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Pros And Cons Of The Texas Trademark Act

Law360, New York (July 29, 2011) -- Texas Gov. Rick Perry recently signed into law a landmark new Trademark Act (H.B. 3141) that will replace Texas' current trademark statute (Bus. and Comm. Code 16.01 et seq.) on Sept. 1, 2012.

The stated impetus behind the new law was to make Texas law more consistent with federal trademark law (i.e., the Lanham Act, 15 U.S.C. § 1051 et seq.). Once effective, the new law will substantively and procedurally change many aspects of current Texas law. We summarize some of the more significant changes below.

Application Process: Tougher

The most significant revision to the Texas trademark application and registration process provides that the Secretary of State (the entity with which Texas trademark applications are filed) shall refuse registration if the mark is likely to cause confusion with a mark already registered at the United States Patent and Trademark Office. It is likely that the Secretary of State will routinely check each application against the PTO Register before allowing a registration. This will likely result in more rejections than under current law, which permits rejections based only upon marks previously registered in Texas.

The application also will be required to be "signed and verified by ... oath or affirmation." Current law requires only a signature. Three (instead of two) specimens of use of the trademark will be required.

The new law makes it harder to overturn denials of registrations in court. Under current law, disappointed parties could challenge a denial by seeking a "de novo" trial in Travis County district court, and could present whatever admissible evidence they chose. Under the new law, denials can be challenged in Travis County district court only under a more onerous mandamus standard. Further, the court must base its decision "solely on the record before the secretary of state."

Registrations Shorter, Licenses & Security Interests Recordable

The new law shortens the term of a Texas registration and any subsequent renewals from 10 years to five years. The new law also adds a new basis for an aggrieved party to cancel another's registration: likelihood of confusion with an unabandoned mark registered with the PTO. Also, the new law adds licenses and security interests to assignments as interests that may be recorded for purposes of public notice.

Trademark Infringement: More Monetary Remedies

The new law does not add any new trademark-related causes of action, but changes aspects of those already existing. Significantly, it provides additional monetary remedies for infringement.

Under current law, owners of Texas-registered trademarks may sue infringers for actual damages and injunctions. But actual damages are rare because it is frequently difficult to show that consumers bought the defendant's product due to confusion over the similarity with the plaintiff's trademark rather than the relative cost or some inherent quality of the goods themselves.

The new law does not ease this causational hurdle. Indeed, it actually makes actual damages more difficult to obtain by increasing the required proof concerning the infringer's state of mind from "actual knowledge of the registrant's mark" to proof of "intent to cause confusion or mistake or to deceive."

But injured trademark owners will be pleased that the new law provides three additional monetary remedies. Perhaps most importantly, it provides for disgorgement of an infringer's "profits derived from infringement" — a long-accepted remedy under federal trademark law.

This creates the possibility of monetary compensation even where damage causation or quantification is impossible to prove. And under established federal principles (which the preamble to the act states are "persuasive authority" for construing the new act), a plaintiff seeking disgorgement need only prove the infringer's sales; the infringer bears the burden of proving expenses that should be deducted.

The new law also provides for up to trebling of any award of damages and profits, as well as reasonable attorneys' fees, when the infringer acted with actual knowledge of the infringed mark or in bad faith.

Trademark Dilution: Famous Marks Only

The current antidilution provision is so simultaneously broad and cryptic that courts have been reluctant to enforce it. In response, the new law contains explicit definitions of dilution by blurring and dilution by tarnishment that largely track the provisions of the federal anti-dilution law. And where the dilution is willful, the new law provides that the additional monetary remedies available in infringement actions apply.

But the new law narrows the class of marks entitled to dilution protection. While the current antidilution provision had been held to apply to any distinctive mark, the new antidilution provision adds the requirement that the mark also be "famous," and sets forth several factors to be considered in determining fame. It also expressly codifies several federal defenses, such as descriptive use, use in comparative advertising, parody, and news and commentary.

Conclusion

The new law presents a mixed bag for Texas businesses and brand owners. Overall, trademarks registered in Texas will have higher strength and value than under current law. Along with the availability of more monetary remedies for registrants, this will make it more advisable for Texas businesses, nonprofits and educational institutions to seek Texas trademark registrations.

But applications will be subject to higher scrutiny, appeals from denials of registration will be harder to win, and registration terms have been cut in half. And while the provisions concerning dilution provide much-needed clarity and legitimacy to a cause of action that courts have been reluctant to apply, the new law makes it harder to qualify for dilution protection.

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