

Legal Alert

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Trademarks: Have You Overlooked One of Your Most Important Business Assets?

What if you were suddenly forced to change the name of your business? It can and does happen. Fortunately, this unwelcome scenario can usually be prevented. But first let's consider the possible consequences of doing nothing.

The Name Change Nightmare: It is hard to fully appreciate how disruptive and costly an unexpected name change can be until a company is faced with one. Out of the blue, a cease and desist letter from another company with superior rights arrives over the transom and the company is suddenly faced with potential trademark infringement liability. Even if monetary liability is avoided, the company will at a minimum be required to discontinue use of the infringing name.

The result? Overnight, the company's name becomes obsolete along with all existing promotional materials, legal documents, licenses and other materials that refer to the company under the now defunct name. A new name will have to be chosen quickly and a series of steps to implement the name change will need to be taken requiring the assistance of marketing personnel, legal counsel and others.

First, the new name will have to be cleared with the governing state corporate agency, and amended corporate documents reflecting the name change will need to be prepared and filed. All company contract and business forms will need to be revised to reflect the new name. Payroll and accounting records will need to be updated. Deposit and investment accounts will have to be retitled. Revisions to the company website will be required. Existing domain name registrations may need to be abandoned and new ones obtained.

Also, existing marketing materials, business cards and similar materials will need to be discarded and reprinted. Contact information in online and offline directory listings will need to be updated. Signage may need to be removed and replaced. Customers, vendors and others will need to be informed of the new name. Tax and regulatory authorities have to be notified, and licenses reflecting the name change may need to be re-issued.

On top of all this expense and inconvenience is the loss of customer recognition and goodwill—and the time and money spent to develop that recognition and goodwill—represented by the original name.

How can an unexpected name change be avoided? The most important steps a company can take are conducting a trademark clearance search and obtaining federal trademark registration.

Trademark Clearance: Ideally before a company name or other brand is adopted and put into use, at least some investigation should be conducted into whether there are any existing trademarks that might cause a conflict and result in trademark infringement. The process of investigating trademark conflicts to avoid infringement risks is sometimes called trademark clearance. The purpose of a trademark clearance search is to determine whether another company already has rights in the same trademark (or a similar trademark) with respect to similar or related products or services. There are various types of trademark searches but the most basic, and usually the most important, is a screening search of U.S. Patent & Trademark Office records.

While a company can attempt a preliminary online search to look for obvious conflicts, analyzing trademark conflicts is a highly specialized area of law which cannot be effectively performed by non-experts. Analyzing trademark conflicts requires an understanding of the relationship between federal, state and common law trademark rights, familiarity with specialized trademark search engines and services, and an understanding of how trademark conflicts are determined by taking into account the nature of the trademarks at issue—including visual, phonetic and semantic similarities and differences—and the similarity or relatedness of the underlying products and services.

A common mistake by non-experts is to assume that approval of an entity name or trade name by a state agency provides the right to use the name commercially. Other common mistakes include not realizing that apparently distinguishable trademarks can still pose conflicts based on trademark law principles requiring different trademark types and components to be analyzed differently, and not understanding that seemingly dissimilar underlying products and services can be considered “related” for trademark conflict purposes. Even if a company does not pursue federal trademark registration for whatever reason, the company should still have a trademark clearance search performed to reduce the risk of infringing the trademark rights of others.

Registration: Once a trademark clearance search has been successfully performed, the trademark should in most cases be federally registered. A trademark registration is like a deed to a house. It serves as evidence that the registrant is the proper owner of the trademark with exclusive rights to use that trademark. It also creates a legal presumption that the trademark is valid which limits the ability of infringers to avoid liability by challenging the trademark. Just as importantly, federal registration preserves the entire U.S. market for expansion. Without federal registration, third-parties could adopt the same name and obtain superior rights in areas of the U.S. where the company is not yet doing business, effectively carving up what would otherwise be a national market. In the event a conflict arises, federal registration frequently makes the difference between resolving the conflict quickly and favorably versus having to face the uncertainty and expense of a prolonged court battle.

Federal registration provides a number of other benefits. It allows use of the “®” symbol to give notice of federal registration and the rights that come with it. Federal registration may provide the trademark owner with special statutory remedies in the event of infringement such as recovery of lost profits, increased damages and reimbursement of attorneys fees. Federal registration can also provide a defense to dilution lawsuits based on state law and prevent application of burdensome state “business opportunity” laws. Even if a company has the good fortune of never experiencing a trademark dispute, federal trademark registrations can be valuable assets. Federal registrations give extra comfort to potential acquirers and investors and can result in a better valuation in connection with a sale of the company. Federal registration can also generate additional revenue by providing a basis for licensing the company’s brands in areas where the company would otherwise have no rights to license. Registration should in most cases be pursued prior to adopting a name because the rights provided by federal registration do not begin until the application is filed. Companies that have been doing business under the same name for several years can also benefit from registration, though deferring trademark protection can be a risky proposition. In addition to protecting the company name, trademark protection should also be considered for brands used by the company to identify important products and major lines of business.

Putting Trademark Protection in Perspective: When it comes to trademark registration, the old adage of “possession is nine-tenths of the law” applies. If a company has a federal trademark registration, then nine times out of ten it is going to win any trademark disputes and avoid an unexpected name change along with all of the expense, inconvenience and loss of customer goodwill that would come with it.