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**TO THE SENATE COMMITTEES ON  
COMMERCE, CONSUMER PROTECTION AND AFFORDABLE HOUSING  
AND  
JUDICIARY AND LABOR**

**THE TWENTY-FOURTH LEGISLATURE  
REGULAR SESSION OF 2008**

Tuesday, March 18, 2008

9:30 am

Conference Room 229

**TESTIMONY ON HOUSE BILL NO. 3085, HD2  
RELATING TO BUSINESS REGISTRATION**

TO THE HONORABLE RUSSELL S. KOKUBUN and BRIAN T. TANIGUCHI, CHAIRS,  
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 in strong support of House Bill No. 3085, HD2, an Administration bill relating to the registration and protection of trade names, entity names and marks. We are proposing amendments that include a few technical legal revisions to correct text that inadvertently would create ambiguity or inconsistency in the law. Our proposed amendments are explained in an attachment to this testimony.

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 sections 482-4, 482-8(a) and 482-8.5(a), Hawaii Revised Statutes ("HRS"), the bill addresses the

ownership standard ("confusingly similar"). In sections 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 of Commerce and Consumer Affairs. 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 LLCs (§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.

I respectfully request your support of this measure with the proposed amendments as follows. House Bill No. 3085 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 Committees may have and my staff and I would be pleased to work with the Committee members or their staff in reviewing any of our proposed technical amendments.

## PROPOSED TECHNICAL AMENDMENTS

We are proposing the following technical amendments to the HD2 version of HB3085.

Because business registration provisions are so technical, the proposed changes seem minor but are necessary to correct technical ambiguities and potential inconsistencies.

In order to correct these inadvertent ambiguities and inconsistencies, we propose the following amendments which we explain in detail.

1. **We propose the following amendment:** Section 1, page 2, line 6, insert

"**§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."

**Reason for change:** This severability provision is a general boiler-plate provision that is meant to apply to both new Part II Trade Names and new Part III Trade Marks. For that reason, it is supposed to be in the new Part IV Miscellaneous section that includes boiler-plate provisions. As discussed in the main testimony, the new Part IV Miscellaneous section was one of the clean-up reasons for this bill. The current draft bill has deleted all the common boiler plate provisions that used to be set in either Trade Names or Trade Marks and has moved them all to the miscellaneous section except Severability (HRS §482-37). On page 15 lines 1-3, the current bill deletes Severability (HRS §482-37) but seems to have accidentally forgotten to replace it in the new miscellaneous section. There is no reason a general provision like Severability should not apply and be placed in the general section of the bill. It appears to be an oversight and

we propose adding Severability back into the bill in the new Part IV  
Miscellaneous section on page 2 line 6.

2. **We propose the following amendment:** Capitalize the “s” in “State” whenever referring to the State of Hawaii. This change is necessary in a number of places as listed

- a. Page 3, line 10 (Section 3 of the bill).
- b. Page 3, line 16 (Section 3 of the bill).
- c. Page 4, line 1 (Section 3 of the bill).
- d. Page 4, line 17 (Section 4 of the bill).
- e. Page 6, line 3 (Section 5 of the bill)
- f. Page 8, line 1 (Section 6 of the bill).
- g. Page 9, line 2 (Section 6 of the bill).
- h. Page 9, line 8 (Section 6 of the bill).
- i. Page 11, line 16 (Section 7 of the bill).
- j. Page 11, line 20 (Section 7 of the bill).
- k. Page 13, line 3 (Section 8 of the bill).

**Reason for change:** Referring to “State” with a capital “S” when referring to the State of Hawaii is accepted convention. See The Hawaii Legislative drafting manual, Ninth Edition (1996), pg. 24.

3. **We propose the following amendment:** On page 4, line 18, add “registration” after “trade name” and add “administrative” before “order of abatement” as

follows: "In addition to the revocation of a trade name **registration** or **administrative** order of abatement..."

**Reason for change:** We propose adding "**registration**" so that the text reads "revocation of a trade name **registration**" because technically, the revocation is not of the trade name itself but of its registration. In fact, the registration part of the revocation is the only reason that the provision relates to our division because our division only deals with the "registration" and "revocation of registration" aspects of the trade name. We propose adding "**administrative**" so that the text reads "**administrative** order of abatement" because an administrative order of abatement is the formal term for this type of order and should not be confused with civil or other orders.

4. **We propose the following amendment:** On page 4, lines 20-21, add ", mark" as follows: "...any person whose ownership rights to a trade name, **mark**, or entity name..."

**Reason for change:** This type of protection against infringement is not currently applied to trade marks, so we propose this insertion here to provide marks with the same protections as trade and entity names. This is a gap in the law we are trying to fix. When we reviewed the law, it became clear that ownership of mark against a registered trade name was not covered under the law. Registration of mark against a registered trade name or entity name was covered under §482-21, but not ownership. We added ownership of mark against a registered trade name here (and ownership of a mark against a registered entity name in §482-

8.5(a)) in order to fill the gap that deals with the technical revocation of the registration of trade names and entity names when it is an ownership claim by the holder of a mark. For this reason, we propose adding "**mark**" into the text.

5. **We propose the following amendment:** On page 4, line 22, add "trade name or entity" after "confusingly similar" as follows: "...confusingly similar **trade name or entity** name..."

**Reason for change:** We propose this change for clarity because business registration laws draw a distinction between trade names and entity names.

6. **We propose the following amendment:** On page 5, line 17, delete "the" to read as follows: "...petitioner has common law rights of **the** ownership..."

**Reason for change:** We propose this change to make the text consistent with the legal term "common law right of ownership." This is a grammatical change.

7. **We propose the following amendment:** On page 5, line 19, replace "subsequently" to "the other" to read as follows: "...infringed upon by **the other** registered trade name..."

**Reason for change:** The word "subsequently" indicates "first-in-time" registration. We propose deleting "subsequently" because technically "first-in-time" registration is not relevant for this provision. This provision, §482-8(a), deals only with common law ownership rights. Under common law, ownership rights are acquired through the actual use of the name or mark over a period of time whether the name is registered or not. Its earlier or later registration is not directly relevant. Leaving "subsequently" in the bill in this provision would



confuse the law and for that reason, we propose deleting “subsequently” and replacing it with “the other.”

8. **We propose the following amendment:** On page 5, line 21, add the following terms in bold: “...the petitioner’s **trade name, [or] mark, or entity name** and...”

**Reason for change:** We propose adding this language for clarity. Business registration laws draw distinctions among these types of registrations.

9. **We propose the following amendment:** On page 7, lines 7 and 20, replace the word “qualified” with “authorized.”

**Reason for change:** We propose using the word “authorized” rather than “qualified” in this context. “Authorized” connotes that the Department has affirmatively acted upon the entity’s application for registration, whereas an entity may be qualified to be registered, but not registered in fact.

10. **We propose the following amendment:** We propose modifying the savings clause to narrowly apply just to the new penalties provision by modifying Section 15 by adding the bold language as follows: “Section 482-A of this Act does not affect rights and duties that matured, penalties that were incurred , and proceedings that were begun, before its effective date.”

**Reason for change:** As discussed in the main testimony, this law is primarily proposed to clarify a very confusing part of the law that has previously conflated “ownership” and “registration” concepts. If the current law is read to actually conflate these ideas, the law is unworkable and confusion will continue to plague the bulk of registration challenges which usually deal with at least one name or

mark that has been owned or registered in the past. Our proposed clean-up is necessary to make challenges clear for all registrations and ownerships, including those in the past. This proposed clean-up bill only affects *challenges* to registrations. The bill does not affect what can be registered. For these reasons, we strongly recommend that the savings clause only apply to the penalties provisions.

11. **We propose the following amendment:** On page 15, line 13, change the effective date to July 1, 2008.

**Reason for change:** Cures defective date.