Westlaw Journal
INTELLECTUAL PROPERTY
Litigation News and Analysis • Legislation • Regulation • Expert Commentary
VOLUME 23, ISSUE 24 / MARCH 15, 2017

EXPERT ANALYSIS

New PTO Auditing Rule Under the Microscope: Assessment and Best Practices

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The U.S. Patent and Trademark Office initially planned to implement an auditing program Feb. 17 introducing new requirements for affidavits-of-use filings under Sections 8 and 71 of the Lanham Act, 15 U.S.C.A. §§ 1058 & 1141k.

However, the PTO has since delayed the effective date of the auditing program until March 21.

Each trademark owner must sign, under penalty of perjury, an affidavit confirming the owner's trademark remains used in commerce in connection with every good or service identified in the trademark registration, according to Section 8 of the Lanham Act, 15 U.S.C.A. § 1058.

Affidavits of use must be filed initially during the period between the fifth and sixth anniversary of the issuance of a trademark's registration, and during the renewal period between the ninth and 10th anniversary of a trademark registration.

If a trademark owner does not file these required affidavits — or, alternatively, files an affidavit of excusable nonuse — the resulting penalty is cancellation of the registration.

The PTO has structured the new auditing program to target only trademarks registered for use with more than one good or service per "international class."

These classes of marks conform to categories established by the World Intellectual Property Organization.

The audits will randomly capture 10 percent of those aggregate affidavits of use filed each year, and require owners of captured trademarks to submit additional evidence verifying their filings.

BENEFITS AND NEGATIVE IMPLICATIONS

The new auditing program has sparked disagreement between the PTO and concerned trademark owners and attorneys on whether its benefits outweigh its negative aspects.

The benefits of the auditing program are well intentioned, in that the PTO is attempting to confirm that the trademarks on the agency's register are actually being used in commerce in the U.S.

Such confirmation would create a more accurate register, thereby decreasing administrative costs to the PTO.

The creation of a more accurate register would also, and more importantly, decrease the costs and time trademark applicants spend responding to office actions.

It would lessen the time and costs for filing cancellation proceedings, because a trademark applicant can register an applied-for mark when a cited mark no longer has any business being on the PTO register due to its nonuse.

Whether these benefits would actually come to fruition remains to be seen.

Would this audit create a significantly more accurate trademark register? Perhaps not.

The PTO has structured the new auditing program to target only trademarks registered for use with more than one good or service per "international class."

The PTO ran a pilot program to test the new audit rule. Through the pilot program 500 random trademark registrations, accompanied by affidavits of use, were audited.

After completion of the audit, 15.6 percent of the trademark registrations were canceled.

This percentage of canceled registrations, the PTO noted, included registrations canceled on the ground that the trademark owner was unable to provide additional proof of use, but also included a number of registrations canceled for "other issues raised during the examination of the Section 8 or Section 71 affidavit."

As such, it is unclear how effective the auditing pilot actually was in filtering out registrations where owners cannot provide additional proof of use.

One could argue that since 84.4 percent of the owners of the audited trademark registrations were able to provide sufficient proof of use, that this new auditing program is unnecessary. After all, the vast majority of affidavits of use accurately identify the goods and services that are used in commerce.

Other factors indicate that the canceled registrations statistics reflected in the auditing pilot program, which supported the need for a permanent program, may not carry much weight or significance.

For instance, 500 random trademark registrations were selected for auditing under the pilot program.

However, how can we know whether these 500 registrations were representative of the entire population of affidavit-of-use filings submitted each year? How large is the pool of affidavits?

With too small of a sample population, the findings of the audit may not be accurate.

The pilot program information seems to suggest that the sample population was indeed too small, as 500 registrations represented less than 1 percent of affidavits submitted and processed within a six-month period.

If this is the case, the apparent "successes" of the pilot program may not necessarily carry over to the implementation of the new rule, which will be applied to a considerably higher number of registrations.

On the other hand, the negative implications associated with the new audit program seem to be significant.

For one thing, the new rule gives no indication of any type of threshold the evidence must meet to overcome potential cancellation.

This may affect registrations for trademarks that are actually in use as required but for which registrants are unable to meet this unknown threshold. In this sense, these registrations may be comparable to wrongly convicted criminals — innocent of the accused crime, but being punished nonetheless.

Likewise, the new rule states the trademark examiner reviewing registrations as part of the auditing program will initially request proof of use for two additional goods or services per class in the initial office action, and may request proof for additional goods or services thereafter.

This practice is open to discriminatory application, as it is conceivable that a particularly detailed examiner could end up asking for additional proof until he receives proof for all of the goods or services listed in the registration.

This practice would overreach the policy reasons for the new rule by aggressively policing the trademark register rather than merely monitoring it for accuracy.

Requesting additional proof of use for a specified number or percentage of goods or services listed in a registration would be a more impartial application of this rule.

This suggests the new rule may not create a significantly more accurate PTO register, and further adjustments may be necessary before the agency can implement a workable rule.

Nevertheless, it seems that the new rule, with each of its flaws, is imminent.

As such, trademark registrants should keep a few best practices at the forefront of their minds, to be prepared for the new rule.

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BEST PRACTICES

First, trademark registrants would benefit from keeping a file or database of proof that each good or service identified in each registration is being used in commerce.

The trademark registrant would then have an array of additional specimens to submit and easily meet any audit requirements.

This practice would also allow trademark registrants to review a single resource allowing them to assess all goods and services claimed under each trademark registration.

Such an assessment would be critical to the anticipation of the new auditing rule, as a trademark registrant must be more diligent than ever to guarantee it is using its trademark in connection with every good and service identified in its registration.

Periodic reviews of all claimed goods and services would also ensure the accuracy of registrations. A registrant could identify and delete any goods or services that it no longer offers under the mark.

In addition, periodic reviews of a specimen database could allow registrants to identify instances where use of a mark on certain goods and services has lapsed.

These registrants could then timely remedy these lapses and investigate the reasons the goods and services were not being used.

Second, an applicant applying for a new trademark, particularly an applicant submitting an intent-to-use application, should be wary of the new auditing rule.

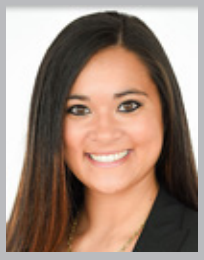
Prior to filing applications, an applicant should prepare a clear business plan, which might include a strategy for how it will use the marks on the listed goods or services.

This would help the applicant think about whether it is dedicated to offering these goods or services, thus avoiding possible cancellation by an audit under the new rule.

Without a clear business plan and strategy, an applicant may eventually neglect to use the applied-for mark on the originally offered goods or services.

Having a clear business plan and strategy could help an applicant determine early on the exact goods and services it plans to provide.

An applicant adhering to this best practice would save the time and money it otherwise may have wasted



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