



Trademark bullying: legitimate problem or passing fad?

Despite a lacklustre response to the US Department of Commerce report on trademark litigation, bullying is a real problem that disproportionately affects small businesses, and is something that the whole trademark community needs to address

Almost two years after the US Department of Commerce issued its Report to Congress on Litigation Tactics and Federal Government Services to Protect Trademarks and Prevent Counterfeiting, it appears as though none of the steps it recommended has been followed to any meaningful extent. Indeed, it is not even clear whether any of the recommendations were even warranted to begin with.

The report was mandated by Congress in S 2968, the Trademark Technical and Conforming Amendment Act of 2010 (Public Law 111-146), which stated that within one year of the act coming into force, the secretary of commerce should study and report on the extent to which small businesses can be harmed by litigation tactics designed to enforce trademark rights over and above their scope.

The 28-page report was issued in April 2011 and concluded with three recommendations:

- Engage the private sector with regard to providing free or low-cost legal advice to small businesses via *pro bono* programmes and IP rights clinics.
- Engage the private sector with regard to offering continuing legal education programming focused on trademark policing measures and tactics.
- Enhance federal agency education outreach programmes.

The report received a tepid response from the trademark community when it was issued. It prompted remarkably little commentary in trademark publications and even less in the business community at large. If the US Patent and Trademark Office (USPTO) is to take the time and expense to report to Congress on a trademark issue – something that does not happen especially often – its efforts should have engendered far greater public discussion.

A fundamental problem with the report has to do with the way in which it was prepared. The USPTO requested feedback from US trademark owners, practitioners and others regarding their experiences with litigation tactics by posting a notice on its website requesting comments. This was also posted on www.stopfakes.org and disseminated in other ways, including through publication in the USPTO's independent inventor newsletter, *The Inventor's Eye*. Unsurprisingly, only 79 comments were received during the four-month comment period. In the future, the USPTO may want to involve blogs, such as The Trademark Blog and the TTABlog, and other social media outlets such as its Twitter feed, as a means of obtaining additional comments.

The USPTO also sought comments through other channels. In

conjunction with the US Commercial Service, the trade promotion arm of the Department of Commerce International Trade Administration, the USPTO held a roundtable at Wayne State University in Detroit, Michigan. This was attended by senior staff from the USPTO, law students, practitioners and several small business owners located in the Michigan area. The USPTO also reached out to the Small Business Administration's Office of Advocacy, which scheduled a second roundtable on the subject. Tellingly, this was cancelled due to a lack of interest. Roundtables are a specialty of the International Trademark Association (INTA), so it might have been more productive for the USPTO to partner up with INTA on this project as a means of gaining feedback.

The weakness of the report, and the meagre response to the USPTO's requests for comments in preparing it, beg the question of whether trademark bullying is an issue worth worrying about. Indeed, the report itself states that it is unclear whether small businesses are disproportionately harmed by enforcement tactics based on an unreasonable interpretation of the scope of a trademark owner's rights. Even if difficult to measure, anecdotal evidence, and the experience of most trademark attorneys suggest that overreaching exists, even if it is not a new problem. As such, it creates an unnecessary expense for those businesses affected.

Anecdotally, there are plenty of instances of trademark bullying. In early 2012, Louis Vuitton sent a demand letter to the University of Pennsylvania Law School, which had published a poster promoting an IP symposium. The offending poster included a parody of the famous LV toile monogram pattern, featuring instead the "TM" and "C" symbols. The symposium took place without incident and – as a result of a well-crafted letter written in response to the demand, which pointed out that there was no realistic likelihood of confusion or dilution – Louis Vuitton was subject to much ridicule in the press. While a law school such as Penn Law is more than capable of defending itself, others that find themselves at the receiving end of such claims are less able to do so and herein lies part of the problem with trademark bullying.

For example, well-known outdoor apparel company North Face filed suit against a high-school student who started a parody apparel line called The South Butt. Though the student publicised the dispute and increased his sales as a result of this publicity, and the case settled on undisclosed terms, the South Butt website is no longer operational and the company has been dissolved. Whatever the merits of the trademark claim, there was clearly a large disparity between the parties' resources, which prohibited any meaningful defence from being heard.

Different kinds of trademark bullying

There are a few different paradigms of trademark bullying. The Louis Vuitton and North Face examples may be said to fall within the classic model of overreaching by a large company afraid of incurring a loss of rights through inaction. In these cases, the trademark owner is not concerned with a likelihood of confusion or even dilution so much as the threat to the strength of its trademark rights by virtue of a failure to be vigilant and police them.

A second category of trademark bullying is plain and simple extortion. The infamous Leo Stoller is usually offered as an example of this. Over the years, Stoller sent out dozens of cease and desist letters as well as filing over 1,700 requests for extensions of time to oppose, based upon his registered trademark STEALTH. Despite making no commercially meaningful use of the mark, Stoller would offer to 'license' the mark in exchange for a fee to go away. The Trademark Trial and Appeal Board (TTAB), as well as the federal courts, eventually cracked down on Stoller. In April 2012 he pleaded guilty to bankruptcy fraud. It is worth noting that Stoller seems more like an outlier than

the prototypical trademark extortionist – that is, his serial trademark extortion seems less common than the once or twice-off variety.

Susan Douglass of Fross Zelnick Lehrman & Zissu in New York has identified a third type of bullying, which she labels retaliation. She cites the example of *MusclePharm v Swole* (9:12-cv-80296- RNS (SD Fla, March 15 2012)). Before the lawsuit filing, Swole accused MusclePharm of infringing its SWOLE name and mark by adopting the slogan GET SWOLE LIVE SWOLE. In response, MusclePharm sued Swole, claiming that its use of the completely unrelated mark TURBO SHRED infringed MusclePharm's mark MUSCLEPHARM SHRED MATRIX. Despite the fact that SHRED seems diluted, and even though the claim is unrelated to the alleged infringement of the Swole name and mark, SWOLE will now have to defend a lawsuit against a well-funded opponent.

Efforts to combat trademark bullying

Even though it is potentially too expensive to pursue, the victims of trademark bullying usually have a potent option available – the declaratory judgment action – provided that they can find the funds or a lawyer to represent them at a reduced rate (or on a contingency basis). Where the trademark bully creates a reasonable apprehension of litigation, the victim can ask the federal courts for a declaration of non-infringement (eg, *PHC, Inc v Pioneer Healthcare*, 75 F 3d 75, 37 USPQ2d 1652 (1st Cir 1996). “No competent lawyer advising [the declaratory judgment plaintiff] could fail to tell it that, based on the threatening letters and the surrounding circumstances, a section 43(a) suit was a likely outcome”). Filing a declaratory judgment action is much like a 97-pound weakling throwing a punch when the bully kicks sand in his face. While there is always a risk that the bully will follow through and defend against the action, where the trademark claims are very weak there is a strong possibility that he will back down and settle quickly.

Unfortunately, the federal courts do not seem disposed to use their powers to recompense victims of trademark bullying by awarding attorneys' fees and costs against the perpetrator. Indeed, there is remarkably little case law punishing weak trademark claims pursued using overbearing tactics. The fact that the decision to award or deny sanctions is at the discretion of the trial court judge makes appellate court review problematic.

Momentum Luggage & Leisure Bags v Jansport, Inc (2001 WL 1388063 (SDNY November 8 2001)) seemed to have all the facts necessary to punish a trademark bully. In earlier proceedings, the district court granted summary judgment in favour of defendant Jansport, one of the world's largest manufacturers of backpacks, and dismissed the claims of plaintiff Momentum, a partnership of two individuals not previously engaged in the luggage business (*Momentum Luggage & Leisure Bags v Jansport, Inc* (830667 (SDNY July 23 2001)). On summary judgment, the district court found that plaintiff's *de minimis* activities in advertising a tote bag only once and selling just six tote bags and two briefcases did not create common law trademark rights in the word 'Momentum' for luggage (*ibid*). However, even though it found that the plaintiff and its counsel had misused the discovery process and multiplied motion practice in their prosecution of a baseless lawsuit, and that there was reason to believe that the plaintiff filed the lawsuit not to protect its trademark rights, but to induce the defendant to settle before it could discover that the plaintiff had no trademark rights, the district court declined to impose penalties. The court found that there was insufficient evidence that the claims had been brought in bad faith. The Second Circuit affirmed the decision because it found “no evidence that the district court exceeded its wide discretion in declining to impose sanctions” (*Momentum Luggage & Leisure Bags v Jansport, Inc*, 45 Fed Appx 42 (2d Cir 2002)). The focus on subjective bad faith is misguided, since trademark bullies will always deny that they acted in bad faith. This leaves the defendant

with no way of discouraging bullies from litigation early on, or of obtaining compensation after successfully defending a case.

The text of the Trademark Act does not necessarily discourage such a mercenary focus. 15 USC §1117 states that when a violation of a registered mark has been established, the plaintiff is entitled to recover:

- the defendant's profits;
- any damages sustained by the plaintiff; and
- the costs of the action.

On its face, except for the “subject to the principles of equity” language, there is no express provision for apportioning damages attributable to the infringement. Admittedly, it can be extremely difficult to separate out a plaintiff's damages resulting from the infringement from any profits legitimately earned by the defendant. This is presumably why Congress allowed the wholesale taking of defendant's profits as an alternative measure of damages. Still, it seems worth exploring whether some amendment to the act's damages section might be able to balance the interests of discouraging infringement and discouraging trademark bullying, perhaps through some modification of the ‘exception case’ standards of 15 USC §1117, whereby bullies seeking windfall damages can be de-incentivised.

The lack of tools to combat trademark bullying is particularly pronounced in the TTAB. The board has no power to award monetary or criminal penalties, such as contempt. Section 502.05 of the Trademark Board Manual of Procedure states that “[t]he Board will not hold any person in contempt, or award attorneys' fees, other expenses, or damages to any party”. The TTAB may enter any one of a number of other penalties, from striking all or part of the pleadings of the disobedient party to entering judgment against it. However, these lesser penalties are awarded only in the most egregious cases of repeated abuse. John A Clifford of Merchant & Gould has described the TTAB as a “playground without a proctor”, which leads to abuses.

Similarly, panellists in domain name arbitrations lack any meaningful power to administer penalties. Reverse domain name hijacking occurs when a trademark owner attempts to secure a domain name by making false cybersquatting claims against a domain name's rightful owner. Paragraph 15(c) of the Uniform Domain Name Dispute Resolution Policy (UDRP) defines ‘reverse domain name hijacking’ as the filing of a complaint in bad faith resulting in the abuse of the UDRP administrative process. Cases are rare and fact specific. Aside from denying transfer, UDRP panellists have no tools to punish reverse domain name hijackers. A finding of reverse hijacking can only shame the guilty party and be used as a consideration by panellists in any future domain name arbitrations against the same registrant.

Extra-judicially, many point to social media and public shaming as the best and least expensive way to tackle trademark bullying. Indeed, the ‘Streisand Effect’ is a moniker typically invoked in trademark settings to refer to unwanted negative attention brought on by efforts to suppress others. The expression is named after the actress and singer Barbara Streisand, who attempted to suppress photographs of her residence in 2003, but inadvertently ended up generating even greater publicity for the images.

More recently, Bo Muller-More, the owner of a silk-screening business named Eat More Kale, used the Streisand Effect to great advantage. Chick-Fil-A, owner of a registration for the mark EAT MOR CHICKEN, sent a cease and desist letter to Muller-More. In response, Muller-More and his supporters created Facebook pages which attracted thousands of fans. Muller-More also started a Kickstarter campaign, which raised more than \$80,000 to fund a documentary movie. The governor of Vermont even weighed in on the dispute and engendered support for the small business in his state.



Yet the Streisand Effect and its amplification through social media has its limits. As mentioned previously, the South Butt business appears to be no more. Indeed, the problem of trademark bullying is exacerbated when government processes are invoked that require legal representation and a response. It is bad enough when a trademark bully sends an unwarranted demand letter, especially through counsel. However, when a complaint is filed in federal court or when an opposition or cancellation is filed in the USPTO, the expense of hiring counsel to defend against the action compounds the injustice. In an ailing economy, many individuals and small businesses are simply unable to afford to defend against unwarranted trademark claims.

The victims of trademark bullying

The organisations that submitted comments to the USPTO in response to the request for comments on trademark litigation tactics uniformly downplayed the issue as it applies to businesses. The American Intellectual Property Law Association (AIPLA) advised against regulation aimed at trademark abuse in favour of existing remedies. INTA stated that it believes that the current statutory and regulatory framework deals with the issue effectively and provides the courts and the TTAB with well-established mechanisms to address and discourage frivolous and overly aggressive claims. The Intellectual Property Owners Association stated that it does not believe that trademark bullying is a problem. The reaction of these organisations is unsurprising, given that their constituents consist of mostly large trademark owners rather than those small businesses and individuals that typically are on the receiving end of demand letters from trademark bullies.

However, the victims of trademark bullying are not limited to small companies and individuals. Although the report refers to the extent to which small businesses may be harmed, individuals, non-profit organisations, medium-sized businesses and even large businesses may all find themselves the victims of trademark bullying. As discussed previously, Jansport – an industry leading company – found itself the subject of a trademark strike suit. If trademark bullying is a problem that exists, remedying it should not be limited to circumstances involving small businesses only. IP organisations should at least openly explore whether misuse of trademarks is a problem for their members.

The reasons for trademark bullying

The focus on bullying in trademark cases may overlook the broader problem of abusive litigation in other areas of law. Some companies consider patent trolls to be the scourge of patent law. Doctors view personal injury lawyers as abusers of the legal system, who seek to extort financial settlement from defendants rather than learn the truth. Since most state bar legal ethics rules require attorneys to represent their clients “zealously”, it is perhaps unsurprising that some attorneys may cross the hazy line and engage in abusive litigation tactics.

As far as trademark matters go, overzealous representation may stem in part from case law stating that rights holders have a duty to be vigilant about protecting their marks. According to Professor McCarthy, “corporate owners of trademarks have a duty to protect and preserve the corporation’s trademark assets through vigilant policing and appropriate acts of enforcement”. Indeed, failure to police against infringement may even result in a loss of rights (see *Procter & Gamble Co v Johnson & Johnson, Inc*, 485 F Supp 1185, 205 USPQ 697 (SDNY 1979), *aff’d without op*, 636 F 2d 1203 (2d Cir 1980) stating that “the trademark law not only encourages but requires one to be vigilant on pain of losing exclusive rights”).

However, the overall growth of the economy, the internationalisation of the marketplace and the rise of the Internet arguably make traditional vigilance unfeasible today. If commentators

and the courts recognise that rights holders no longer need worry so much about taking action against each and every infringer, it may reduce incidences of overzealous representation. After all, consumers are not going to believe that the mark JACK DANIELS is generic for whiskey and up for grabs if the spirits maker fails to crack down on each and every rogue fan club.

One might have expected the Federal Anti-dilution Law to increase incidences of overzealous representation. However, most of the press about trademark bullying seems to relate to claims of infringement through likelihood of confusion. Indeed, many of the concerns about the law’s overuse do not appear to have materialised.

Trademark attorneys – that is, attorneys who work primarily in the area of trademark law – presumably know where to find the line between acceptable zealous representation and impermissible overzealous representation. However, it stands to reason that attorneys who practise principally in other areas, such as patent law, may be less familiar with the nuances of trademark law and more prone to cross the line. Simply put, a trademark is not a patent. Infringement of a patent – the doctrine of equivalents aside – requires meeting the claim, which is a relatively straightforward analysis. By contrast, after establishing prior rights, trademark infringement requires further demonstrating a likelihood that an appreciable number of relevant consumers will be confused as to the source of origin of the goods or services. This is often a highly subjective determination, which requires a great deal of feel, developed through years of trademark practice. Patent attorneys and other non-trademark lawyers often overlook or give short shrift to the likelihood of confusion standard and rest their claim to infringement simply on priority. Trademark attorneys need not establish their own bar like patent attorneys, but the problems that arise when non-trademark lawyers practise trademark law is an issue which at least merits discussion within the trademark law community.

Contingency-fee lawyers handling trademarks also exacerbate the risk of bullying. It is not that contingency-fee arrangements are *per se* troubling; after all, the ability to finance a case by sharing risk with counsel increases access to the courts to those who could not otherwise afford to litigate. The issue is that many contingency-fee trademark litigations are handled by non-trademark attorneys, who may not be familiar with the nuances and limitations of trademark law (or even federal practice in general). Those lawyers may be inclined to treat the case more like a patent litigation, where money damages are the norm. By contrast, windfall damage awards are uncommon in trademark cases and the successful plaintiff is usually satisfied when the defendant ceases its infringing activity.

The official-looking nature of the certificate of registration, emblazoned with its gold stamp and imprinted with the signature of the commissioner of patents and trademarks, may also cause registrants and non-trademark lawyers to put too much stock in its value. Registration confers a presumption of trademark rights. However, this presumption is rebuttable. For example, many trademark owners would be surprised to learn that their registration can be cancelled within the first five years by a third party with prior trademark rights, or that fair use is an affirmative defence to infringement. The USPTO may want to consider taking steps to educate the public that registration does not necessarily confer an absolute monopoly on trademark rights.

In addition, statutory language such as ‘incontestability’ does little to discourage trademark bullying. Despite the impressive-sounding term, incontestability does not provide the registration with a complete shield against attack. Incontestable registrations are still subject to cancellation at any time, based on any one of many numerous separate grounds. As a result, incontestability has been

compared to armour made of Swiss cheese rather than a coat made of metal. But recipients of demand letters and defendants are often unaware of the infirmities that may attend even an incontestable registration. It may behave the trademark law community to consider amending Section 15 of the Lanham Act to replace the term 'incontestability' with a less threatening and more accurate word.

Some victims of trademark bullying may look for salvation by serving an offer of judgment under Rule 68 of the Federal Rules of Civil Procedure. However, such offers have extremely limited utility. They have absolutely no value where the plaintiff receives an award that is equal to or greater than the offer or, counterintuitively, where the defendant receives a verdict in its favour. The only scenario where an offer of judgment has any value is the limited circumstances where the plaintiff obtains an award for less than the offer. Even there, the infringer may recover only its incremental costs and not attorneys' fees without demonstrating that the underlying action represents an "exceptional case" under the Trademark Act. Consequently, the only real value that the offer of judgment may have in cases of trademark bullying would be in potentially scaring off the would-be bully or its counsel, who may not appreciate its limited utility (much like the unwitting defendant that may not understand the 'incontestable' trademark misnomer).

Solutions

Among those who do believe that trademark bullying is worth addressing, the proposals vary widely. Susan Douglass suggests the following:

- Undertake careful examination at the application stage, as well as upon maintenance, of both the listing of goods and services and a 'reality check' on specimens for 'token use';
- Enforce the existing standards on standing, particularly when the case has no merit and appears to be solely for purposes of harassment or other improper motives;
- Grant motions to dismiss on the pleadings or summary judgment when cases are plainly frivolous; and
- Do not allow parties to flout the discovery rules, creating the need for extensive motion practice.

While these suggestions seem unlikely to stop trademark bullying entirely, they are at least more precise and practical than the vague recommendations of the report. In particular, better examination would lead to fewer registrations for bullies to abuse.

Lara Pearson, chair of the trademark practice at Remon Law Group and author of the Brand Geek Blog, announced the Brand Bully Basement to try to fill the mandate from the report to Congress. According to its website, www.brandgeek.net, Pearson hopes to make the Brand Bully Basement a clearinghouse for cases of trademark bullying. However, the project does not appear to have got off the ground – the one and only post is dated October 10 2011. Such a clearinghouse does not necessarily seem like a bad idea – the website www.chillingeffects.org routinely posts IP letters as a way of shaming the sender, but it is viewed more as an outlet for free speech concerns under the First Amendment than a repository for trademark matters. A website devoted to providing examples of trademark bullying could be a helpful tool for the victims of such bullying, much like a website such as the Google Prior Art Finder is used to unearth prior art to defeat unwarranted patent claims.

Interestingly, Erik Pelton of Erik M Pelton & Associates, PLLC has a new metric to try to gauge the extent of trademark bullying. The formula (posted at www.erikpelton.com/2012/09/20/a-formula-for-measuring-trademark-bullies) postulates that to determine whether a company is a trademark bully, one must multiply the strength

or weakness of a claim by the harshness of legal tactics used. Thus, a 'bully' is defined as one who makes unreasonable claims with unreasonable tactics. Less certain is where either the claim or the tactic is unreasonable (but not both). The formula is a useful way to consider trademark bullying because it shines a spotlight on the most egregious actions. Those with weak trademark claims should avoid using over-the-top tactics against others. This is particularly so where there is a disparity in resources between the trademark owner and the other side.

Professor Irina Manta of Case Western Reserve School of Law proposes a PTO-Paradigm to combat trademark bullying in an article titled "Bearing Down on Trademark Bullies", published in volume 22 of the *Fordham Intellectual Property Media and Entertainment Law Journal*. She suggests an oversight process that would allow agency attorneys to review cease and desist letters and issue rulings on the merits of the alleged infringements. However, the proposal is simply unworkable. The USPTO has a well-defined role in maintaining the Trademark Register. It has no business in evaluating and ruling upon the merits of trademark infringement claims and is ill equipped to do so. Jerry-rigging government agencies by establishing new procedures and fees is not the way to deal with trademark bullying.

Trademarkia's efforts to catalogue the biggest trademark bullies seem dubious at best. A list of the so-called "Biggest Bullies" appears at www.trademarkia.com/opposition/opposition-brand.aspx. The web page lists so-called "biggest bullies of the year" as well as biggest victims and hecklers. The listings also include angry faces for an active bullying attempt, a sad face meaning the 'little guy' lost and a smiley face meaning the victim prevailed. The listings are presumably based upon the number of oppositions and requests for extensions of time to oppose filed. However, some companies simply have more brands to protect than others, so the number of oppositions or extension requests filed is a far from accurate way to measure bullying.

The report was narrow in scope for various reasons, not least of which was that it dealt with trademark bullying from only a US perspective. If trademark bullying is a problem in the United States, it stands to reason that it may be an issue in other countries. An organisation such as INTA seems well situated to survey the issue. Alternatively, national organisations such as the AIPLA could reach out to their counterparts abroad to study the issue. Providing international context and perspective may go a long way towards shedding light on the topic and supplying solutions.

Conclusion

At the end of the day, since most demand letters and complaints are written by counsel, it is up to attorneys to avoid overzealous representation which amounts to trademark bullying by their clients. So the report may have taken a backward approach. Rather than engaging the private sector, the USPTO should engage the trademark community in a discussion about the causes of trademark bullying and solutions for dealing with it. Such an effort should go well beyond merely seeking requests for comments and the other scattershot steps taken in preparing the report. It should fully involve trademark associations and other trademark law groups. Trademark owners and lawyers have a vested interest in participating because the true value of a trademark depends upon the ability of the courts and the public to understand its significance. Indeed, trademark owners and their attorneys should police themselves before they face even more heavily publicised incidences of trademark bullying and the consequent backlash from the public. [WTR](#)

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