition, applicants blocked by these potentially unnecessary refusals must incur costs to overcome them or abandon their application and start over with a new application to register a different mark. The cluttered register also increases costs for brand owners conducting searches to assess the availability of marks for use and registration. Any major brand owner will report that it becomes harder with each passing year to clear a trade mark, and the cluttered register only exacerbates the problem.

After studying the issue and considering potential solutions, the USPTO launched a programme of randomly auditing trade mark registrations upon the filing of a Declaration of Continuing Use. This programme was established within the existing regulatory framework under which “[t]he Office may require the owner to furnish such information, exhibits, affidavits or declarations, and such additional specimens as may be reasonably necessary to the proper examination of the affidavit or declaration under Section

8 of the Act or for the Office to assess and promote the accuracy and integrity of the register.” (31 CFR§ 2.161(h).)

The purpose of the audits is to ensure that the mark is used in connection with all goods or services set forth in the identification so that the registration reflects the actual use of the mark in the marketplace.

How the audits work

The USPTO has stated that it may audit a registration if a registrant files a Declaration of Continuing Use under either Section 8 or Section 71 of the Lanham Act and the registration includes:

- a) at least one class with four or more goods, for example, a registration that covers purses, wallets, backpacks, luggage tags and suitcases (all Class 18);

or

- b) at least two classes with two classes containing two or more goods/services, for example, a registration that covers purses and suitcases (Class 18); clothing, namely shirts, shorts, pants, coats and hats (Class 25); and retail clothing stores (Class 35).

If your registration is audited, you will receive a post-registration Office action from the USPTO requesting acceptable proof of use for two goods or services in each class set forth in the identification. The Office action will provide a six-month deadline for responding, though the USPTO has the discretion to request a shorter response period.

Note that, for goods, “proof of use” is broader than a mere specimen. The proof must demonstrate that you actively use your mark in commerce with the goods identified. For example, the following “specimens” would not constitute proof of use on goods:

- A hangtag by itself that does not identify the goods
- A label by itself that does not identify the goods
- Packaging by itself that does not identify or show the goods

To successfully respond to the Office action, a registrant must submit an acceptable specimen showing proof of use of the mark in US commerce, and the specimen must have been in use in the US during the applicable statutory period, either the six-year declaration of use period or the 10-year renewal period. Use of the specimen made after the expiration of the statutory deadline but before the Office action response deadline is not compliant unless a completely new Declaration of Continuing Use (with filing fee and grace period surcharge) is filed during the six-month grace period.

If the registrant is not able to provide a specimen of use for even one of the selected goods, it must delete those goods from its registration. Additionally, if a registrant is not able to submit proof of use for all of the requested items, the USPTO will issue a new Office action requiring the registrant to submit a specimen of use for *each and every item* set forth in the registration’s identification of goods and services. Obviously, for some reg-

istrations containing long identifications, gathering specimens showing proof of use for each item in the identification will become a fairly onerous and time-consuming task.

If you are audited

If audited, keep in mind that the USPTO is not conducting a “fraud” inquiry; therefore, provided the mark is used on at least some goods or services set forth in the registration, the registration will remain valid. Only goods or services for which the mark is not used will be removed, and the rest will remain in the registration.

The initial Office action will request only proof of use on two items from each class of goods or services. Together with providing the proof of use, you must provide the following statement, made under the penalty of perjury: “The owner was using the mark in commerce on or in connection with the goods identified in the registration for which use of the mark in commerce is claimed, as evidenced by the submitted proof of use, during the relevant period for filing the affidavit of use.” (37 CFR §§2.161(h), 7.37(h).) Since you must submit this sworn statement that the mark is in use for *all* goods set forth in the registration, a best practice is to review the entire registration at the time of responding to the first Office action and delete any goods for which you can provide no specimen of use.

Failure to provide proof of use on one or more of the initially identified items will automatically lead to a second Office action seeking verification of use for *all* goods/services set forth in the registration. So voluntarily and proactively taking the step of deleting all goods for which there is no proof of use after the first Office action avoids the costs and time associated with responding to a second Office action.

Audit-proof your registrations early

Preparation is key to avoiding or minimising the impact of any audit on current registrations. Strategic preparation can also increase the long-term value of your trade mark portfolio and improve efficiencies for your company, producing cost savings, while minimising the “hassle factor” that audits inevitably entail. You can implement audit-proofing procedures both at the maintenance filing stage and at the application filing stage. Collectively, these measures can reduce the investment of staff time and other costs associated with potential audits without materially compromising your trade mark protection.

A. Prepare for audits at the post-registration maintenance filing stage

1. Check for use/specimens. At least 18 months before the Declaration of Continuing Use filing deadline, review the registration’s goods and services identification and confirm that the mark is in use with all the goods/services listed in the registrations **AND** that you have current acceptable specimens showing use of the mark with every item in the identification. If your searching reveals no current specimen for a product and you are interested in keeping trade mark registration coverage for the product, you may still have time to make packaging or

advertising tweaks to create legally sufficient specimens. (Note that Section 15 Declarations of Incontestability require five years of *continuous* use of a mark on a specific good. (15 USC § 1065). Significant gaps in use may preclude filing of this Declaration until five years of *continuous* use is achieved.)

2. Work with your business to develop specimens. In many cases, acceptable specimens can be created with relatively little effort and expense. For example, “shelf talkers,” which are signs displayed at retail with a product can be acceptable specimens for goods. Web pages promoting services using a mark can be acceptable specimens for services. Of course, these specimens must be used in the ordinary course of your business and not just as a one-time or isolated use. But there is no rule against proactively engaging your business people to ensure that they are using the mark in a way that the USPTO deems an acceptable specimen. Starting early ensures you have enough time to develop and launch an acceptable specimen of use into the marketplace.

3. Narrow the registration as necessary. Closer to the deadline, review your specimens of use and if there are some goods or services for which you simply have no specimen, prepare to delete them from the registration when filing the Declaration of Continuing Use. An exception could be where the mark is used on goods where affixation of a trade mark is simply not possible, such as natural gas, grain that is sold in bulk, or chemicals that are transported only in tanker cars. For these types of goods, bills of lading, invoices or other sales documentation may suffice, if you provide the USPTO with a sufficient explanation.

4. File early. To minimise the chances of a last-minute scramble, make your maintenance and renewal filings as early as possible. The earlier you start, the better your chances of maintaining coverage for all critical products or services in your registration. Remember that registrations may be renewed beginning a year before the renewal deadline, and maintenance filings may be made between the fifth and sixth year anniversaries of the registration. Filing early in the period means that, if you are audited, you will have at least until the end of the applicable period to come up with a suitable specimen. And even a specimen that is put into use after an Office action is issued but before the statutory filing deadline is acceptable. Waiting until the last minute to make your maintenance and renewal filings means that you have less of a chance to develop and launch a new complying specimen. (An added benefit of filing a Section 15 Declaration of Incontestability early in the period is the fact that incontestability attaches only as of filing the Declaration. Waiting a year to file leaves the registration unnecessarily exposed to a validity attack in federal court proceedings.)

5. Review the registration’s correspondent/domestic representative data. As a part of the post-registration filing process, you may want to ensure that the “Correspondent” and “Domestic Representative” sections of the record accurately reflect the firm or person to which you wish post-registration Office actions to be addressed. This means if you are using a renewal service but would like for the USPTO to send audit request Office actions to your preferred US counsel, you should instruct the renewal service to retain your preferred counsel’s contact information in the Correspondent Address and simply add the renewal service’s email addresses to the email correspondence

distribution list. This way, the renewal service will receive the Notice of Acceptance of the maintenance filing for their records, but your preferred counsel will receive any audit requests and can enter those actions and deadlines into their docketing system and assist you with strategies for responding.

B. Prepare for audits at application

For true advance planners, it is possible to even further minimise the inconvenience associated with audits by tweaking application filing strategies. Of course, the needs and risk tolerances of every company are different, but the following strategy is worth considering given the increased chances of use audits in the future.

1. Consider covering only core goods or services. While it is a common strategy of many international brand owners to cover an expansive array of goods or services in their applications, this strategy may not always yield significant value in the US. Undeniably, in some circumstances, filing broadly can provide value, as it secures a priority date for a mark for a broad array of goods even though the business plan for the mark may not be completely finalised. On the other hand, an expansive goods and services identification increases the cost of an application because the more expansive the identification, the higher the chances of an Office action rejecting some of its wording as indefinite or imprecise. Filing expansively can also increase the costs at post-registration, if brand owners must devote internal or external resources to reviewing extensive goods lists and searching for specimens for every item. While on an individual file basis, these costs are minor, for brand owners with large portfolios, the cumulative expense can be significant, particularly over time.

Therefore, consider limiting new applications to the core goods or services with which your business intends to use the mark initially. Pursuant to US trade mark law, an expansive registration may not provide huge additional value over a narrower filing targeted to the goods or services with which the mark is most likely to be used. Here's why:

a) US common law rights are real. If you use a mark in the US for certain goods even without a trade mark registration, you are still establishing trade mark rights, at least in the geographic areas of your use. Therefore, the scope of common law rights enjoyed by a trade mark owner can exceed the scope of the goods set forth in its federal trade mark registration.

b) The scope of enforcement exceeds the scope of the registration. While a federal court will certainly consider the literal scope of the asserted trade mark registration in an infringement analysis, the scope of protection for the mark is not limited to the goods recited in the registration. Rather, the court will consider whether the accused infringer's goods are similar to the goods with which the asserted mark is used. So just because a certain product is not covered in a registration does not mean the courts will ignore your common law rights for that product.

c) The registration is vulnerable for non-use anyway. The benefits of a broad filing strategy are temporally limited. This is because three years after registration, where the mark is not used with certain goods or services, a presumption of abandonment arises, even where the US registration is based on a foreign or In-

ternational Registration (15 USC §§ 1604; 1127; *City Nat'l Bank v OPGI Mgmt GP*, 106 USP Q2d 1668, 1678 (TTAB 2013)). Even a lack of bona fide intent to use a mark with certain goods is grounds for both opposition and cancellation. So absent documentary evidence that your business plans to use the mark with certain goods, these goods are theoretically vulnerable, even before the registration issues (*Honda Motor Co v Winkelmann*, 90 USPQ2d 1660, 2009 WL 962810 at *2-3 (TTAB 2009)).

d) An expansive goods identification invites oppositions and cancellations. Because third-party applications may be refused based on an overly broad registration, these applicants may attempt to clear a path to registration by seeking full or partial cancellation of the blocking overbroad registration. Similarly, applications with more expansive goods identifications are more likely to be picked up by another brand owner's watching service, which in turn, increases the chances of an opposition.

These factors coupled with the potential additional work required to pare down over-expansive goods and services identifications at renewal time and the increased chances of an audit may outweigh the marginal defensive benefits associated with filing with an expansive identification. Ultimately, there is no "right" filing approach. Each company's priorities and perceptions of the cost/benefit trade-offs should guide these decisions. But in any event, it is worth occasionally considering your filing strategy and whether the level of protection it provides justifies your company's investment of internal staff resources and/or outside counsel spend.

2. Implement a trade mark audit programme. If you decide to try limiting the goods and services identifications in your US applications to core offerings, consider conducting audits on a staggered basis for every division of your company every three-to-five years. One purpose of an audit would be to determine if use of a mark has expanded and if there are some goods or services that should be covered in a new filing. While there is certainly a cost associated with making these new filings, and potentially maintaining multiple registrations for the same mark, even one significant USPTO audit can incur attorneys' fees well in excess of these costs.

Conclusion

The USPTO's new proof of use audit programme raises no real substantive legal risks, but it does raise the very real risk that global brand owners will need to devote more internal and external resources to their trade mark maintenance programmes. And in a time when corporate legal departments are asked to do more with less, this presents a real challenge. Taking a few proactive measures now can help minimise and possibly avoid the costs and inconveniences associated with these audits and can lead to a robust US trade mark portfolio that provides even stronger protection and value.



Andrea Anderson

© Andrea Anderson. Anderson is a partner at Holland & Hart. She provides trade mark-related strategic counsel to brand owners.