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TO THE HOUSE COMMITTEE ON FINANCE
THE TWENTY-FOURTH LEGISLATURE
REGULAR SESSION OF 2008

Thursday, February 21, 2008
3:00 pm
Conference Room 308

**TESTIMONY ON HOUSE BILL NO. 3085, HD1
RELATING TO BUSINESS REGISTRATION**

TO THE HONORABLE MARCUS OSHIRO, CHAIR, AND MEMBERS OF THE COMMITTEE:

My name is Tung Chan, Commissioner of Securities of the Business Registration Division, Department of Commerce and Consumer Affairs ("Department"). The Department appreciates the opportunity to testify on House Bill No. 3085, HD1 an Administration bill relating to the registration and protection of trade names, entity names and marks. We strongly support this measure and respectfully request that the Committee pass House Bill No. 3085, HD1 as amended.

This bill is proposed primarily to correct a notable ambiguity in the law governing trade names. Chapter 482, Hawaii Revised Statutes, governs trade name and trademark registration and use and currently conflates two important ideas relating to trade names: the first is ownership rights and the second is registration rights.

Ownership rights are the rights to use and adopt a name apart from registration. Common law in Hawaii has determined that infringement of ownership rights turns on whether the first name in use is "confusingly similar" to the second name. This standard balances and weighs a number of factors such as similar business activities, customer demographics and actual confusion.

By contrast, registration rights do not imbue ownership, but rather give notice to the public that the registrant has taken steps to record interest in the name. Like Hawaii, almost every state has ministerial registration for trade names for notice purposes only. In fact, the majority of states have more permissive standards for registration, allowing many more similar names into their registries than Hawaii does. Registration of two similar names in Hawaii has been determined by law to turn on a "substantially identical" standard. This standard compares the similarities of the name using guidelines set in the rules to assist the ministerial staff in consistent application of the standards.

This bill lays out these two standards and clarifies the manner in which each standard relates to the appeal of a registered trade name or entity name. In 482-4, 482-8(a) and 482-8.5(a), HRS, the bill addresses the ownership standard ("confusingly similar"). In 482-8(b) and 482-8.5(b), HRS, the bill addresses the registration standard ("substantially identical").

In addition, the bill also cleans up other inconsistencies, ambiguities and errors. The bill reorganizes chapter 482 by dividing the existing law into four new sections: a definitions section, a trade name section, a trademark section, and a

miscellaneous section. This reorganization clarifies that the general sections apply to both trade name and trademark provisions. It also takes standard boiler plate provisions like severability (§482 -37, HRS), preservation of common law rights (§482-35, HRS), penalties for false filings (§482-3.5), and liability for fraudulent registration (§482-30, HRS), now scattered throughout the statute, and congregates them in a miscellaneous section at the end of the chapter. The bill also adds “mark”, “trade name” and “entity name” in places where they should be but have been overlooked.

The bill also revises the penalty provisions for false filings to the Director. Currently, under §482-3.5, the law imposes a criminal penalty for negligent false filings but does not impose a criminal penalty for intentional false filings. To correct this inconsistency and to be consistent with penalties imposed for intentional false filings for other business registration filings such as corporations (§§414-20, 414D-12, HRS) or LLC’s (§425-172, HRS), the bill includes a Class C felony provision for intentional false filings. It also raises the maximum fine to the amount set in the Hawaii Penal Code, 706-640, HRS. Additionally, the bill makes it clear that aggrieved filers may seek injunctive relief in a court of competent jurisdiction.

The bill makes other technical amendments to chapter 482, HRS, which are consistent with the concepts discussed above and also corrects other errors and inconsistencies in the law.

In addition, we are proposing minor amendments, mostly formatting and technical changes. We have attached a proposed HD2 draft and can provide a hand marked copy showing all the proposed changes at your request. Because the proposed changes are nonsubstantive and technical, we did not seek prior committee

concurrence but have provided copies of the proposed HD2 to the prior subject committee chairs.

As a final note, HD1 contains the effective date of 2034. In the proposed HD2 amendment, we are asking the date to be changed to July 1, 2008. I respectfully request your support of House Bill No. 3085, HD1 as amended which will help improve the business climate in Hawaii by providing more certainty and clarity with respect to the trade name and trademark registration law. Thank you for the opportunity to testify. I will be happy to answer any questions the Committee may have.

PROPOSED H.D. 2 for H.B. No. 3085

RELATING TO BUSINESS REGISTRATION.

Prepared by DCCA - Business Registration Division

Draft: 2/19/08

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

SECTION 1. Chapter 482, Hawaii Revised Statutes, is amended by adding a new part to read as follows:

"PART . MISCELLANEOUS

§482-A Penalties for signing false documents. (a) A person commits an offense if the person signs a document the person knows is false in any material respect with intent that the document be delivered to the director for filing. An offense under this subsection shall be a class C felony and may carry a fine not to exceed \$10,000.

(b) A person commits a misdemeanor if the person negligently and without intent to defraud signs a document that is false in any material respect with intent that the document be delivered to the director for filing. The misdemeanor may carry a fine not to exceed \$2,000.

§482-B Liability for fraudulent registration. Any person who knowingly makes a false or fraudulent representation or declaration in registration documents filed with the director shall be liable for all damages sustained as a result of the

registration documents as determined by a court of competent jurisdiction.

§482-C Common law rights. Nothing in this chapter shall adversely affect common law rights in trade names, entity names, service marks, or trademarks, or the enforcement of those rights.

§482-D Severability. If any provision of this chapter is deemed to be invalid, the remaining provisions of this chapter shall continue to be effective."

SECTION 2. Chapter 482, Hawaii Revised Statutes, is amended by designating section 482-1 as part I, entitled "General Provisions".

SECTION 3. Chapter 482, Hawaii Revised Statutes, is amended by designating sections 482-2 through 482-9 as part II, entitled "Trade Names".

SECTION 4. Chapter 482, Hawaii Revised Statutes, is amended by designating section 482-21 through 482-37 as part III, entitled "Trademarks and Service Marks".

SECTION 5. Chapter 482, part I, Hawaii Revised Statutes, is amended by amending the title to read as follows:

"PART I. [~~TRADE NAMES~~] GENERAL PROVISIONS"

SECTION 6. Chapter 482, part II, Hawaii Revised Statutes, is amended by amending the title to read as follows:

"PART II. [~~TRADEMARKS AND SERVICE MARKS~~] TRADE NAMES"

SECTION 7. Section 482-1, Hawaii Revised Statutes, is amended by adding a new definition to be appropriately inserted and to read as follows:

"Entity means a corporation, partnership, limited liability company, or any other type of business entity recognized in this State."

SECTION 8. Section 482-3, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) Upon receiving the application accompanied by the fee, the director shall cause the trade name to be recorded and shall issue [to the applicant] a certificate of registration[-] to the applicant; provided that the director shall not register any trade name that is substantially identical with any registered trade name, the name of any entity registered or authorized to transact business in accordance with the laws of the State, or any mark registered in the State, except as ordered by the director in accordance to section 482-8.5 or unless the registered owner of the registered trade name, entity name, or mark consents in writing. The certificate of registration shall be constructive notice to all persons of the applicant's claim of the use of the trade name throughout the State, for the term of five years from the date thereof; provided that the [director shall not register any trade name which is substantially identical with any registered trade name

~~or with the name of any corporation, partnership, limited partnership, limited liability partnership, or limited liability company registered in accordance with chapters 414, 414D, 415A, 425, 425E, and 428; provided further that the]~~ trade name is continued in actual use by the applicant in this State. The acceptance of an application and issuance of a certificate of registration by the director shall not abrogate or limit any common law or other right of any [~~person to any corporation, partnership, limited partnership, limited liability partnership, or limited liability company name, or trade name.~~] person claiming to be the legal owner of a trade name."

SECTION 9. Section 482-4, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) It shall be unlawful for any person to adopt or use a trade name or entity name that [~~is substantially identical or confusingly similar~~] infringes on any person's ownership rights to any registered trade name, mark, or the name of any [~~corporation, partnership, or limited liability company existing or registered,~~] entity registered or authorized to transact business in accordance with the laws of this State, or a name the exclusive right to which is, at the time, reserved in this State. In addition to the revocation of a trade name registration or administrative order of abatement provisions in sections 482-8 and 482-8.5, respectively, any person whose

ownership rights to a trade name, mark, or entity name are
infringed upon by the adoption or use of a confusingly similar
trade name or entity name may seek injunctive relief in a court
of competent jurisdiction or the imposition of a fine that shall
not exceed \$2,000, or both."

SECTION 10. Section 482-8, Hawaii Revised Statutes, is amended to read as follows:

"§482-8 Revocation of [~~certificate; ownership~~] trade name registration. (a) Any person claiming to be the owner of a trade name or mark whose common law rights are infringed upon, or any entity registered or authorized to transact business under the laws of this State whose common law right to its entity name are infringed upon, by a trade name for which a certificate of registration pursuant to this chapter has been issued to any other person [~~shall~~] may file a [~~verified~~] petition in the office of the director for the revocation of the registration of [~~such~~] that trade name. The petition shall set forth the facts [~~in support of the ownership by such petitioner of such trade name and in support of the claim of the petitioner]~~ and authority supporting the claim that the petitioner has common law rights of ownership of the trade name, mark, or entity name, that these rights are being infringed upon by the other registered trade name that is confusingly similar

to the petitioner's trade name, mark, or entity name, and that the certificate of registration should be revoked.

(b) Any person with a registered trade name in this State, or any entity registered or authorized to transact business under the laws of this State, claiming that another subsequently registered trade name is substantially identical to its registered trade name or entity name, respectively, may file a petition in the office of the director for the revocation of the registration of the subsequently registered trade name. The petition shall set forth the facts and authority supporting the claim that the petitioner's registered trade name or entity name is substantially identical to the subsequently registered trade name, the petitioner's trade name or entity name was registered before the subsequently registered trade name, and the registration of the subsequently registered trade name should be revoked.

(c) The petitioner [~~shall~~], at the petitioner's expense, shall notify the registrant of the hearing in the manner prescribed by the director and section 91-9.5 and the registrant shall be given the opportunity [~~of~~] for a hearing in accordance with chapter 91.

[~~(e)~~] (d) After granting an opportunity for hearing to the petitioner and the registrant, the director shall grant or deny the petition for revocation, as the facts shall warrant."

SECTION 11. Section 482-8.5, Hawaii Revised Statutes, is amended to read as follows:

"§482-8.5 Administrative order of abatement [~~for infringement of trade name.~~] against a registered or authorized entity. (a) Any [~~individual or sole proprietor with a currently registered trade name in this State]~~ person claiming to be the owner of a trade name or mark who believes that the name of any entity registered or authorized to transact business under the laws of this State is [~~substantially identical to, or~~] confusingly similar to[~~r~~] its trade name or mark may file a petition with the director for an administrative order of abatement to address the infringement of its trade name[~~r~~] or mark. The petition shall set forth the facts and authority [~~that support the petitioner's claim]~~ supporting the claim that the petitioner has common law rights of ownership of the trade name or mark, that these rights are being infringed upon by a registered or authorized entity whose name is confusingly similar to the petitioner's trade name or mark, and that further use of the entity name should be abated.

(b) Any person with a registered trade name in this State claiming that another subsequently registered name of any entity registered or authorized to transact business under the laws of this State is substantially identical to its registered trade name may file a petition with the director for an administrative

order of abatement against the use of the subsequently registered entity name. The petition shall set forth the facts and authority supporting the claim that the petitioner's registered trade name is substantially identical to the subsequently registered entity name, the petitioner's trade name was registered before the subsequently registered entity name, and further use of the subsequently registered entity name should be abated.

(c) The petitioner, at the petitioner's expense, shall notify the registrant of the hearing in the manner prescribed by chapter 91 and the registrant shall be given an opportunity to respond to the petition at the hearing. The notice shall be made and the hearing held in accordance with the contested case provisions of chapter 91.

~~[(b)]~~ (d) In addition to any other remedy or sanction allowed by law, the order of abatement may:

- (1) Allow the entity to retain its registered name, but require the entity to:
 - (A) Register a new trade name with the director; and
 - (B) Transact business in this State under the new trade name; or
- (2) Require the entity to change its registered name, and to:

(A) [~~Register~~] File a [~~new trade~~] name change with the director; and

(B) Transact business in this State under the new [~~trade~~] name.

If the entity fails to comply with the order of abatement within sixty days, the director may involuntarily dissolve or terminate the entity, or cancel or revoke the entity's registration or certificate of authority after the time to appeal has lapsed and no appeal has been timely filed. The director shall mail notice of the dissolution, termination, or cancellation to the entity at its last known mailing address. The entity shall wind up its affairs in accordance with this chapter or chapter 414, 414D, 415A, 425, 425E, or 428, as applicable.

[~~(e)~~] (d) Any person aggrieved by the director's order under this section may obtain judicial review in accordance with chapter 91 by filing a notice of appeal in circuit court within thirty days after the issuance of the director's order. Review of any final decision of the circuit court shall be governed by chapter 602."

SECTION 12. Section 482-21, Hawaii Revised Statutes, is amended to read as follows:

"§482-21 Registrability. A mark by which the goods or services of any applicant for registration may be distinguished

from the goods or services of others shall not be registered if it:

- (1) Consists of or comprises immoral, deceptive, or scandalous matter;
- (2) Consists of or comprises matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute;
- (3) Consists of or comprises the flag or coat of arms or other insignia of the United States, or of any state or municipality, or of any foreign nation, or any simulation thereof;
- (4) Consists of or comprises the name, signature, or portrait identifying a particular living individual, except by the individual's written consent;
- (5) Consists of a mark that:
 - (A) When used on or in connection with the goods or services of the applicant, is merely descriptive or deceptively misdescriptive of them;
 - (B) When used on or in connection with the goods or services of the applicant is primarily geographically descriptive or deceptively misdescriptive of them; or
 - (C) Is primarily a surname;

provided that nothing in this paragraph shall prevent the registration of a mark used by the applicant which has become distinctive of the applicant's goods or services. The director may accept as evidence that the mark has become distinctive as used on or in connection with the applicant's goods or services, proof of continuous use thereof as a mark by the applicant in this State for the five years before the date on which the claim of distinctiveness is made; [e]

(6) Consists of a mark which so resembles a mark registered in this State or a mark or trade name previously used by another and not abandoned, as to be likely, when used on or in connection with the goods or services of the applicant, to cause confusion or mistake or to deceive[-]; or

(7) Consists of a mark that is substantially identical with any registered trade name or the name of any entity registered or authorized to transact business in accordance with the laws of this State."

SECTION 13. Section 482-31, Hawaii Revised Statutes, is amended to read as follows:

"~~[+]§482-31[+]~~ **Infringement.** Subject to section ~~[482-35,]~~ 482- , any person who:

- (1) Uses, without the consent of the registrant, any reproduction, counterfeit, copy, or colorable imitation of a mark registered under this part in connection with the sale, distribution, offering for sale, or advertising of any goods or services on or in which such use is likely to cause confusion or mistake, or to deceive, as to the source of origin of such goods or services; or
- (2) Reproduces, counterfeits, copies, or colorably imitates a mark registered under this part and applies such reproduction, counterfeit, copy, or colorable imitation to labels, signs, prints, packages, wrappers, receptacles, or advertisements intended to be used on or in connection with the sale or other distribution in this State of such goods or services;

shall be liable in a civil action by the registrant for any and all of the damages and remedies provided in section 482-33; provided that under paragraph (2) the registrant shall not be entitled to recover profits or damages unless the acts have been committed with the intent to cause confusion, mistake, or to deceive."

SECTION 14. Section 482-3.5, Hawaii Revised Statutes, is repealed.

~~["§482-3.5] Penalty. (a) Any person who signs and certifies as correct any application filed pursuant to this chapter, knowing the same to be false in any material particular, shall be fined not more than \$5,000.~~

~~(b) Any person who negligently but without intent to defraud signs and certifies as correct any application filed pursuant to this chapter, which application is false in any material particular, shall be guilty of a misdemeanor, and upon conviction shall be punished by a fine not exceeding \$500."]~~

SECTION 15. Section 482-5, Hawaii Revised Statutes, is repealed.

~~["§482-5 Penalty. Any person using such substantially identical or confusingly similar trade name as set forth in section 482-4, shall be fined not more than \$1,000."]~~

SECTION 16. Section 482-30, Hawaii Revised Statutes, is repealed.

~~["§482-30] Fraudulent registration. Any person who knowingly makes a false or fraudulent representation or declaration in registration documents filed with the director shall be liable for all damages sustained as a result of the registration documents as determined by a court of competent jurisdiction."]~~

SECTION 17. Section 482-35, Hawaii Revised Statutes, is repealed.

~~["§482-35] Common law rights. Nothing herein shall adversely affect the rights or the enforcement of rights in marks acquired in good faith at any time at common law."]~~

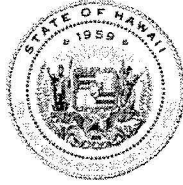
SECTION 18. Section 482-37, Hawaii Revised Statutes, is repealed.

~~["§482-37] Severability. If any provision of this part is deemed to be invalid, the remaining provisions of this chapter shall continue to be effective."]~~

SECTION 19. In codifying the new sections added by section 1 of this Act, the revisor of statutes shall substitute appropriate section numbers for the letters used in designating the new sections in this Act.

SECTION 20. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 21. This Act shall take effect July 1, 2008.



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TO THE HOUSE COMMITTEE ON FINANCE
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**WRITTEN TESTIMONY ON HOUSE BILL NO. 3085, HD1,
RELATING TO BUSINESS REGISTRATION**

TO THE HONORABLE MARCUS R. OSHIRO, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is Sheryl Nagata, Acting Senior Hearings Officer of the Office of Administrative Hearings ("Hearings Office"), Department of Commerce and Consumer Affairs ("Department"). The Hearings Office appreciates the opportunity to submit written testimony on House Bill No. 3085, HD1. We support this measure and respectfully request that the Committee pass House Bill No. 3085, HD1, and amend the effective date to "upon approval."

The Hearings Office regularly hears requests from individuals or entities claiming to be the owner of a trade name, seeking to have another business's registration of that trade name revoked. This hearing process has provided businesses with an efficient way to resolve their trade name disputes and avoid court intervention. Furthermore, due in part to the Department's ongoing efforts to educate consumers about the

services provided by the Department, including the posting of this information on the Department's website, the Hearings Office has seen an increase in the number of trade name cases filed with our office in the past few years, as more and more businesses look to the Department to resolve their trade name disputes.

Chapter 482, Hawaii Revised Statutes ("HRS"), however, unintentionally precludes some of those businesses from bringing their trade name disputes to the Department. For instance, the statute, as presently written, allows an unregistered owner of a trade name to bring an action with the Department to have another business's registration of the *identical* trade name revoked. On the other hand, an unregistered trade name owner would not have the ability to seek the revocation of a trade name registration with the Department if the names are not identical. Thus, the owner would have no recourse at the Department even though the registered trade name is substantially similar to the owner's trade name such that its use by the other business may be confusing to the public and may constitute an infringement under common law.

From time to time, the Hearings Office also receives requests for an order of abatement from individuals claiming to be the owner of a trade name against a corporation using an identical or similar name. Chapter 482, HRS, however, contains no provision that would allow an unregistered trade name owner to seek an abatement order against the corporation with the Department.

By closing these gaps in the present law, as House Bill No. 3085, HD1, does, more businesses would be provided with the ability to have their trade name disputes resolved in an expeditious and efficient manner through the Department's hearings

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process. For these reasons, I respectfully request your support of House Bill No. 3085, HD1. Thank you for the opportunity to submit this written testimony.