



Do You Own Your Company Name (and Can You Even Use It)?

(as of August 28, 2009)

IMAGINE

After significant planning and exhaustive efforts to gather seed money, you are finally ready to start up your new business in Texas. You have come up with a clever name for your company, and the Secretary of State determined that it was available. You have invested in top-of-the-line signage, letterhead, business cards and broad-based advertising and promotion. Your business launches to great fanfare and public reception. Everything is progressing just as you hoped it would – until you receive a letter from an attorney advising that your company name infringes another entity’s trademark rights and that you must change your name immediately. You look to your certificate of formation, your name reservation or name registration for answers, for proof that you are authorized to use your name – but find nothing. You learn that you must choose between starting over with a new name or fighting in court to keep using your first name.

REALITY

Texas filings relating to company names, though accepted and approved by the Secretary of State (“SOS”), do not confer unfettered ownership or right to use the name. That is, a company name that is reserved, registered or filed in a certificate of formation by the Texas SOS, or is the subject of an assumed name certificate (also known as a “dba”), can indeed infringe someone else’s trademark rights, and the owner of such reservation, registration or certificate might have no right at all to use his company name as he wishes. Most at risk for claims of trademark infringement are company names that are used for entities who provide goods or services to the public (as opposed to holding companies, investment companies and the like whose names are not typically used in connection with the public advertising and selling of goods or services).

THE CAUSE OF THE CONFUSION

Company names can serve dual functions, only one of which is affected by Texas company name filings. One function is as a form of identification of the company, which is used for “official business” such as filings or records with state or federal agencies, entering contracts and the like. Texas company name filings pertain to this function of company names.

The other potential function of a company name is as a trademark. A trademark, sometimes called a brand, is a word, name or symbol that is used to identify and distinguish the goods or services of a company from those of other companies and to indicate the source of the goods or services. Trademark rights arise under different laws than those governing Texas company names. Trademark rights are not created or affected by Texas company name filings.

Houston

1300 Post Oak Blvd. Ste 2000
Houston, Texas 77056
713.986.7000

Dallas

4100 Thanksgiving Tower
1601 Elm Street
Dallas, Texas 75201
214.954.4135

Tyler

1397 Dominion Plaza, Ste 100
Tyler, Texas 75703
903.593.8885

www.lrmlaw.com

It is not always clear whether a company name functions as a trademark. The distinction between company name and trademark functions is sometimes easier to visualize in the context of companies that sell products. For example, The Procter & Gamble Company typically uses names other than its company name as its product trademarks, like CREST, MR. CLEAN, CHARMIN and TIDE. For companies that provide services, however, the company name itself is frequently (but not always) used as a mark to identify the company's services, such as GOOGLE, WELLS FARGO or TEXAS CHILDREN'S HOSPITAL. Likewise, dual usage as a company name and as a trademark may be more frequent for local, start-up or Mom & Pop companies who have not invested in extensive branding. Ultimately, the important question for any entity is whether its company name, in addition to identifying the company itself, is also being used as a brand name for a particular product or service. In such cases, companies and their attorneys must be cognizant of the dual function of their company names.

THE EFFECT OF THE CONFUSION

Failure to appreciate the differing functions of company names can lead companies and their attorneys to misunderstand the meaning and import of Texas company name filings and leave companies exposed to future conflicts over their names. The Texas SOS exacerbates the problem somewhat by having a fairly comprehensive administrative framework for categorizing the degree of similarity of company names, correcting or avoiding unacceptable similarities with prior names, and making so-called "final determinations" of name availability when filings are made. Despite this manner of clearance and approval of company names, the resulting certificates of formation and name reservations or registrations with the Texas SOS do not grant ownership of that name, or the right to use it, as your public brand identity. Assumed name certificates likewise confer no rights and arguably are even less probative, as they are only mandatory notice filings that are not examined or approved by the Texas SOS.

To its credit, the Texas SOS attempts to warn filing entities about the issue. In addition to posting the pertinent statutes on its website, the "General Information" section on each of the forms for filing a certificate of formation or an application to reserve or register an entity name explicitly states that "the issuance of a certificate of reservation or formation under a name does not authorize the use of a name in violation of another persons' rights to the name" (underline in the form itself). The form for assumed name certificates contains a similar alert.

Nevertheless, the papers continue to provide examples of mistaken perceptions of Texas company name filings, such as the recent report of an Austin attorney who filed assumed name certificates for the expired assumed names of prominent Austin and Houston restaurants and then advised the restaurants they had to buy back the names (for thousands of dollars) in order to continue operating under those names. The fallacy of her scheme is clear when you understand that the restaurants are using their names as trademarks, and their right to continue using their names as trademarks is not dictated or affected by Texas company name filings.

THE BOTTOM LINE

Texas companies that provide goods or services to the public must be especially prudent in selecting and using company names, including assumed names. If you intend to use your Texas company name as your public identity or as a brand name for goods or services sold to the public, then clearing your company name only through the Texas SOS filing process will not ensure that the name is in fact available for your intended use. Furthermore, the approval of a certificate of formation or a name reservation or registration, or the filing of an assumed name certificate, does not absolve you if that name infringes another party's trademark rights. Before you invest your blood, sweat and hard-earned cash in your new business venture, you must secure a complete clearance of your company name from a qualified attorney.

Looper Reed & McGraw would like to recognize attorney Carol Wilhelm for her contributions to this Alert.

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