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Intent to Lose? Be Wary of Pitfalls Involving Intent-to-Use Trademark Applications.

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Merger and Acquisitions often involve the acquisition and/or assignment of trademarks. Companies acquiring trademarks must beware of potential problems lurking with intent-to-use (ITU) trademark applications (or applications which started as ITU applications), such as improper assignment or lack of a bona fide intent to use the mark. We review the case law highlighting these issues and provide practice pointers to address these issues.

Background: In the United States, one can file an intent-to-use (ITU) application, in effect reserving the mark and establishing a constructive priority date before the mark is actually used in commerce. The U.S. Patent and Trademark Office (USPTO) will not register an ITU application until the applicant files proof that it is using the mark in commerce. The applicant may do so in the form of an amendment to allege use before the Trademark Examiner approves the mark to be published for opposition, or in the form of a statement of use after the mark survives the opposition period and a Notice of Allowance is issued. An applicant has up to three years from the date of the Notice of Allowance to file a statement of use (SOU) to represent the mark is being used.

Section 10(a)(1) of the Lanham Act, also referred to as the anti-assignment provision of the Trademark Act, prohibits assignments of ITU applications prior to the filing of a statement of use (SOU) or amendment to allege use (AAU), with one exception. *See* 15 U.S.C. §1060(a)(1). It is possible to assign an ITU application if it is "an assignment to a successor to the business of the applicant, or portion thereof, to which the mark pertains, if that business is ongoing and existing." Among other factors that the courts and Trademark Trial and Appeal Board (TTAB) evaluate when determining the validity of an assignment of an ITU application, are the sufficiency of the transfer documents, whether the assignee is truly a successor to the business, whether the business is "ongoing and existing," and whether the ITU was filed in the correct entity's name. The Congressional intent behind enacting the prohibition of assignment of ITU's was to prevent trafficking of or profiting from the sale of an ITU application. *See The Clorox Co. v. Chemical Bank,* 40 U.S.P.Q.2d 1098, 1100-01 (TTAB 1996).

Last summer's TTAB decision in *Central Garden & Pet Company v. Doskocil Manufacturing Company, Inc.* Opposition No. 91188816 (TTAB August 16, 2013) (*"Central"*) serves as an excellent reminder that it is important to consider Section 10(a)(1)'s requirements when filing or acquiring ITU applications.

The *Central* Decision: In *Central*, All-Glass Aquarium Co., Inc. ("All-Glass") filed an ITU application for the ZILLA mark on December 7, 2006 for aquariums, terrariums and other types of equipment. All-Glass was owned by a company named Pennington Seed, Inc. which in turn was owned by Central Garden. On June 26, 2007, All-Glass assigned its ITU application to Central Garden, and the registration was issued to Central Garden on February 19, 2008. However, All-Glass continued its business and did not transfer the business over to Central Garden.

Central Garden subsequently became involved in an opposition proceeding against a third party (Doskocil), and in response, Doskocil challenged Central Garden's trademark rights, arguing that the assignment from All-Glass to Central Garden violated Section 10(a)(1). The TTAB concluded that the assignment from All-Glass to Central Garden did **not** qualify for the statutory exception to Section 10(a)(1) because the only thing that the entities exchanged was the mark and the "goodwill of the business connected to the mark." The court noted that no portion of the business to which the mark pertained was transferred from All-Glass to Central Garden. In reaching that conclusion, the TTAB rejected the argument that cancellation of Central Garden's registration ran counter to the purpose of Section 10, and found that the language of the statute was clear that an ITU application may *only* be assigned to a successor to the assignor's business or at least the relevant part of it. Accordingly, the TTAB cancelled the mark. The effect of the TTAB's ruling was twofold: not only did Central Garden lose its registration, but it lost its ability to claim priority (via the filing date of the ZILLA application) against Doskocil.

The TTAB's rigid reading of Section 10 was initially set forth in *Clorox Co. v. Chem. Bank*, 40 USPQ 2d 1098, 1106 (TTAB 1996). In *Clorox*, an assignment of the ITU application was made from the trademark owner to its bank as collateral for a loan prior to the filing of the SOU. The assignment included a provision that once the loan was paid off, the ITU trademark application would be transferred back to the owner. The TTAB analyzed the language of the document at issue and found that, regardless of the parties' intent, the agreement was an assignment of rights that violated Section 10(a)(1). The TTAB concluded that the application did not qualify for the statutory exception because there was no transfer of rights of the ongoing business to which the mark pertains, and the bank was not a successor in business to the company since the company was still going to operate its business. The TTAB ruled that the improper assignment voided the application, and that any resulting registration must be cancelled.

Other TTAB panels have reached a similar conclusion. In *Railrunner N.A., Inc. v. New Mexico Department of Transportation ("NMDOT") and New Mexico Mid-Region Council of Governments* ("MRCOG"), Opposition No. 91172581 (TTAB, July 17, 2008) (not precedential) (*"Railrunner"*), MRCOG filed its ITU application in February 2005. In July 2007, MRCOG assigned its ITU application over to NMDOT before filing an AAU or SOU. An opposition proceeding was instituted which challenged the assignment. In response, NMDOT provided only the assignment and a brief affidavit as evidence of the succession of the business, and did not provide any detailed explanation of the transfer of the business or documents evidencing the succession of the business. The TTAB stated that it was incumbent upon the applicant to either provide documents evidencing the succession or to recite facts in an affidavit from which the fact-finder could conclude the transfer took place. The TTAB granted Railrunner's summary judgment motion and voided the ITU application because the assignment of the opposed ITU application was not to a successor in business. Cases like *Railrunner* are a reminder that the acquiring party must ensure the sufficiency of the transfer documentation.

In *Amazon Technologies, Inc. v. Jeffrey S. Wax*, Opposition No. 91187118 (TTAB August 31, 2010), Mr. Freeland and Mr. Wax jointly filed an ITU application for AMAZON VENTURES in March 2000. Mr. Freeland assigned, in October 2008, his the entire right, title and interest in and to AMAZON VENTURES to Mr. Wax. In a latter opposition, Amazon Technologies argued that Freeland and Wax violated Section 10(a) because they had no ongoing and existing business; however the TTAB held that an assignment is defined as "[a] transfer or making over to another the whole of any property" and that in this case there was no transfer to "another" (as Mr. Wax was an original joint applicant and was now the sole remaining applicant). The TTAB ruled that the facts evidenced a change in ownership, which did not violate 15 U.S.C. § 1060(a)(1) because it was not an "assignment" that was prohibited under Section 10(a)(1).

Ongoing and Existing Business: Whether the applicant had an ongoing and existing business is another key factor when determining the validity of an assignment of an ITU application, and discussed in the following cases.

In *Greene v. Ab Coaster Holdings, Inc.,* 2012 WL 4442749, at *10 (S.D. Ohio Sept. 25, 2012), Ab Coaster Holdings sent the Greenes a letter demanding they cease selling counterfeit devices that were being sold on eBay under Ab Coaster's AB COASTER mark. Ab Coaster obtained the patent and trademark rights associated with the abdominal exercise devices through assignments from Tristar Products, Inc. ("Tristar"), which in turn obtained such rights from Bodytime Wellness, LLC ("Bodytime"). Bodytime filed an ITU application for the mark "AB COASTER" for the exercise devices and then assigned the ITU application to Tristar prior to the filing of the SOU. In a latter litigation, the trademark registration was challenged by the Greenes on grounds that Bodytime was not engaged in an existing and ongoing business at time of assignment, thereby violating Section 10(a)(1). The court agreed, finding that Bodytime was not in the business of providing goods and services related to the Ab Coaster exercise device. In canceling the registration, the court found that while Bodytime was in the business of *developing* the product that would in the future be used with the "AbCoaster trademark," such business activity was not the type of ongoing and existing business sufficient to fit into the exception provided in Section 10(a)(1).

In *Creative Arts by Calloway, LLC v. Christopher Brooks, d/b/a/ the Cab Calloway Orchestra, 2012 U.S. Dist. Lexis 182699* (S.D.N.Y. 2012), Cab Calloway's widow, Mrs. Zulme Calloway, filed a ITU application for the mark "CAB CALLOWAY" on July 23, 1999 for web sites or retail establishments selling Cab Calloway-related material, internet multimedia programming, distribution of musicals, comedies or dramas, or radio programming, production and distribution of music. Mrs. Calloway, her daughters, and son-in-law formed Creative Arts by Calloway in December 2000. Mrs. Calloway executed an assignment transferring her ITU application to Creative Arts on January 2, 2001. Defendant Christopher Brooks opposed the ITU application on the grounds that its similarity to his previously-used mark, "THE CAB CALLOWAY ORCHESTRA" for live musical performances and sales of CDs and videotapes would cause public confusion in violation of Section 2(d) of the Lanham Act and the TTAB agreed and sustained his opposition.

Calloway filed a district court action challenging the TTAB decision, and Brooks again asserted that the ITU assignment was void because Mrs. Calloway's actions before the assignment were not organized as an existing and ongoing business. The court noted that ITU assignments have been upheld when the assignee is producing a product or offering a service substantially similar to that of the assignor, or when there was continuity of management. However, the court ruled that neither situation was present in this case because 1) the Creative Arts business involved cataloguing and enforcing its CAB CALLOWAY related rights, which was not the same business as which Mrs. Calloway was engaged before the assignment of the ITU application and 2) three additional individuals were part of Creative Arts so there was no continuity of management. The Court then determined that Mrs. Calloway's limited activities with:

1) the Cab Calloway School of Arts; 2) the Cab Calloway Foundation; 3) a Broadway musical based on Cab's music and life story; 4) collecting royalties; and 5) retaining various professionals were not sufficient to show that Mrs. Calloway was operating an existing and ongoing business pertaining to the services identified with the CAB CALLOWAY mark in her ITU application. Thus, the assignment of her ITU application to Creative Arts was void because she did not have an existing and ongoing business.

In *Philip Restifo v. Power Beverages, LLC*, Opposition No. 91181671 (TTAB Sept. 21, 2011) (not precedential), Power Beverages was assigned all rights, title and interest in and to the subject ITU application including goodwill associated with YING YANG VODKA from Paul Kidd. Kidd and his company Akbar Global originally entered into an exclusive sublicense agreement with Opposer's company to utilize the YING YANG VODKA trademark in March but later voided the agreement. IInstead, Kidd and his company 1) entered into an agreement with Mr. Hills to develop and commercialize ta brand of liquor and cigar products utilizing name "YING YANG" on December 3, 2008; 2) formed Power Beverages LLC with Mr. Hills on December 12, 2008; and 3) executed an assignment on December 24, 2008 to Power Beverages LLC of all rights, title and interest in and to the subject ITU application including goodwill associated with the YING YANG VODKA mark. Opposer alleged that Mr. Kidd violated Section 10(a)(1) because he did not have a valid and ongoing business and if it existed, that Power Beverages was not a successor to this business. The TTAB noted that licensing a third party to manufacture and distribute the vodka qualified as an ongoing business. Further, the TTAB noted Mr. Kidd assigned all rights he had in his company (and thus relinquished his personal interest) to Power Beverages upon formation of Power Beverages, which established that Power Beverages was a successor in business. Accordingly, the TTAB held that Mr. Kidd had an ongoing and existing business that was transferred to Power Beverages and there was no violation of Section 10(a)(1).

Bona-Fide Intent to Use: Separate from the concerns raised by Section 10(a)(1), another important consideration when filing an ITU application is whether or not the ITU applicant has a "bona fide intent" to use the mark.[1] In this respect, ITU applications should be filed in the name of the entity that has a bona fide intent to use the mark. Failure to do so can have severe consequences. For example, in *American Forests v. Sanders*, 54 U.S.P.Q.2d 1860, 1864 (TTAB 1999) ("Sanders"), Barbara Sandersfiled an ITU application listing her as the owner for a business that her husband and herself planned to operate. The TTAB held that the ITU application was void *ab initio* because the mark had been improperly filed listing an individual as the owner, when it was the partnership of Stephen Sanders and Barbara Sanders which had a bona fide intent to use the mark.

In reaching that conclusion, the TTAB cited *Huang v. Tzu Wei Chen Food*, 849 F.2d 1458, 1459, 7 USPQ2d 1335, 1336 (Fed. Cir. 1988)("Huang"). In *Huang*, an individual, Chien Ming Huang, filed a use-based application for HEI CHIAO on April 27, 1982, which was received in the PTO on May 3, 1982. At the time, the Lanham Act provided that an application filing date was its date of receipt in the USPTO, which was May 3, 1982. Chien Ming Huang had applied for incorporation in Iowa, which was granted as effective on May 1, 1982, and ownership of the trademark HEI CHIAO passed to this newly formed corporation Chia-Chi Enterprises, Inc. on May 1, 1982. The Court then held that the application was void *ab initio* because on May 3, 1982 (the date the Trademark Office received the application), the owner of the mark was the corporation, and not the individual as was listed in the application.

The TTAB has also held that the absence of any documentary evidence to support applicant's claimed intention to use the mark is sufficient to constitute objective proof of a lack of bona fide intention to use. *Commodore Electronics Ltd. v. CBM Kabushiki Kaisha Opposition*, 26 USPQ2d 1503, 1507 (TTAB 1993).

[1] 15 U.S.C. 1051(b) requires that a person who has a bona fide intention, under circumstances showing the good faith of such person, to use a trademark in commerce in order to request registration of its trademark on the principal register.

In *Commodore*, the Opposer (Commodore) initially filed an opposition and sought to amend its opposition to include a new ground that the Applicant (CBM) did not have a bona fide intention to use the mark in commerce on the on the specified services when it filed the marks. CBM moved to strike the amended notice of opposition or, in the alternative, for summary judgment on the amended notice of opposition. The TTAB denied CBM's motion (both the motion to strike and the summary judgment motion) and granted the Commodore's motion to amend because CBM did not have a single document to establish a bona fide intention to use the mark in commerce on any of the many goods covered in its various applications.

In a more recent case, the TTAB further refined its position. In *Spirits International ("Spirits") v. S.S. Taris Zeytin Ve Zeytinyagi* , Opposition 91163779 (TTAB July 6, 2011), the TTAB held that the applicant lacked a bona fide intent to use its mark on all of the goods identified in the opposed classes of its applications and sustained the opposition. In its opposition, Spirits established a prima facie case of the lack of bona fide indent by the by showing that the applicant did not provide any documents referring to: 1) applicant's use or intended use of mark in connection with any alcoholic product; 2) any promotional, marketing or advertisements for any alcoholic product offered or to be offered by applicant or any authorized licensee under the mark; 3) marketing plans involving any alcoholic product to be sold under the mark; 4) documents referring to any channel of trade through which the products were to be sold or intended to be sold in response to Spirits document requests. Further, in answer to interrogatories asking the applicant to identify each type of alcoholic product that has been offered or is intended to be offered, applicant stated that currently only olive oil is sold under the mark in the United States and did not address the remainder of the interrogatory. In addition, applicant admitted that it had not obtained any of the necessary permits to import, distribute or sell alcohol within the United States. The burden the shifted to the Applicant to rebut the opposition, but the applicant came forward with no evidence.

Practice Tips

These decisions illustrate the importance of developing a strategy for handling ITU applications in your organization during the initial filing process and the mergers and acquisitions process. In addition to consulting with an IP attorney to determine how best to proceed, and whether there are any alternative strategies that your company might follow in order to avoid a negative result, companies should consider the following:

- If your organization has different subsidiaries engaged in different businesses, it is important to identify *which exact subsidiary or entity* will be using the mark before filing an ITU application.

- For startup companies, establish your entity structure, document the formation and register the entity with the appropriate authorities *before* filing an ITU application.

- Ensure that the entity identified as the ITU application owner 1) is engaged in the business that is corresponds to the goods and services listed in the ITU application, 2) continues to exist, and 3) is operational.

- If transferring an ITU trademark application, verify that the marks, goodwill and all aspects of the business are being transferred along with the ITU applications from the divesting entity to the acquiring entity. It is important to have documentation evidencing that the goodwill and business are being transferred because this documentation can identify that the successor in business clause of the statutory exception is met. The TTAB and courts often do not accept statements, without backup documentation and facts, from the receiving or transferring entity that the receiving entity is a successor in business. These agreements can also provide documentation that the ongoing and existing business clause of the statutory exception is met.

- **If conducting IP due diligence in a corporate mergers and acquisition transaction**– Identify if the participating entities have ITU assets and if so, follow the checklist below to identify any ITU transfer issues.
  - Identify all ITU trademark applications involved in the transaction and what entity is listed owner.
  - Keep in the above-mentioned points as they apply to divesting and acquiring entities (*e.g.,* verify that divesting entity is engaged in ongoing and existing business, verifying that acquiring entity is a successor in business and there is supporting documentation).
  - Identify all trademark registrations that originally started out as ITU applications.
  - Investigate whether the trademark registrations identified immediately above involved any transferring of ITU assets before a SOU or AAU was filed.
  - If any ITU trademark applications were assigned before a SOU or AAU was filed, verify that the assignment met both of the statutory exceptions (i.e., that the acquiring entity is a successor in business to the divesting entity and that the divesting entity was engaged in an ongoing and existing business).
- **In conducting IP due diligence, it is also important to confirm the original applicant had a bona-fide intent to use** – Accordingly, identify marks that are currently ITU applications or that started out as ITU applications and follow the checklist below:
  - Gather and maintain any documentary evidence that supports the use or the planned use of the marks on the applied for goods & services (e.g., marketing materials, promotional materials, advertisements, permits, business plans, marketing plans, distributor or supplier agreements). Verify that all goods and services for the ITU application have evidentiary corroboration.
  - Ensure that the list of goods and services is not unnecessarily overly broad.
  - Put periodic checks in place to make sure that the list of goods and services remain accurate.

If you have any questions about the content of this alert, please contact the Pillsbury attorney with whom you regularly work, or the authors below.

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