Trademark Law: An Open-Source Casebook
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D. Trademark Abandonment

A defendant may show that a mark has been abandoned and is thus unprotectable by showing either that (1) the plaintiff has ceased to use the mark with the intent not to resume use, or (2) the plaintiff has failed to control the use of the mark (for example, by licensing its use indiscriminately) with the result that the mark has lost its significance as a designation of a particular source. These two modes of abandonment are based on the definition of "abandoned" in Lanham Act § 45, 15 U.S.C. § 1127:

> A mark shall be deemed to be "abandoned" if either of the following occurs:
>
> (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.
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> (2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.

1. Abandonment Through Cessation of Use

The following excerpt is taken from *ITC Ltd. v. Punchgini, Inc*., 482 F.3d 135 (2d Cir. 2007). The plaintiff ITC Ltd. opened a restaurant under the name Bukhara in New York City. In 1987, the plaintiff entered into a franchise agreement for a Bukhara restaurant in Chicago. Also in 1987, the plaintiff registered at the PTO the mark BUKHARA in connection with "restaurant services" (*See* U.S. Trademark Registration No. 1,461,445 (Oct. 13, 1987)). The New York City restaurant closed in 1991 and ITC cancelled its Chicago franchise in 1997. In 2000, the defendant Punchgini, Inc. opened the restaurant Bukhara Grill in New York City. In 2003, the plaintiff sued for trademark infringement. The district court had granted summary judgment in favor of the defendant.

In this case, the abandonment issue is related to a "well-known marks" issue in the following respect. If ITC was found to have abandoned the BUKHARA mark in the United States, then the only good argument ITC had left was that even though it had ceased to use its mark in commerce in the United States (typically a prerequisite for US trademark validity), the mark's global reputation qualified it for protection as a "well-known mark" within the United States.

ITC Ltd. v. Punchgini, Inc.
482 F.3d 135, 145-53 (2d Cir. 2007)

[1] This case requires us to decide, among other things, the applicability of the "famous marks" doctrine to a claim for unfair competition under federal and state law. Plaintiffs ITC Limited and ITC Hotels Limited (collectively "ITC") held a registered United States trademark for restaurant services: "Bukhara." They sued defendants, Punchgini, Inc., Bukhara Grill II, Inc., and certain named individuals associated with these businesses, in the United States District Court for the Southern District of New York (Gerard E. Lynch, *Judge*) claiming that defendants' use of a similar mark and related trade dress constituted trademark infringement, unfair competition, and false advertising in violation of federal and state law. ITC now appeals from the district court's award of summary judgment in favor of defendants on all claims. *See ITC Ltd. v. Punchgini, Inc.,* 373 F.Supp.2d 275 (S.D.N.Y. 2005).

[2] Having reviewed the record *de novo,* we affirm the award of summary judgment on ITC's infringement claim, concluding, as did the district court, that ITC abandoned its Bukhara mark for restaurant services in the United States. To the extent ITC insists that the "famous marks" doctrine nevertheless permits it to sue defendants for unfair competition because its continued international use

of the mark led to a federally protected right, we conclude that Congress has not yet incorporated that doctrine into federal trademark law.[2] Therefore, we affirm the award of summary judgment on ITC's federal unfair competition claim. Whether the famous marks doctrine applies to a New York common law claim for unfair competition and, if so, how famous a mark must be to trigger that application, are issues not easily resolved by reference to existing state law. Accordingly, we certify questions relating to these issues to the New York Court of Appeals, reserving our decision on this part of ITC's appeal pending the state court's response.

I. Factual Background

A. The Bukhara Restaurant in New Delhi

[3] ITC Limited is a corporation organized under the laws of India. Through its subsidiary, ITC Hotels Limited, it owns and operates the Maurya Sheraton & Towers, a five-star hotel in New Delhi, India. One of the restaurants in the Maurya Sheraton complex is "Bukhara." Named after a city in Uzbekistan on the legendary Silk Road between China and the West, Bukhara offers a cuisine and decor inspired by the northwest frontier region of India. Since its opening in 1977, the New Delhi Bukhara has remained in continuous operation, acquiring a measure of international renown.[4]

[4] Over the past three decades, ITC has sought to extend the international reach of the Bukhara brand. At various times, it has opened or, through franchise agreements, authorized Bukhara restaurants in Hong Kong, Bangkok, Bahrain, Montreal, Bangladesh, Singapore, Kathmandu, Ajman, New York, and Chicago. As of May 2004, however, ITC-owned or -authorized Bukhara restaurants were in operation only in New Delhi, Singapore, Kathmandu, and Ajman.

B. ITC's Use of the Bukhara Mark in the United States

1. ITC's Use and Registration of the Mark for Restaurants

[5] In 1986, an ITC-owned and -operated Bukhara restaurant opened in Manhattan. In 1987, ITC entered into a franchise agreement for a Bukhara restaurant in Chicago. Shortly after opening its New York restaurant, ITC sought to register the Bukhara mark with the United States Patent and Trademark Office ("Patent and Trademark Office"). On October 13, 1987, ITC obtained United States trademark registration for the Bukhara mark in connection with "restaurant services." *See* United States Trademark Registration No. 1,461,445 (Oct. 13, 1987). The Manhattan restaurant remained in operation for only five years, closing on December 17, 1991. On August 28, 1997, after a decade in business, ITC cancelled its Chicago franchise. Notwithstanding its registration, ITC concedes that it has not owned, operated, or licensed any restaurant in the United States using the Bukhara mark since terminating the Chicago restaurant franchise.

2. Use of the Mark for Packaged Foods

[6] Over three years later, in 2001, ITC commissioned a marketing study to determine the viability of selling packaged food products in the United States under the Bukhara label, including "Dal Bukhara."[5] In that same year, ITC filed an application with the Patent and Trademark Office to register a "Dal Bukhara" mark in connection with packaged, ready-to-serve foods. In May 2003, ITC sold packaged Dal Bukhara food products to two distributors, one in California and the other in New Jersey. One month

[2] Although the term "famous marks" is often used to describe marks that qualify for protection under the federal anti-dilution statute, *see* 15 U.S.C. § 1125(c), the "famous marks" doctrine is, in fact, a different and distinct "legal concept under which a trademark or service mark is protected within a nation if it is well known in that nation even though the mark is not actually used or registered in that nation," 4 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition,* § 29.2, at 29–164 (4th ed.2002). Thus, the famous marks doctrine might more aptly be described as the famous foreign marks doctrine. It is in this latter sense that we reference the famous marks doctrine on this appeal.

[4] The record indicates that in 2002 and 2003, the New Delhi Bukhara was named one of the world's fifty best restaurants by London-based "Restaurant" magazine.

[5] This product takes its name from a lentil dish served at the New Delhi Bukhara restaurant.

later, in June 2003, ITC exhibited Dal Bukhara products at the International Fancy Foods Show in New York City.

C. The Opening of "Bukhara Grill"

[7] Meanwhile, in 1999, named defendants Raja Jhanjee, Vicky Vij, Dhandu Ram, and Paragnesh Desai, together with Vijay Roa, incorporated "Punchgini, Inc." for the purpose of opening an Indian restaurant in New York City. Jhanjee, Vij, and Ram had all previously worked at the New Delhi Bukhara, and Vij had also previously worked at ITC's New York Bukhara. In selecting a name for their restaurant, the Punchgini shareholders purportedly considered "Far Pavilions" and "Passage to India" before settling on "Bukhara Grill." As Vij candidly acknowledged at his deposition, there was then "no restaurant Bukhara in New York, and we just thought we will take the name." Vij Dep. 25:7–11, May 5, 2004. After some initial success with "Bukhara Grill," several Punchgini shareholders, with the support of two additional partners, defendants Mahendra Singh and Bachan Rawat, organized a second corporation, "Bukhara Grill II, Inc.," in order to open a second New York restaurant, "Bukhara Grill II."

[8] When the record is viewed in the light most favorable to ITC, numerous similarities suggestive of deliberate copying can readily be identified between the defendants' Bukhara Grill restaurants and the Bukhara restaurants owned or licensed by ITC. Quite apart from the obvious similarity in name, defendants' restaurants mimic the ITC Bukharas' logos, decor, staff uniforms, wood-slab menus, and red-checkered customer bibs. Indeed, the similarities were sufficiently obvious to be noted in a press report, wherein defendant Jhanjee is quoted acknowledging that the New York Bukhara Grill restaurant "is quite like Delhi's Bukhara."

D. Plaintiffs' Cease and Desist Letter

[9] By letter dated March 22, 2000, ITC, through counsel, demanded that defendants refrain from further use of the Bukhara mark. The letter accused defendants of unlawfully appropriating the reputation and goodwill of ITC's Bukhara restaurants in India and the United States by adopting a virtually identical name for their New York Bukhara Grill restaurants. It further demanded, under threat of legal action, that defendants acknowledge ITC's exclusive rights to the Bukhara mark, disclose the period for which defendants had used the mark, and remit to ITC any profits derived therefrom.

[10] In a response dated March 30, 2000, defendants' counsel expressed an interest in avoiding litigation. Nevertheless, counsel observed that ITC appeared to have abandoned the Bukhara mark by not using it in the United States for several years. Receiving no reply, defendants' counsel sent a second letter to ITC dated June 22, 2000, stating that, if no response was forthcoming "by June 28, 2000, we will assume that ITC Limited has abandoned rights it may have had in the alleged mark and any alleged claim against our client." Marsh Letter to Horwitz, June 22, 2000. The record indicates no timely reply.

[11] Instead, almost two years later, on April 15, 2002, ITC's counsel wrote to defendants reiterating the demands made in March 2000 and complaining of defendants' failure formally to respond to that initial letter. Defendants' counsel promptly challenged the latter assertion; faulted ITC for failing to reply to his March 22, 2000 letter; and reasserted his abandonment contention, a position that he claimed was now bolstered by the passage of additional time. There was apparently no further communication among the parties until this lawsuit.

E. The Instant Lawsuit

[12] On February 26, 2003, ITC filed the instant lawsuit. In the amended complaint that is the controlling pleading for purposes of our review, ITC charged defendants with trademark infringement under section 32(1)(a) of the Lanham Act, *see* 15 U.S.C. § 1114(1)(a), as well as unfair competition and false advertising under sections 43(a) and 44(h) of the Lanham Act, *see* 15 U.S.C. §§ 1125(a), 1126(h). ITC also pursued parallel actions under New York common law.[6] As an affirmative defense, defendants

[6] ITC's amended complaint also charged defendants with false designation of origin in violation of the Lanham Act, 15 U.S.C. § 1125(a), and deceptive acts and practices in violation of New York General

charged ITC with abandonment of its United States rights to the Bukhara mark and, on that ground, they filed a counterclaim seeking cancellation of the ITC registration.

[13] Following discovery, defendants successfully moved for summary judgment. In a detailed published decision, the district court ruled that ITC could not pursue an infringement claim because the record conclusively demonstrated its abandonment of the Bukhara mark as applied to restaurants in the United States. *See ITC Ltd. v. Punchgini, Inc.,* 373 F.Supp.2d at 285. To the extent ITC asserted that its continued operation of Bukhara restaurants outside the United States allowed it to sue defendants for unfair competition under the famous marks doctrine, the district court was not convinced. It observed that, even if it were to assume the applicability of the famous marks doctrine, ITC had failed to adduce sufficient evidence to permit a reasonable jury to conclude that the name or trade dress of its foreign restaurants had attained the requisite level of United States recognition to trigger the doctrine. *See id.* at 291. Finally, the district court found that ITC lacked standing to pursue its false advertising claim. *See id.* at 291–92. This appeal followed.

[14] Before this court, ITC advances essentially three arguments. It submits that (1) the record does not conclusively establish its abandonment of United States rights in the Bukhara mark, (2) the district court misapplied applicable federal and state law regarding the famous marks doctrine, and (3) it has standing to sue defendants for false advertising.

II. Discussion

. . . .

B. Trademark Infringement

[15] . . . Even if a plaintiff makes the showing required by federal and state [trademark] law, however, the alleged infringer may nevertheless prevail if it can establish the owner's prior abandonment of the mark. *See* 15 U.S.C. § 1115(b)(2); *Nercessian v. Homasian Carpet Enter., Inc.,* 60 N.Y.2d 875, 877, 470 N.Y.S.2d 363, 364, 458 N.E.2d 822 (1983) (holding that "rights in a trade name may be lost by abandonment"). Indeed, abandonment is not only an affirmative defense to an infringement action; it is a ground for cancelling a federally registered mark. *See* 15 U.S.C. § 1064(3).

[16] Relying on this principle, defendants submit that ITC's infringement claim is necessarily defeated as a matter of law by proof that, by the time they opened their Bukhara Grill restaurants in New York, ITC had effectively abandoned the Bukhara mark in the United States. Like the district court, we conclude that defendants successfully established abandonment as a matter of law, warranting both summary judgment in their favor and cancellation of ITC's registered mark.

1. The Doctrine of Abandonment

[17] The abandonment doctrine derives from the well-established principle that trademark rights are acquired and maintained through use of a particular mark. *See Pirone v. MacMillan, Inc.,* 894 F.2d 579, 581 (2d Cir. 1990) ("'There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed.'" (quoting *United Drug Co. v. Theodore Rectanus Co.,* 248 U.S. 90, 97 (1918))). This is true even of marks that have been registered with the Patent and Trademark Office. *See Basile, S.p.A. v. Basile,* 899 F.2d 35, 37 n. 1 (D.C.Cir. 1990) ("Although [a mark's] registration is a predicate to its protection under [section 32(1)(a) of] the Lanham Act, the underlying right depends not on registration but rather on use."). Indeed, one of the fundamental premises underlying the registration provisions in the Lanham Act is that trademark rights flow from priority and that priority is acquired through use. *See, e.g.,* 15 U.S.C. § 1057(c) (stating that registration of mark "shall constitute constructive use of the mark, conferring a right of priority, nationwide in effect . . . against any other person except for a person whose mark has not been abandoned and who, prior to such filing[,] . . . has used the mark"). Thus, so long as a person is

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Business Law § 349, but it appears to have abandoned those claims in otherwise opposing defendants' motion for summary judgment. *See ITC Ltd. v. Punchgini, Inc.,* 373 F.Supp.2d at 278.

the first to use a particular mark to identify his goods or services in a given market, and so long as that owner continues to make use of the mark, he is "entitled to prevent others from using the mark to describe their own goods" in that market. *Defiance Button Mach. Co. v. C & C Metal Prods. Corp.,* 759 F.2d 1053, 1059 (2d Cir. 1985); *see also Sengoku Works v. RMC Int'l,* 96 F.3d 1217, 1219 (9th Cir. 1996) ("It is axiomatic in trademark law that the standard test of ownership is priority of use.").

[18] If, however, an owner ceases to use a mark without an intent to resume use in the reasonably foreseeable future, the mark is said to have been "abandoned." *See Silverman v. CBS, Inc.,* 870 F.2d 40, 45 (2d Cir. 1989); 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 17:5, at 17–8 (4th ed. 2002) (observing that "abandonment" refers to situations involving the "non-use of a mark, coupled with an express or implied intention to abandon or not to resume use"). Once abandoned, a mark returns to the public domain and may, in principle, be appropriated for use by other actors in the marketplace, *see Indianapolis Colts, Inc. v. Metro. Baltimore Football Club Ltd. P'ship,* 34 F.3d 410, 412 (7th Cir. 1994), in accordance with the basic rules of trademark priority, *see Manhattan Indus., Inc. v. Sweater Bee by Banff, Ltd.,* 627 F.2d 628, 630 (2d Cir. 1980).

2. Demonstrating Abandonment

[19] The party asserting abandonment bears the burden of persuasion with respect to two facts: (1) non-use of the mark by the legal owner, and (2) lack of intent by that owner to resume use of the mark in the reasonably foreseeable future. *See* 15 U.S.C. § 1127; *Stetson v. Howard D. Wolf & Assocs.,* 955 F.2d 847, 850 (2d Cir. 1992); *Silverman v. CBS, Inc.,* 870 F.2d at 45; *see also On–Line Careline, Inc. v. America Online, Inc.,* 229 F.3d 1080, 1087 (Fed.Cir. 2000) (placing burden of persuasion on party seeking cancellation on ground of abandonment); *Warner Bros. Inc. v. Gay Toys, Inc.,* 724 F.2d 327, 334 (2d Cir. 1983) (placing burden of persuasion on party asserting abandonment as defense).

[20] ITC concedes that defendants satisfied the first element through proof that ITC has not used the Bukhara mark for restaurant services in the United States since August 28, 1997. Nevertheless, ITC insists that a triable issue of fact exists with respect to its intent to resume use of the service mark in the United States. To the extent the district court concluded otherwise, ITC submits the court applied an incorrect legal standard. To explain why we are not persuaded by this argument, we begin by discussing the particular legal significance of non-use of a registered mark for a period of at least three years.

3. Prima Facie Evidence of Abandonment

[21] The Lanham Act expressly states that "[n]onuse" of a mark "for 3 consecutive years shall be prima facie evidence of abandonment." 15 U.S.C. § 1127. This court has explained that the term "prima facie evidence" in this context means "a rebuttable presumption of abandonment." *Saratoga Vichy Spring Co. v. Lehman,* 625 F.2d 1037, 1044 (2d Cir. 1980); *accord Silverman v. CBS, Inc.,* 870 F.2d at 45.

The role played by such a presumption is best understood by reference to Rule 301 of the Federal Rules of Evidence:

> In all civil actions and proceedings not otherwise provided for by Act of Congress or by these rules, a presumption imposes on the party against whom it is directed the burden of going forward with evidence to rebut or to meet the presumption, but does not shift to such party the burden of proof in the sense of the risk of non-persuasion, which remains throughout the trial upon the party on whom it was originally cast.

Fed.R.Evid. 301. Although the term "presumption" is not specifically defined in the Rules of Evidence, it is generally understood to mean "an assumption of fact resulting from a rule of law which requires such fact to be assumed from another fact or group of facts found or otherwise established in the action." 21B Charles Alan Wright & Kenneth W. Graham, Jr., Federal Practice and Procedure § 5124 (2d ed. 2005); *see also Texas Dep't of Cmty. Affairs v. Burdine,* 450 U.S. 248, 256 n. 10 (1981) (describing presumption as "legally mandatory inference"). The assumption ceases to operate, however, upon the proffer of contrary evidence. *See generally A.C. Aukerman Co. v. R.L. Chaides Constr. Co.,* 960 F.2d 1020, 1037 (Fed.Cir. 1992) (observing that under Rule 301, a "presumption is not merely rebuttable but completely vanishes upon the introduction of evidence sufficient to support a finding of the nonexistence of the presumed fact"); *Saratoga Vichy Spring Co. v. Lehman,* 625 F.2d at 1043 (suggesting that presumption of abandonment "disappears when rebutted by contrary evidence").

[22] Thus, in this case, the statutory presumption of abandonment requires that one fact, i.e., abandonment, be inferred from another fact, i.e., non-use of the mark for three years or more. The significance of a presumption of abandonment is to shift the burden of production to the mark owner to come forward with evidence indicating that, despite three years of non-use, it intended to resume use of the mark within a reasonably foreseeable time. *See Imperial Tobacco, Ltd. v. Philip Morris, Inc.,* 899 F.2d 1575, 1579 (Fed.Cir. 1990) (noting that triggering of presumption "eliminates the challenger's burden to establish the [lack of] intent [to resume use] element of abandonment as an initial part of its case"); *see also Cumulus Media, Inc. v. Clear Channel Commc'ns,* 304 F.3d 1167, 1176–77 (11th Cir. 2002); *On–Line Careline, Inc. v. America Online, Inc.,* 229 F.3d at 1087. The ultimate burden of persuasion on the issue of abandonment, however, remains at all times with the alleged infringer. *See Emergency One, Inc. v. American FireEagle, Ltd.,* 228 F.3d 531, 536 (4th Cir. 2000).

4. The Evidence Necessary to Defeat a Presumption of Abandonment

[23] This court has observed that "to overcome a presumption of abandonment after a sufficiently long period of non-use, a defendant need show only an intention to resume use 'within the reasonably foreseeable future.'" *Empresa Cubana del Tabaco v. Culbro Corp.,* 399 F.3d 462, 468 n. 2 (2d Cir. 2005) (quoting *Silverman v. CBS, Inc.,* 870 F.2d at 45). ITC submits that the district court erred in imposing a stricter standard, specifically requiring ITC to adduce "'objective, hard evidence of actual concrete plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate'" to defeat defendants' summary judgment motion. *ITC Ltd. v. Punchgini, Inc.,* 373 F.Supp.2d at 280 (quoting *Emmpresa Cubana Del Tabaco v. Culbro Corp.,* 213 F.Supp.2d 247, 268–69 (S.D.N.Y.2002)).

[24] This court has, in fact, criticized the particular language quoted by the district court, observing that such a "heavy burden" is not required by our precedent. *See Empresa Cubana del Tabaco v. Culbro Corp.,* 399 F.3d at 467 n. 2. Courts and commentators are in general agreement that proffered evidence is "sufficient" to rebut a presumption as long as the evidence could support a reasonable jury finding of "the nonexistence of the presumed fact." *Wanlass v. Fedders Corp.,* 145 F.3d 1461, 1464 (Fed.Cir. 1998) . . . . In short, upon defendants' presentation of evidence establishing a *prima facie* case of abandonment under the Lanham Act, ITC was required to come forward only with such contrary evidence as, when viewed in the light most favorable to ITC, would permit a reasonable jury to infer that it had not abandoned the mark. Specifically, it needed to adduce sufficient evidence to permit a reasonable jury to conclude that, in the three-year period of non-use—from August 28, 1997, when ITC terminated the Chicago Bukhara franchise, to August 28, 2000—ITC nevertheless maintained an intent to resume use of its registered mark in the reasonably foreseeable future.[9] *See Silverman v. CBS, Inc.,* 870 F.2d at 47; *accord Empresa Cubana del Tabaco v. Culbro Corp.,* 399 F.3d at 467 n. 2. Hard evidence of concrete plans to resume use of the mark would certainly carry this burden. But we do not foreclose the possibility that other circumstances, viewed in the light most favorable to the non-movant, might also

[9] Although we have not previously stated specifically that a mark holder's intent to resume use of the mark must be formulated during the three-year period of non-use, we do so now, noting that two other circuit courts have also reached this conclusion. *See, e.g., Imperial Tobacco, Ltd. v. Philip Morris, Inc.,* 899 F.2d at 1580–81 [Fed. Cir.] (expressly recognizing that intent must be formulated during non-use period); *Emergency One, Inc. v. American FireEagle, Ltd.,* 228 F.3d at 537 [4th Cir.] (same). Indeed, we think this conclusion follows naturally from the fact that an abandoned mark may be appropriated for use by other actors in the marketplace. An intent to resume use of the mark formulated after more than three years of non-use cannot be invoked to dislodge the rights of another party who has commenced use of a mark—thereby acquiring priority rights in that mark—after three years of non-use. We do not, however, foreclose the use of evidence arising after the relevant three-year period to demonstrate an intent *within* that period to resume use.

support the necessary jury inference of intent. *See, e.g., Geneva Pharms. Tech. Corp. v. Barr Labs., Inc.,* 386 F.3d 485, 506 (2d Cir. 2004) (looking to totality of circumstances to infer intent).

5. Defendants' Entitlement to Summary Judgment

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b. ITC's Failure to Adduce Evidence from Which a Reasonable Jury Could Infer Intent to Resume Use

[25] As this court has recognized, "intent is always a subjective matter of inference and thus rarely amenable to summary judgment." *Saratoga Vichy Spring Co. v. Lehman,* 625 F.2d at 1044. At the same time, however, "'[t]he summary judgment rule would be rendered sterile . . . if the mere incantation of intent or state of mind would operate as a talisman to defeat an otherwise valid motion.'" *Distasio v. Perkin Elmer Corp.,* 157 F.3d 55, 61–62 (2d Cir. 1998) (quoting *Meiri v. Dacon,* 759 F.2d 989, 997 (2d Cir. 1985)). The latter point is particularly relevant in the context of an abandonment dispute, because "[i]n every contested abandonment case, the respondent denies an intention to abandon its mark; otherwise there would be no contest." *Imperial Tobacco, Ltd. v. Philip Morris, Inc.,* 899 F.2d at 1581. Thus, courts have generally held that a trademark owner cannot rebut a presumption of abandonment merely by asserting a subjective intent to resume use of the mark at some later date. . . . *Emergency One, Inc. v. American FireEagle, Ltd.,* 228 F.3d at 537 ("[T]he owner of a trademark cannot defeat an abandonment claim . . . by simply asserting a vague, subjective intent to resume use of a mark at some unspecified future date.") . . . ; *see also Silverman v. CBS, Inc.,* 870 F.2d at 47 ("A bare assertion of possible future use is not enough."). Rather, to rebut a presumption of abandonment on a motion for summary judgment, the mark owner must come forward with evidence "with respect to . . . what outside events occurred from which an intent to resume use during the nonuse period may reasonably be inferred." *Imperial Tobacco, Ltd. v. Philip Morris, Inc.,* 899 F.2d at 1581; *accord Emergency One, Inc. v. American FireEagle, Ltd.,* 228 F.3d at 537–38; *see also Silverman v. CBS, Inc.,* 870 F.2d at 47 (noting that presumption of abandonment can be rebutted "by showing reasonable grounds for the suspension and plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate"[10]).

[26] ITC argues that four facts would allow a reasonable factfinder to infer its intent to resume use of the Bukhara mark for restaurants in the United States: (1) the reasonable grounds for its suspension of use of the mark, (2) its efforts to develop and market a Dal Bukhara line of packaged food, (3) its attempts to identify potential United States restaurant franchisees, and (4) its continued use of the Bukhara mark for restaurants outside the United States. We are not persuaded.

(1) Grounds for Suspending Use

[27] ITC advances two reasons for suspending use of the Bukhara mark in the United States from 1997 to 2000: (a) Indian regulations requiring it to return profits earned abroad severely hindered its ability to open and operate profitable Bukhara restaurants in the United States, and (b) depressed market conditions in the hospitality industry from 1988 to 2003 inhibited its development of franchise

[10] The two factors identified in *Silverman* are not distinct but intertwined. A mark owner's reason for suspending use of a mark is relevant to abandonment analysis only as circumstantial evidence shedding possible light on his intent to resume future use within a reasonable period of time. In short, not every "reasonable suspension" will necessarily rebut a presumption of abandonment. *See Silverman v. CBS, Inc.,* 870 F.2d at 47 (observing that "however laudable one might think CBS's motives to be, such motives cannot overcome the undisputed fact that CBS has not used its mark for more than 20 years and that, even now, it has no plans to resume [its] use in the reasonably foreseeable future," and further noting that "we see nothing in the statute that makes the consequence of an intent not to resume use turn on the worthiness of the motive for holding such intent").

partnerships in the United States. Because these reasons are unsupported by record evidence, they plainly cannot demonstrate the requisite intent.[11]

[28] As to the first point, the record indicates that many of the Indian regulations cited by ITC had been in effect since 1973. Clearly, these regulations did not prevent ITC from opening its Bukhara restaurant in New York in 1986 or from licensing a Bukhara restaurant in Chicago in 1987. Although ITC submits that the regulations were a significant factor in the failure of these two restaurants, no evidence was adduced to support this conclusory assertion. *See generally Bridgeway Corp. v. Citibank,* 201 F.3d 134, 142 (2d Cir. 2000) (holding that conclusory statements, conjecture, and inadmissible evidence are insufficient to defeat summary judgment). Indeed, the record is to the contrary. When, at deposition, an ITC corporate representative was asked why the New York Bukhara closed, he replied simply that the restaurant was highly leveraged and unable to meet its debt obligations. He made no mention of any Indian regulations. Similarly, the letter by which ITC terminated its Chicago license agreement referenced only the franchisee's failure to pay fees owed to ITC, making no mention of Indian regulations.

[29] Further, ITC fails to explain how Indian regulations, which ITC claims applied to any business operated outside India, hindered its use of the Bukhara mark for restaurants in the United States between 1997 and 2000 but permitted it to open a Bukhara restaurant in the United Arab Emirates in 1998. To the extent ITC argues that the regulations limited its options by effectively requiring it to partner exclusively with well-established hotels, it offers no evidence that hotels in the United States were unreceptive to such a partnership arrangement.

[30] With respect to ITC's argument that a market decline in the hospitality industry between 1988 and 2003 explains its non-use of the mark, the record indicates only a decline in India and the overseas market. ITC proffered no evidence demonstrating a decline in the United States hospitality market during the relevant 1997–2000 period of non-use.[12]

(2) Marketing Dal Bukhara Food Products

[31] ITC points to only one piece of evidence during the relevant 1997–2000 period indicating its intent to use the name Bukhara in connection with packaged foods: the minutes from a July 27, 2000 corporate management committee meeting in India, which approved an initiative to market food products under the name "Bukhara Dal." Significantly, the minutes nowhere indicate ITC's intent to market this product in the United States, much less ITC's intent to resume use of the Bukhara mark for restaurants in this country. Accordingly, we conclude that the minutes, by themselves, are insufficient to create a genuine issue of material fact as to ITC's intent to resume use of its registered service mark in the United States.

[32] The remaining evidence adduced by ITC all post-dates the relevant 1997–2000 period of non-use. Specifically, in 2001, ITC commissioned a study regarding the marketing of packaged food bearing the Bukhara mark in the United States. That same year, ITC filed trademark applications for several marks containing the word "Bukhara" in relation to packaged food products. Not until 2003 did ITC actually showcase its packaged food line at a New York trade show or sell these products to two United States distributors. These acts, all occurring well after 2000 and suggesting future use of the Bukhara mark for a product other than restaurants, are insufficient to support the necessary inference that, *in the*

[11] We do not decide whether such allegations, if supported by evidence, would permit any inference of ITC's intent to resume use of the Bukhara mark for restaurants in the foreseeable future. We note only that the conclusion is by no means obvious.

[12] Indeed, there is no reason to think plaintiffs could make such a showing with respect to the New York hospitality market, which experienced considerable growth during the period 1997–2000. *See* John Holusha, "Commercial Property; An Up Cycle Just Keeps Rolling," *The New York Times* 11:1 (Sept. 24, 2000) (noting historically high occupancy rates in city hotels with 13% growth in first half of year); cf. Marian Burros, "Waiter, Hold the Foie Gras: Slump Hits New York Dining," *The New York Times* A:1 (Sept. 4, 2001) (noting, in 2001, first signs of decline in city's 10–year restaurant boom).

non-use period, ITC maintained an intent to resume use of the mark for restaurants in the United States in the reasonably foreseeable future.

(3) Identifying Bukhara Franchisees

[33] ITC argues that evidence of its discussions with various persons about expanding the Bukhara restaurant franchise to New York, California, and Texas creates a jury issue as to its intent to resume use of its registered mark within a reasonably foreseeable time. In fact, the only evidence of these so-called "discussions" is a few facsimiles, e-mails, and letters sent to ITC over a five-year period from 1998 to 2002. There is no evidence that ITC initiated any of these contacts. More to the point, no evidence indicates that ITC responded to or seriously considered these unsolicited proposals in a manner that would permit a reasonable jury to infer its intent to resume use of its Bukhara mark for restaurants. As such, these communications, even when viewed in the light most favorable to ITC, do not give rise to a material question of fact on the issue of ITC's intent to resume use of its registered mark.

[34] ITC submits that record evidence also reveals its negotiations to expand the Bukhara restaurant brand into Starwood hotels. The proffered evidence consists of (1) a 2002 letter from Starwood's Asia–Pacific headquarters indicating a general interest in operating Bukhara restaurants in some of its hotels outside India, and (2) a 2004 story from an Indian newspaper about ITC's intent to open Bukhara restaurants in London and Tokyo. Neither document references the possible opening of a Bukhara restaurant in the United States. Moreover, both the letter and the news story post-date the 1997–2000 period of non-use that gives rise to the presumption of abandonment, and they make no mention of any intent to resume use arising during this critical time frame. Accordingly, this evidence is insufficient to raise a material issue of fact.

(4) Bukhara Restaurants Outside the United States

[35] Finally, ITC cites *La Societe Anonyme des Parfums le Galion v. Jean Patou, Inc.* to support its argument that the continued operation of its Bukhara restaurants outside the United States demonstrates "an ongoing program to exploit the mark commercially," giving rise to an inference of an intent to resume the mark's use in this country, 495 F.2d 1265, 1272 (2d Cir. 1974). In fact, ITC's reliance on *Societe Anonyme* is misplaced. In that case, this court ruled that a "meager trickle" of perfume sales within the United States—89 bottles sold over a period of 20 years—was insufficient to establish trademark rights in the United States. *Id.* Nothing in that case suggests that ongoing foreign use of a mark, by itself, supports an inference that the owner intends to re-employ a presumptively abandoned mark in the United States. Cf. *id.* at 1271 n. 4 (noting "well-settled" view "that foreign use is ineffectual to create trademark rights in the United States"). Indeed, we identify no authority supporting that conclusion.

[36] Accordingly, like the district court, we conclude that ITC's continued foreign use of the Bukhara mark for restaurants does not raise a material issue of fact regarding its intent to resume similar use of the mark in the United States. Because ITC plainly abandoned its right to the Bukhara mark for restaurant services in the United States, we affirm the award of summary judgment in favor of defendants on ITC's federal and state infringement claims.

Crash Dummy Movie, LLC v. Mattel, Inc.
601 F.3d 1387 (Fed. Cir. 2010)

RADER, Circuit Judge.

[1] The Trademark Trial and Appeal Board ("Board") sustained Mattel, Inc.'s ("Mattel") challenge to The Crash Dummy Movie, LLC's ("CDM") application to register the mark CRASH DUMMIES for a line of games and playthings. The record leaves no doubt that CDM's proposed mark is likely to cause confusion with Mattel's previously used marks CRASH DUMMIES and THE INCREDIBLE CRASH DUMMIES (collectively, "CRASH DUMMIES marks") for action figures and playsets. CDM asserts, however, that these marks were abandoned. Because substantial evidence supports the Board's finding that Mattel overcame the statutory presumption of abandonment of its CRASH DUMMIES marks, this court affirms.

I.

[2] Mattel's predecessor-in-interest, Tyco Industries, Inc. ("Tyco"), first produced a line of toys under the CRASH DUMMIES marks in 1991. In 1993, Tyco obtained federal trademark registrations for the CRASH DUMMIES marks: CRASH DUMMIES (Registration No. 1809338) and THE INCREDIBLE CRASH DUMMIES (Registration No. 1773754). Tyco sold toys under the CRASH DUMMIES marks through at least 1994. In addition, Tyco entered into forty-nine licenses for use of the CRASH DUMMIES marks in connection with a variety of products. The licenses expired on December 31, 1995, with some licenses having a product sell-off period of four to six months following their expiration.

[3] On July 14, 1995, CDM entered into an option agreement with Tyco to produce a motion picture based on Tyco's line of toys sold under the CRASH DUMMIES marks. The option agreement expired on July 14, 1996. Although CDM attempted to renegotiate a license later that year, Tyco declined to enter into another option agreement with CDM.

[4] In the mid-1990's, Tyco experienced financial difficulties and began negotiating an acquisition with Mattel. On February 12, 1997, Tyco assigned its trademark portfolio, including the CRASH DUMMIES marks, to Mattel. Mattel officially purchased Tyco on December 31, 1997. Mattel later

recorded Tyco's assignment with the United States Patent Trademark Office ("USPTO") on February 13, 1998. Due to the size of the acquisition, the two businesses did not fully integrate until late 2004 or early 2005.

[5] In 1998, KB Toys approached Mattel, hoping to become the exclusive retailer of toys sold under the CRASH DUMMIES marks. Mattel declined the offer. Mattel needed to retool Tyco's CRASH DUMMIES toys in order to meet Mattel's stringent safety standards. Mattel determined that the cost of retooling was too significant in light of KB Toys's sales projections at the time.

[6] From 2000 to 2003, Mattel worked on developing a new line of toys under the CRASH DUMMIES marks. In 2000, Mattel began brainstorming ideas for CRASH DUMMIES toys. Mattel researched, developed, and tested its new toys as early as 2001, and obtained concept approval by 2002. Mattel began manufacturing CRASH DUMMIES toys in October 2003, and ultimately reintroduced them into the market in December 2003. While Mattel was developing new toys, the USPTO cancelled the registrations for the CRASH DUMMIES marks on December 29, 2000, because Mattel did not file a section 8 declaration of use and/or excusable nonuse for the marks.

[7] On March 31, 2003, CDM filed an intent-to-use application for the mark CRASH DUMMIES for games and playthings. Mattel opposed CDM's application, claiming priority to Tyco's prior registration and use of the CRASH DUMMIES marks. Mattel and CDM agree that their respective marks are likely to cause confusion. The only disputed issue before the Board was whether Mattel was entitled to claim common law trademark rights to the CRASH DUMMIES marks predating CDM's March 2003 filing date. The Board found a prima facie abandonment of the CRASH DUMMIES marks based on three years of nonuse, beginning at the earliest on December 31, 1995, and ending at Mattel's actual shipment of CRASH DUMMIES toys in December 2003. However, the Board concluded that Mattel rebutted the presumption of abandonment of its common law trademark rights by showing "reasonable grounds for the suspension and plans to resume use in the reasonably foreseeable future when the conditions requiring suspension abate." CDM appeals the Board's decision sustaining Mattel's opposition. This court has jurisdiction under 28 U.S.C. § 1295(a)(4)(B).

II.

[8] Abandonment of a trademark is a question of fact, which this court reviews for substantial evidence. *On-Line Careline, Inc. v. Am. Online, Inc.,* 229 F.3d 1080, 1087 (Fed.Cir. 2000). The substantial evidence standard requires this court to ask whether a reasonable person might find that the evidentiary record supports the agency's conclusion. *Id.* at 1085. "[T]he possibility of drawing two inconsistent conclusions from the evidence does not prevent an administrative agency's finding from being supported by substantial evidence." *Consolo v. Fed. Maritime Comm'n,* 383 U.S. 607, 620 (1966).

[9] In addition, this court reviews evidentiary rulings for an abuse of discretion. *Chen v. Bouchard,* 347 F.3d 1299, 1307 (Fed.Cir. 2003) (citation omitted). This court reverses the Board's evidentiary rulings only if they: (1) were clearly unreasonable, arbitrary, or fanciful; (2) were based on an erroneous conclusions of law; (3) rest on clearly erroneous findings of fact; or (4) follow from a record that contains no evidence on which the Board could rationally base its decision. *Id.* (citation omitted).

III.

[10] A registered trademark is considered abandoned if its "use has been discontinued with intent not to resume such use." 15 U.S.C. § 1127 (2006). "Nonuse for 3 consecutive years shall be prima facie evidence of abandonment." *Id.* A showing of a prima facie case creates a rebuttable presumption that the trademark owner has abandoned the mark without intent to resume use. *On-Line Careline,* 229 F.3d at 1087. "The burden then shifts to the trademark owner to produce evidence that he either used the mark during the statutory period or intended to resume use." *Id.* "The burden of persuasion, however, always remains with the [challenger] to prove abandonment by a preponderance of the evidence." *Id.*

[11] As an initial matter, CDM does not challenge the Board's finding that Tyco did not abandon the CRASH DUMMIES marks before the 1997 assignment. CDM only challenges the Board's factual finding

regarding Mattel's intent to resume use after it acquired the marks in February 1997 until it began selling CRASH DUMMIES toys in December 2003.

[12] Substantial evidence supports the Board's finding that Mattel intended to resume use of the CRASH DUMMIES marks during the contested time period. First, in 1998, Mattel entered into discussions with KB Toys about becoming the exclusive retailer of CRASH DUMMIES toys. Mattel considered the relative merits of exclusive sales through KB Toys and the high cost of retooling Tyco's product line to meet Mattel's stringent safety standards. Mattel's analysis shows that it contemplated manufacturing toys under the CRASH DUMMIES marks at the time the discussion took place. Although Mattel did not ultimately enter into the KB Toys agreement, no evidence suggests that Mattel rejected the business opportunity because it decided to abandon the marks.

[13] Second, common sense supports the conclusion that Mattel would not have recorded Tyco's trademark assignment with the USPTO in 1998 unless it intended to use the CRASH DUMMIES mark within the foreseeable future. Although Mattel later allowed its trademark registrations to lapse, cancellation of a trademark registration does not necessarily translate into abandonment of common law trademark rights. Nor does it establish its owner's lack of intent to use the mark. *See Miller Brewing Co. v. Oland's Breweries (1971), Ltd.,* 548 F.2d 349, 352 n. 4 (CCPA 1976) ("Although Oland & Son's registration was cancelled in January of 1968 for failure to file a continued use affidavit, this, in and of itself, does not show an intent to abandon.") (citation omitted). Therefore, Mattel's failure to file a timely Section 8 declaration of use and/or excusable nonuse for the marks does not negate Mattel's intent to resume use of the mark.

[14] Third, substantial evidence supports the Board's finding that Mattel's research and development efforts from 2000 to 2003 indicate its intent to resume use of the marks. Mattel relied on its internal documents and testimony by Peter Frank, Mattel's marketing manager, to describe its product development activities. Based on the documents, Frank testified that Mattel began brainstorming ideas for the CRASH DUMMIES toys in 2000, researched and tested them in 2001, and obtained concept approval in 2002. He also explained that Mattel began manufacturing the CRASH DUMMIES toys in October 2003, culminating in actual shipment in December 2003.

[15] In addition, Mattel's shipment of CRASH DUMMIES toys in December 2003 supports Frank's testimony about Mattel's research and development efforts in the early 2000's. This court does not disregard this record evidence because it falls outside of the three-year statutory period of nonuse. The Board may consider evidence and testimony regarding Mattel's practices that occurred before or after the three-year statutory period to infer Mattel's intent to resume use during the three-year period. *See Miller Brewing Co. v. Oland's Breweries,* 548 F.2d 349, 352 (CCPA 1976) (considering evidence beyond a statutory period to affirm the Board's decision to sustain opposition to a trademark application). Therefore, substantial evidence shows that Mattel continuously worked on developing CRASH DUMMIES toys from 2000 to 2003.

. . . .

[16] Mattel needed sufficient time to research, develop, and market its retooled CRASH DUMMIES toys after acquiring Tyco's CRASH DUMMIES marks in 1997. Despite Mattel's delay in utilizing the marks for its toys, substantial evidence supports the Board's finding that Mattel rebutted the statutory presumption of abandonment of the marks. Accordingly, the Board correctly held that CDM may not register its proposed mark CRASH DUMMIES for a line of games and playthings.

IV.

[17] Because substantial evidence supports the Board's finding that Mattel intended to resume use of the CRASH DUMMIES marks during the period of non-use, this court affirms.

- **Questions and Comments**

1. *Why might a firm deliberately and formally abandon a mark?* At least one reason is for tax write-off purposes. *See, e.g.*, *California Cedar Prod. Co. v. Pine Mountain Corp*., 724 F.2d 827, 829 (9th Cir. 1984) (describing previous owner of DURAFLAME mark's "objective of withdrawing from the artificial firelog market and writing off for accounting purposes" the mark's goodwill); *Manhattan Indus., Inc. v. Sweater Bee by Banff, Ltd*., 627 F.2d 628, 630 n .2 (2d Cir. 1980) ("Although the record does not show General Mills' reason for abandoning the mark {KIMBERLY for women's apparel}, counsel suggested at oral argument, in answer to the court's question, that the abandonment might have been for tax purposes."). *Cf. id*. at 629 ("Upon the mark's abandonment, a free-for-all ensued" in which several different clothing manufacturers sought to claim rights in the mark).

2. *Badwill?* Trademark law enables firms to protect the goodwill they have developed in the various goods or services they provide. But what about trademarks that develop a reputation for severely defective goods and poor performance? It is apparently routine practice that after a commercial airliner crashes, airlines will rush to paint over any identifying trademarks appearing on the exterior of the wreckage if that wreckage is photographable. *See* Will Coldwell, *Thai Airways and that logo – just part of post-plane-crash etiquette?*, THE GUARDIAN, Sept. 9, 2013, https://www.theguardian.com/world/2013/sep/09/thai-airways-logo-crash-etiquette; Nick Squires, *Alitalia paints over crashed plane's markings*, THE TELEGRAPH, Feb. 4, 2013, https://www.telegraph.co.uk/news/worldnews/europe/italy/9847651/Alitalia-paints-over-crashed-planes-markings.html (quoting a spokesman of Alitalia, after it painted over its trademark on wreckage, that "[t]his is something that is done by airline companies in many countries and we are surprised that such a fuss is being made. It is a matter of brand protection."). *Cf*. Reuters, *AIG to Revive AIG Name; Drop Chartis, SunAmerica Names: Reuters*, INSURANCE JOURNAL, June 28, 2012, https://www.insurancejournal.com/news/ national/2012/ 06/28/253571.htm (discussing AIG's efforts to rename itself, in part for the safety of its own employees, after the 2008 financial crisis and its subsequent decision to return to the AIG name). Should trademark law (or some neighboring body of law) require that firms continue to use marks that have developed badwill? *See* Note, *Badwill*, 116 HARV. L. REV. 1845 (2003).

2. *Is it enough if the plaintiff shows that it intended not to abandon the mark?* Strictly speaking, under Lanham Act § 45, 15 U.S.C. § 1127, the defendant bears the burden to persuade the court only that the plaintiff, after discontinuing use of the mark, did not intend to resume use of the mark. The defendant need not show that the plaintiff affirmatively intended to abandon the mark. In other words, even if the plaintiff can show that it intended not to abandon the mark, a showing that the plaintiff nevertheless did not intend to resume use of the mark is enough to trigger abandonment. This may seem like lawerly hair-splitting (and in most cases, it probably is), but plaintiffs can sometimes show that they intended not to abandon the mark even when they had no plans to resume use of the mark. *See generally Exxon Corp. v. Humble Expl. Co*., 695 F.2d 96, 102 (5th Cir. 1983) ("There is a difference between intent not to abandon or relinquish and intent to resume use in that an owner may not wish to abandon its mark but may have no intent to resume its use."). *Accord Silverman v. CBS Inc*., 870 F.2d 40, 46 (2d Cir. 1989) ("We think that Congress, by speaking of 'intent not to resume' rather than 'intent to abandon' in this section of the Act meant to avoid the implication that intent never to resume use must be shown.").

2. Abandonment Through Failure to Control Use

United States of America
United States Patent and Trademark Office

freecycle.org

Reg. No. 4,215,095 THE FREECYCLE NETWORK (ARIZONA NON-PROFIT CORPORATION)
P.O. BOX 294
Registered Sep. 25, 2012 TUCSON, AZ 85702

COLLECTIVE MEMBERSHIP FOR: INDICATING MEMBERSHIP IN AN ORGANIZATION THAT PROMOTES THE RE-USE OF UNWANTED ITEMS, IN CLASS 200 (U.S. CL. 200).

PRINCIPAL REGISTER FIRST USE 7-20-2012; IN COMMERCE 7-20-2012.

THE MARK CONSISTS OF THE TERM "FREECYCLE.ORG" WITH A CURVED ARROW BELOW THE TERM AND A CURVED ARROW HAVING FIVE DROPLET-LIKE DESIGNS RADIATING THEREFROM ABOVE THE TERM.

SN 85-357,555, FILED 6-27-2011.

JULIE GUTTADAURO, EXAMINING ATTORNEY

FreecycleSunnyvale v. Freecycle Network
626 F.3d 509 (9th Cir. 2010)

CALLAHAN, Circuit Judge:

[1] FreecycleSunnyvale ("FS") is a member group of The Freecycle Network ("TFN"), an organization devoted to facilitating the recycling of goods. FS filed a declaratory action against TFN arising from a trademark licensing dispute, alleging noninfringement of TFN's trademarks and tortious interference with FS's business relations. FS moved for partial summary judgment on the issue of whether its naked licensing defense to trademark infringement allowed it to avoid a finding of infringement as a matter of law.[1] TFN argued that it had established adequate quality control standards over its licensees' services and use of the trademarks to avoid a finding of naked licensing and abandonment of its trademarks. The district court granted summary judgment to FS. We hold that TFN (1) did not retain express contractual control over FS's quality control measures, (2) did not have actual controls over FS's quality control measures, and (3) was unreasonable in relying on FS's quality control measures. Because we find that TFN engaged in naked licensing and thereby abandoned its trademarks, we affirm.

I

A

[1] Naked licensing occurs when a licensor does not exercise adequate quality control over its licensee's use of a licensed trademark such that the trademark may no longer represent the quality of the product or service the consumer has come to expect. *See Barcamerica Int'l USA Trust v. Tyfield Importers, Inc.,* 289 F.3d 589, 595–96 (9th Cir. 2002). By not enforcing the terms of the trademark's use, the licensor may forfeit his rights to enforce the exclusive nature of the trademark. The key question is therefore whether TFN produced any evidence to raise a material fact issue as to whether it: (1) retained contractual rights to control the quality of the use of its trademark; (2) actually controlled the quality of the trademark's use; or (3) reasonably relied on FS to maintain the quality. *Barcamerica,* 289 F.3d at 596–98 (upholding trademarks where a licensor is familiar with the licensee and reasonably relies on the licensee's own quality control efforts).

[2] In March 2003, Deron Beal ("Beal") founded TFN, an umbrella non-profit Arizona corporation dedicated to "freecycling." The term "freecycling" combines the words "free" and "recycling" and refers to the practice of giving an unwanted item to a stranger so that it can continue to be used for its intended purpose, rather than disposing of it.[2] As practiced by TFN, freecycling is primarily a local activity conducted by means of internet groups, which are created by volunteers through online service providers like Yahoo! Groups and Google Groups.[3] Although not required to do so, most TFN member groups use Yahoo! Groups as a forum for members to coordinate their freecycling activities. TFN also maintains its own website, www.freecycle.org, which provides a directory of member groups as well as resources for volunteers to create new groups. The website also includes a section devoted to etiquette guidelines.

[3] TFN asserts that it maintains a "Freecycle Ethos"—a democratic leadership structure, in which decisions are made through a process of surveys and discussions among volunteer moderators. Local volunteer moderators are responsible for enforcing TFN's rules and policies, but the moderators have flexibility in enforcement depending on the moderators' assessment of their local communities.

[4] Since May 2003, TFN has been using three trademarks, FREECYCLE, THE FREECYCLE NETWORK, and a logo (collectively "the trademarks") to identify TFN's services and to identify member groups' affiliation with TFN. Federal registration of the trademarks is currently pending in the United States, but the trademarks have been registered in other countries. TFN permits member groups to use the trademarks. When TFN first started, Beal personally regulated the use of the trademarks but, as TFN has grown, it has relied on local moderators to regulate member groups' use of the trademarks.

[5] Lisanne Abraham ("Abraham") founded FS on October 7, 2003, in Sunnyvale, California, without TFN's knowledge or involvement. She established the group by entering into a service contract with Yahoo! Groups and becoming the group's moderator. Upon establishing FS, Abraham adapted etiquette guidelines and instructions for how to use FS from either TFN's or one of TFN's member group's website. On October 7, 2003, Abraham emailed Beal directly asking for a logo for FS, and they spoke over the phone within days of the email communication. After the phone conversation, Beal emailed Abraham on October 9, 2003, stating: "You can get the neutral logo from www.freecycle.org, just don't use it for commercial purposes or you [sic] maybe Mark or Albert can help you to do your own fancy schmancy logo!"[4] This email is the only record of a direct communication between FS and TFN regarding the use of any of the trademarks.

[6] Between October 7, 2003, and October 9, 2003, FS was added to TFN's list of online freecycling groups displayed on TFN's website. Then, on October 9, 2003, Abraham received an email from Beal addressed to nineteen moderators of new freecycle Yahoo! Groups which, among other things, welcomed them to TFN. The email did not discuss or include any restrictions or guidance on the use of TFN's trademarks. On October 13, 2003, Abraham received another email from TFN, this time an invitation to join the "freecyclemodsquad" Yahoo! Group ("modsquad group"), an informal discussion forum exclusively for the moderators of freecycle Yahoo! Groups to share ideas.

[7] Before 2004, TFN had only a few suggested guidelines in the etiquette section of its website, including a "Keep it Free" rule. Then, on January 4, 2004, Beal sent an email to the modsquad group,

[2] Beal did not coin the word "freecycle" and TFN is not the first organization to promote freecycling.

[3] In general, online discussion groups such as Yahoo! Groups and Google Groups allow individuals with a shared common interest to communicate by means of posting messages to the particular group's online forum. Such groups may be subject to terms and conditions of the service provider. In addition, discussion groups often have volunteer group moderators who monitor the discussions, and each group may adopt and enforce rules and regulations (e.g., discussion etiquette) separate from whatever terms the online service provider imposes.

[4] Mark Messinger is the moderator for the Olympia, Washington, freecycle group. He helped Abraham fashion a unique freecycle logo for Sunnyvale. Albert Kaufman apparently introduced Abraham to freecycling.

asking whether TFN should also limit listed items to those that were legal. Ultimately, Beal proposed the adoption of a "Keep it Free, Legal & Appropriate for All Ages" rule and asked "that all moderators vote on whether they feel this is the one rule that should apply to ALL local groups or not." Between January 4 and January 11, 2004, a majority of the modsquad group voted to require all local groups to adopt the rule and, on January 11, Beal informed the group that "I'm glad to say . . . we now have one true guiding principle." Although the moderators adopted the "Keep it Free, Legal & Appropriate for All Ages" rule, following its adoption, they frequently discussed what the actual meaning of the rule was and, ultimately, its definition and enforcement varied from group to group.

[8] Although the underlying reason is not evident from the record or the parties' briefs, on November 1 and November 14, 2005, TFN sent emails to FS ordering the group to cease and desist using the Freecycle name and logo and threatening to have Yahoo! terminate FS's Yahoo! Group if FS did not comply. On November 5, FS emailed Yahoo! and disputed TFN's ability to forbid the use of the trademarks by informing Yahoo! of the license that TFN allegedly had granted FS in October 2003 (i.e., Beal's October 9, 2003 email authorizing Abraham to use the logo). On November 21, Yahoo! terminated the FS Yahoo! Group at TFN's request, after receiving a claim from TFN that FS was infringing on TFN's trademark rights.

B

[9] On January 18, 2006, FS filed a declaratory judgment action against TFN in the U.S. District Court for the Northern District of California, alleging noninfringement of TFN's trademarks and tortious interference with FS's business relations. TFN brought counterclaims for trademark infringement and unfair competition under the Lanham Act and California Business and Professions Code section 17200.

[10] FS then moved for summary judgment on the issue of whether its naked licensing defense to trademark infringement allowed it to avoid a finding of infringement as a matter of law. FS argued that TFN had abandoned its trademarks because it engaged in naked licensing when it granted FS the right to use the trademarks without either (1) the right to control or (2) the exercise of actual control over FS's activities. On March 13, 2008, the district court granted summary judgment in favor of FS, holding that TFN engaged in naked licensing and therefore abandoned its rights to the trademarks. The parties stipulated to dismiss the remaining claims, and final judgment was entered on May 20, 2008. TFN thereafter timely filed its appeal.

II

. . . .

[11] In ruling on a motion for summary judgment, our inquiry "necessarily implicates the substantive evidentiary standard of proof that would apply at the trial on the merits." *Id.* at 252. We have held that the proponent of a naked license theory of trademark abandonment must meet a "stringent standard of proof." *Barcamerica,* 289 F.3d at 596 (internal quotation marks omitted); *see also Prudential Ins. Co. of Am. v. Gibraltar Fin. Corp. of Cal.,* 694 F.2d 1150, 1156 (9th Cir. 1982) ("Abandonment of a trademark, being in the nature of forfeiture, must be strictly proved."); *Edwin K. Williams & Co. v. Edwin K. Williams & Co. E.,* 542 F.2d 1053, 1059 (9th. Cir. 1976) ("[A] person who asserts insufficient control [of a trademark] must meet a high burden of proof.").

[12] We have yet to determine, however, whether this high standard of proof requires "clear and convincing" evidence or a "preponderance of the evidence." *See Electro Source, LLC v. Brandess–Kalt–Aetna Group, Inc.,* 458 F.3d 931, 935 n. 2 (9th Cir. 2006) (reserving the issue of the standard of proof to show trademark abandonment, but noting that at least one district court in the Ninth Circuit had required "clear and convincing" evidence). Indeed, in *Grocery Outlet Inc. v. Albertson's Inc.,* 497 F.3d 949, 952–54 (9th Cir. 2007) (per curiam), Judges Wallace and McKeown disagreed in separate concurrences as to which standard applies. Judge Wallace advocated the clear and convincing standard, while Judge McKeown argued that the preponderance of the evidence standard applied. *Id.*

[13] A review of our sister circuits' decisions reveals that only two circuits have considered which standard to apply, with one reserving the issue and the other adopting a preponderance of the evidence standard. *See Cumulus Media, Inc. v. Clear Channel Commcn's, Inc.,* 304 F.3d 1167, 1175 n. 12 (11th Cir. 2002) (declining to address the meaning of "strict burden" because the outcome of the case would be the same with either standard of proof); *Cerveceria Centroamericana, S.A. v. Cerveceria India, Inc.,* 892 F.2d 1021, 1024 (Fed.Cir. 1989) (adopting the preponderance of the evidence standard). Most published lower court decisions that have reached this issue appear to have interpreted the "strictly proven" standard to require "clear and convincing" evidence of naked licensing. *See* 3 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition* § 17:12 n.2 (4th ed. 2010).[5]

[14] Here, we need not decide which standard of proof applies because, even applying the higher standard of proof—clear and convincing—and viewing the evidence in the light most favorable to TFN as the non-moving party, FS has demonstrated that TFN engaged in naked licensing and consequently abandoned the trademarks.

III

[15] An introduction to "naked licensing" of trademarks is in order, as this issue has seldom arisen in this circuit or in our sister circuits. Our only discussion of this subject is in *Barcamerica,* 289 F.3d at 598 (holding that Barcamerica, a vintner, engaged in naked licensing and abandoned its trademark by failing to retain or otherwise exercise adequate quality control over the trademark it had licensed to another company), and that decision informs and guides our discussion here.

[16] As a general matter, trademark owners have a duty to control the quality of their trademarks. McCarthy § 18:48. "It is well-established that '[a] trademark owner may grant a license and remain protected provided quality control of the goods and services sold under the trademark by the licensee is maintained.'" *Barcamerica,* 289 F.3d at 595–96 (quoting *Moore Bus. Forms, Inc. v. Ryu,* 960 F.2d 486, 489 (5th Cir. 1992)).

[17] "Naked licensing" occurs when the licensor "fails to exercise adequate quality control over the licensee." *Id.* at 596. Naked licensing may result in the trademark's ceasing to function as a symbol of quality and a controlled source. *Id.* (citing McCarthy § 18:48). We have previously declared that naked licensing is "*inherently deceptive* and constitutes abandonment of any rights to the trademark by the licensor." *Id.* at 598. "Consequently, where the licensor fails to exercise adequate quality control over the licensee, 'a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark.'" *Id.* at 596 (quoting *Moore,* 960 F.2d at 489).

A

[18] At issue here is whether there is clear and convincing evidence, viewed in the light most favorable to TFN, that TFN allowed FS to use the trademarks with so few restrictions as to compel a finding that TFN engaged in naked licensing and abandoned the trademarks. TFN contends that disputed issues of material fact remain as to whether TFN's quality control standards, during the relevant time period, were sufficient. Although TFN concedes that it did not have an express license agreement, it

[5] Citing, *inter alia, Mathy v. Republic Metalware Co.,* 35 App. D.C. 151, 1910 WL 20792 at *3, (1910) ("Abandonment being in the nature of a forfeiture, it is incumbent upon the person alleging it to prove by clear and convincing evidence that the right claimed has been relinquished."); *Dial–A–Mattress Operating Corp. v. Mattress Madness, Inc.,* 841 F.Supp. 1339, 1355 (E.D.N.Y.1994) ("[A]n affirmative defense alleging a break in plaintiff's chain of priority under the doctrine of abandonment must be proven by clear and convincing evidence."); *EH Yacht, LLC v. Egg Harbor, LLC,* 84 F.Supp.2d 556, 564–65 (D.N.J.2000) (noting that the majority of courts have held that the "strictly proven" standard requires proof by clear and convincing evidence.); *accord Cash Processing Servs. v. Ambient Entm't,* 418 F.Supp.2d 1227, 1232 (D.Nev.2006).

alleges that a reasonable jury could find that it had adequate quality control measures in place when FS was authorized to use the trademarks, making summary judgment inappropriate.

1

[19] When deciding summary judgment on claims of naked licensing, we first determine whether the license contained an express contractual right to inspect and supervise the licensee's operations. *See Barcamerica,* 289 F.3d at 596. The absence of an agreement with provisions restricting or monitoring the quality of goods or services produced under a trademark supports a finding of naked licensing. *Id.* at 597; *see also Stanfield v. Osborne Indus., Inc.,* 52 F.3d 867, 871 (10th Cir. 1995) (granting summary judgment where license agreement lacked right to inspect or supervise licensee's operations and gave the licensee sole discretion to design the trademark).

[20] TFN concedes that it did not have an express license agreement with FS regarding FS's use of the trademarks. Without an express license agreement, TFN necessarily lacks express contractual rights to inspect and supervise FS. However, TFN argues that the October 9, 2003 email, in which Beal advised Abraham that: "You can get the neutral logo from www.freecycle.org, *just don't use it for commercial purposes* . . . .", reflects an implied license. Emphasis added.

[21] Even assuming that Beal's emailed admonition to Abraham not to use the trademarks for commercial purposes constitutes an implied licensing agreement, it contained no express contractual right to inspect or supervise FS's services and no ability to terminate FS's license if FS used the trademarks for commercial purposes. *See Barcamerica,* 289 F.3d at 597 (determining that a license agreement lacking similar controls was insufficient). We therefore hold that, by TFN's own admission, there is no disputed issue of material fact as to whether TFN maintained an express contractual right to control quality.

2

[22] TFN next contends that, despite its lack of an express contractual *right to* control quality, a material issue of fact remains as to whether TFN maintained *actual* control over its member groups' services and use of the trademarks when FS was granted use of the trademarks in October 2003. "The lack of an express contract right to inspect and supervise a licensee's operations is not conclusive evidence of lack of control." *Barcamerica,* 289 F.3d at 596. However, where courts have excused the lack of a contractual right to control quality, they have still required that the licensor demonstrate *actual* control through inspection or supervision. *See, e.g., Stanfield,* 52 F.3d at 871 ("The absence of an express contractual right of control does not necessarily result in abandonment of a mark, as long as the licensor in fact exercised sufficient control over its licensee.").

[23] TFN asserts that it exercised actual control over the trademarks because it had several quality control standards in place, specifically: (1) the "Keep it Free, Legal, and Appropriate for all Ages" standard and TFN's incorporation of the Yahoo! Groups' service terms; (2) the non-commercial services requirement (expressed in Beal's October 9, 2003 email); (3) the etiquette guidelines listed on TFN's website; and (4) TFN's "Freecycle Ethos" which, TFN contends, establishes policies and procedures for member groups, even if local member groups are permitted flexibility in how to apply those policies and procedures. In addition, TFN cites *Birthright v. Birthright, Inc.,* 827 F.Supp. 1114 (D.N.J.1993) for the principle that loosely organized non-profits like TFN and FS that share "the common goals of a public service organization" are subject to less stringent quality control requirements.

[24] First, we disagree with TFN's contentions that the "Keep it Free, Legal, and Appropriate for all Ages" standard and its incorporation of the Yahoo! Groups' service terms constituted actual controls over its member groups.[6] The undisputed evidence showed that TFN's licensees were not required to

[6] Notably, Beal did not propose, and the modsquad did not adopt, this standard until January 2004, more than three months after Abraham founded FS in October 2003. The only standard listed in TFN's etiquette section on its website in 2003 was "Keep it Free," but there was no requirement that member

adopt the "Keep it Free, Legal, and Appropriate for all Ages" standard, nor was it uniformly applied or interpreted by the local groups. Similarly, FS was not required to use Yahoo! Groups and was not asked to agree to the Yahoo! Groups' service terms as a condition of using TFN's trademarks. Moreover, the Yahoo! Groups' service terms, which regulate generic online activity like sending spam messages and prohibiting harassment, cannot be considered quality controls over TFN's member groups' services and use of the trademarks. The service terms apply to every Yahoo! Group, and do not control the quality of the freecycling services that TFN's member groups provide. Thus, the "Keep it Free, Legal and Appropriate for All Ages" standard and the Yahoo! Groups' service terms were not quality controls over FS's use of the trademarks.

[25] Second, we conclude that TFN's non-commercial requirement says nothing about the *quality* of the services provided by member groups and therefore does not establish a control requiring member groups to maintain consistent quality. Thus, it is not an actual control in the trademark context. Third, because member groups may freely adopt and adapt TFN's listed rules of etiquette and because of the voluntary and amorphous nature of these rules, they cannot be considered an actual control. For example, FS modified the etiquette that was listed on TFN's website and TFN never required FS to conform to TFN's rules of etiquette. Fourth, TFN admits that a central premise of its "Freecycle Ethos" is local enforcement with local variation. By definition, this standard does not maintain consistency across member groups, so it is not an actual control.

[26] Even assuming that TFN's asserted quality control standards actually relate to the quality of its member groups' services, they were not adequate quality controls because they were not enforced and were not effective in maintaining the consistency of the trademarks. Indeed, TFN's alleged quality controls fall short of the supervision and control deemed inadequate in other cases in which summary judgment on naked licensing has been granted to the licensee. *See, e.g., Barcamerica,* 289 F.3d at 596–97 (finding no express contractual right to inspect and supervise the use of the marks coupled with licensor's infrequent wine tastings and unconfirmed reliance on the winemaker's expertise was inadequate evidence of quality controls to survive summary judgment); *Stanfield,* 52 F.3d at 871 (granting summary judgment to the licensee where the license agreement lacked a right to inspect or supervise licensee's operations, and alleged actual controls were that the licensor examined one swine heating pad, looked at other pet pads, and occasionally reviewed promotional materials and advertising).

[27] Moreover, even if we were inclined to accept the premise allegedly set forth in *Birthright,* that loosely organized non-profits that share common goals are subject to less stringent quality control requirements for trademark purposes, the result would be the same. In *Birthright,* the court held that the license was not naked because the licensor "monitored and controlled" its licensees' use of the trademarks. 827 F.Supp. at 1139–40; *see also Barcamerica,* 289 F.3d at 596 (holding that a licensor may overcome the lack of a formal agreement if it exercises actual control over its licensees). Here, TFN exercised no actual control over its licensees, so even under a less stringent standard, TFN has not raised a material issue of fact as to whether it exercised actual control over FS's use of the trademarks. *See Barcamerica,* 289 F.3d at 598.

3

[28] TFN contends that even if it did not exercise actual control, it justifiably relied on its member groups' quality control measures. Although "courts have upheld licensing agreements where the licensor is familiar with and relies upon the licensee's own efforts to control quality," *Barcamerica,* 289 F.3d at 596 (internal quotation marks and brackets omitted), we, like the other circuits that have considered

groups adopt this standard. Similarly, TFN's incorporation of the Yahoo! Groups' service terms was not done until after FS was given use of the trademarks in October 2003. Because we hold that TFN did not exercise actual control no matter what time period is considered, we do not address whether actual supervision would be sufficient if it starts at some point after the granting of a license to use a trademark.

this issue, have required that the licensor and licensee be involved in a "close working relationship" to establish adequate quality control in the absence of a formal agreement, *id.* at 597; *accord Stanfield,* 52 F.3d at 872; *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.,* 932 F.2d 1113, 1121 (5th Cir. 1991). In *Barcamerica,* we cited four examples of "close working relationships" that would allow the licensor to rely on the licensee's own quality control: (1) a close working relationship for eight years; (2) a licensor who manufactured ninety percent of the components sold by a licensee and with whom it had a ten year association and knew of the licensee's expertise; (3) siblings who were former business partners and enjoyed a seventeen-year business relationship; and (4) a licensor with a close working relationship with the licensee's employees, and the pertinent agreement provided that the license would terminate if certain employees ceased to be affiliated with the licensee. 289 F.3d at 597.

[29] Here, TFN and FS did not enjoy the type of close working relationship that would permit TFN to rely on FS's quality control measures. TFN had no long term relationship with Abraham or the FS group. In fact, the October 9, 2003 email between Beal and Abraham, which mentions using the TFN logo, was the parties' first and only written communication about the trademarks prior to TFN's requests to stop using them in November 2006. In addition, TFN had no experience with FS that might have supported its alleged confidence in FS's quality control measures. Thus, even considered in a light most favorable to TFN, no evidence showed the type of close working relationship necessary to overcome TFN's lack of quality controls over FS. *See id.*

[30] Furthermore, we have held that, while reliance on a licensee's own quality control efforts is a relevant factor, such reliance is *not alone sufficient* to show that a naked license has not been granted.[7] *See Transgo, Inc. v. Ajac Transmission Parts Corp.,* 768 F.2d 1001, 1017–18 (9th Cir. 1985) (noting that, although the licensor had worked closely with the licensee for ten years, the licensor did not rely solely on his confidence in the licensee, but exercised additional control by, *inter alia,* periodically inspecting those goods and was consulted regarding any changes in the product). Because sole reliance on a licensee's own control quality efforts is not enough to overcome a finding of naked licensing without other indicia of control, *see id.* at 1017–18, and because TFN lacked a close working relationship with FS and failed to show any other indicia of actual control, we conclude that TFN could not rely solely on FS's own quality control efforts.

B

[31] TFN's three remaining arguments also fail to raise a material issue of fact that precludes a grant summary of judgment for FS. First, TFN asserts that it should be subject to a lesser level of quality control standard because its services are not dangerous to the public and the public expects local variation in services so the probability of deception is low. We have stated that the "standard of quality control and the degree of necessary inspection and policing by the licensor will vary." *Barcamerica,* 289 F.3d at 598. The licensor need only exercise "control sufficient to meet the reasonable expectations of customers." McCarthy, § 18:55. However, because TFN did not establish *any* quality control requirements for its member groups, we do not need to decide what efforts to oversee a licensee's performance might meet a low standard of quality control.

[32] TFN's remaining two arguments—(1) that FS must show both naked licensing *and* a loss of trademark significance, and (2) that FS is estopped from supporting its naked licensing defense with evidence that demonstrates that TFN did not adequately control the services offered by FS when using the trademarks—are both raised for the first time on appeal, so we decline to reach them. *See United*

[7] Other circuits have also relied on the licensor's confidence in the licensee only where there were additional indicia of control. *See, e.g., Stanfield,* 52 F.3d at 872 (holding summary judgment for the licensee appropriate where no special relationship between the parties existed and no evidence of actual control over the licensee existed); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.,* 330 F.2d 667 (7th Cir. 1964) (upholding trademark where licensor's name appeared on trademark product label, and product was sold under license for forty years without complaints about quality).

States v. Robertson, 52 F.3d 789, 791 (9th Cir. 1994) ("Issues not presented to the district court cannot generally be raised for the first time on appeal.").

IV

[33] We determine, viewing the record in the light most favorable to TFN, that TFN (1) did not retain express contractual control over FS's quality control measures, (2) did not have actual control over FS's quality control measures, and (3) was unreasonable in relying on FS's quality control measures. Therefore, we conclude that TFN engaged in naked licensing and consequently abandoned the trademarks. The district court's grant of summary judgment in favor of FS and against TFN is AFFIRMED.

- **Questions and Comments**

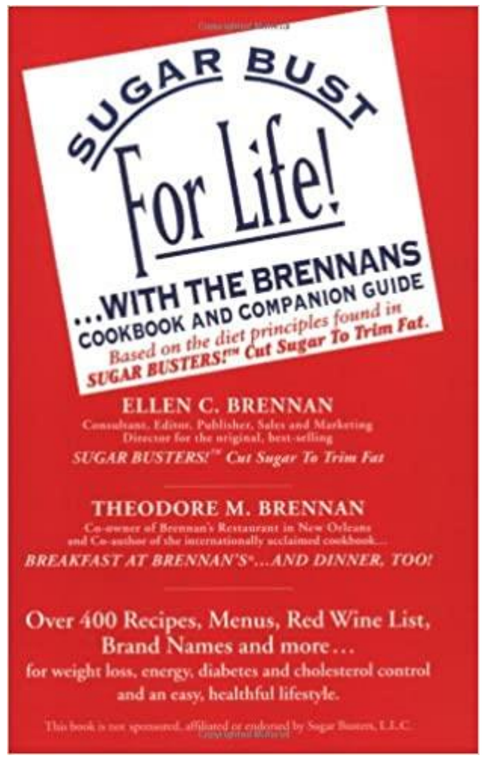
1. *Trademark rights and open innovation*. Linus Torvalds released the Linux operating system kernel in 1991 and has since overseen the development of Linux into one of the world's leading operating systems, particularly for servers, mainframes, supercomputers, and, through the Linux-derived Android mobile operating system, smartphones. Linux is open source software and Torvalds is an outspoken advocate for the open source movement. But Torvalds asserts tight control over the LINUX trademark. *See* https://www.linuxfoundation.org/about/linux-mark/. He does so in part to ensure that the trademark not be deemed abandoned and in part to control the development of the Linux operating system itself. On the important role played by trademark rights (and moral rights) in open source software development, see Greg Vetter, *The Collaborative Integrity of Open-Source Software*, 2004 UTAH L. REV. 563 (2004).

2. *Reclaiming abandoned marks*. After a mark has been abandoned, anyone may establish rights in the mark by beginning to use the mark in commerce or filing an application to register the mark. In *California Cedar Prod. Co. v. Pine Mountain Corp*., 724 F.2d 827 (9th Cir. 1984), the Clorox Corporation was the owner through a subsidiary of the DURAFLAME mark. Clorox withdrew from the artificial firelog market and published a notice in the Wall Street Journal announcing its abandonment of the mark. Clorox did so for tax purposes; by abandoning the mark, it could write off the value of the mark. On the same day as the Wall Street Journal announcement, California Cedar, which manufactured firelogs for Clorox under the DURAFLAME mark, began selling DURAFLAME-branded firelogs in packaging that identified California Cedar as their source. Two other entities asserted rights in the mark. The defendant Pine Mountain had hurriedly begun to sell DURAFLAME-branded firelogs two days before the Wall Street Journal announcement. Another entity began selling such firelogs two days after the announcement. Affirming the district court's granting of a preliminary injunction to California Cedar, the Ninth Circuit determined that Pine Mountain's sales were "both premature and in bad faith." *Id*. at 830. "[S]ince California Cedar was the first to use the 'Duraflame' trademark and trade dress after its abandonment, it was likely to prevail on the merits." *Id*. at 831. The facts of *California Cedar* transpired before the Trademark Law Revision Act of 1989. In a comparable present-day situation, how might a sophisticated claimant establish rights in an abandoned mark?

3. *Abandoned marks and "residual goodwill."* After a prior owner has abandoned a mark, the mark may possess "residual goodwill" that points towards the prior owner. In very rare cases, this residual goodwill may defeat a finding of abandonment. *See, e.g., Ferrari S.p.A. Esercizio Fabriche Automobili e Corse v. McBurnie*, 11 U.S.P.Q.2d 1843, 1989 WL 298658, at *8 (S.D. Cal. 1989) (finding no abandonment where due to continuing very strong associations between Ferrari and the exterior design of the Daytona Spyder and Ferrari's continuing manufacture of spare parts, "Ferrari has not only achieved a strong existing goodwill but continues to maintain a residual goodwill in the unique design of the DAYTONA SPYDER"). The new user of a mark that possesses "residual goodwill" may be required to take reasonable measures, such as the use of a disclaimer, to ensure that consumers do not mistakenly believe that the new user's products originate in the old user of the mark. *See* Jerome Gilson & Anne Gilson LaLonde, *The Zombie Trademark: A Windfall and a Pitfall*, 98 TRADEMARK REP. 1280 (2008).

E. Assignment in Gross

An "assignment in gross" occurs when a trademark assignor assigns ownership of a mark (1) without also assigning the underlying business and goodwill and (2) the assignee produces goods or services sufficiently different from the assignor's that consumers would be deceived. When a trademark owner engages in an "assignment in gross" of its mark, the trademark assignor loses rights in its mark and the assignee essentially receives nothing. In most situations, as in the following case, the assignee may claim exclusive rights in the mark, but the basis of and the priority date for those rights stems only from the assignee's new use of the mark, not from any previous use by the assignor.



Sugar Busters LLC v Brennan
177 F.3d 258 (5th Cir. 1999)

KING, Chief Judge:

[1] This appeal challenges the district court's grant of a preliminary injunction prohibiting defendants-appellants from selling or distributing a book entitled "SUGAR BUST For Life!" as infringing plaintiff-appellee's federally registered service mark, "SUGARBUSTERS." Plaintiff-appellee is an assignee of a registered "SUGARBUSTERS" service mark and the author of a best-selling diet book entitled "SUGAR BUSTERS! Cut Sugar to Trim Fat." We determine that the assignment of the registered "SUGARBUSTERS" service mark to plaintiff-appellee was in gross and was therefore invalid, and we vacate the injunction . . . .

I. FACTUAL AND PROCEDURAL HISTORY

[2] Plaintiff-appellee Sugar Busters, L.L.C. (plaintiff) is a limited liability company organized by three doctors and H. Leighton Steward, a former chief executive officer of a large energy corporation, who co-authored and published a book entitled "SUGAR BUSTERS! Cut Sugar to Trim Fat" in 1995. In

"SUGAR BUSTERS! Cut Sugar to Trim Fat," the authors recommend a diet plan based on the role of insulin in obesity and cardiovascular disease. The authors' premise is that reduced consumption of insulin-producing food, such as carbohydrates and other sugars, leads to weight loss and a more healthy lifestyle. The 1995 publication of "SUGAR BUSTERS! Cut Sugar to Trim Fat" sold over 210,000 copies, and in May 1998 a second edition was released. The second edition has sold over 800,000 copies and remains a bestseller.

[3] Defendant-appellant Ellen Brennan was an independent consultant employed by plaintiff to assist with the sales, publishing, and marketing of the 1995 edition. In addition, Ellen Brennan wrote a foreword in the 1995 edition endorsing the diet plan, stating that the plan "has proven to be an effective and easy means of weight loss" for herself and for her friends and family. During her employment with plaintiff, Ellen Brennan and Steward agreed to co-author a cookbook based on the "SUGAR BUSTERS!" lifestyle. Steward had obtained plaintiff's permission to independently produce such a cookbook, which he proposed entitling "Sugar Busting is Easy." Plaintiff reconsidered its decision in December 1997, however, and determined that its partners should not engage in independent projects. Steward then encouraged Ellen Brennan to proceed with the cookbook on her own, and told her that she could "snuggle up next to our book, because you can rightly claim you were a consultant to Sugar Busters!"

[4] Ellen Brennan and defendant-appellant Theodore Brennan then co-authored "SUGAR BUST For Life!," which was published by defendant-appellant Shamrock Publishing, Inc. in May 1998. "SUGAR BUST For Life" states on its cover that it is a "cookbook and companion guide by the famous family of good food," and that Ellen Brennan was "Consultant, Editor, Publisher, [and] Sales and Marketing Director for the original, best-selling 'Sugar Busters!™ Cut Sugar to Trim Fat.'" The cover states that the book contains over 400 recipes for "weight loss, energy, diabetes and cholesterol control and an easy, healthful lifestyle." Approximately 110,000 copies of "SUGAR BUST For Life!" were sold between its release and September 1998.

[5] Plaintiff filed this suit in the United States District Court for the Eastern District of Louisiana on May 26, 1998 . . . .

[6] The mark that is the subject of plaintiff's infringement claim is a service mark that was registered in 1992 by Sugarbusters, Inc., an Indiana corporation operating a retail store named "Sugarbusters" in Indianapolis that provides products and information for diabetics. The "SUGARBUSTERS" service mark, registration number 1,684,769, is for "retail store services featuring products and supplies for diabetic people; namely, medical supplies, medical equipment, food products, informational literature and wearing apparel featuring a message regarding diabetes." Sugarbusters, Inc. sold "any and all rights to the mark" to Thornton–Sahoo, Inc. on December 19, 1997, and Thornton–Sahoo, Inc. sold these rights to Elliott Company, Inc. (Elliott) on January 9, 1998. Plaintiff obtained the service mark from Elliott pursuant to a "servicemark purchase agreement" dated January 26, 1998. Under the terms of that agreement, plaintiff purchased "all the interests [Elliott] owns" in the mark and "the goodwill of all business connected with the use of and symbolized by" the mark. Furthermore, Elliott agreed that it "will cease all use of the [m]ark, [n]ame and [t]rademark [i]nterests within one hundred eighty (180) days."

. . . .

[7] Defendants argued to the district court that plaintiff's service mark is invalid because: (1) it was purchased "in gross," . . . .

[8] . . . The district court found that the mark is valid and that the transfer of the mark to plaintiff was not "in gross" because

> [t]he plaintiff has used the trademark to disseminate information through its books, seminars, the Internet, and the cover of plaintiff's recent book, which reads "Help Treat Diabetes and Other Diseases." Moreover, the plaintiff is moving forward to market and sell its own products and services, which comport with the products and services sold by the

> Indiana corporation. There has been a full and complete transfer of the good will related to the mark, and the plaintiff has licensed the Indiana corporation to use the mark for only six months to enable it to wind down its operations.

Id.

II. DISCUSSION

. . . .

B. Plaintiff's Registered Service Mark

[9] A trademark is merely a symbol of goodwill and has no independent significance apart from the goodwill that it symbolizes. *See Marshak v. Green,* 746 F.2d 927, 929 (2d Cir. 1984); 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:2 (4th ed.1999) [hereinafter MCCARTHY]. "A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will . . . ." *Prestonettes, Inc. v. Coty,* 264 U.S. 359, 368, 44 S.Ct. 350, 68 L.Ed. 731 (1924) (Holmes, J.). Therefore, a trademark cannot be sold or assigned apart from the goodwill it symbolizes. *See* 15 U.S.C. § 1060 ("A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark."); *Marshak,* 746 F.2d at 929. The sale or assignment of a trademark without the goodwill that the mark represents is characterized as in gross and is invalid. *See PepsiCo, Inc. v. Grapette Co.,* 416 F.2d 285, 287 (8th Cir. 1969); 2 MCCARTHY § 18:3.

[10] The purpose of the rule prohibiting the sale or assignment of a trademark in gross is to prevent a consumer from being misled or confused as to the source and nature of the goods or services that he or she acquires. *See Visa, U.S.A., Inc. v. Birmingham Trust Nat'l Bank,* 696 F.2d 1371, 1375 (Fed.Cir. 1982). "Use of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing, whether used by one person or another." *Marshak,* 746 F.2d at 929. Therefore, "'if consumers are not to be misled from established associations with the mark, [it must] continue to be associated with the same or similar products after the assignment.' *Visa, U.S.A.,* 696 F.2d at 1375 (quoting *Raufast S.A. v. Kicker's Pizzazz, Ltd.,* 208 U.S.P.Q. 699, 702 (E.D.N.Y.1980)).

[11] Plaintiff's purported service mark in "SUGARBUSTERS" is valid only if plaintiff also acquired the goodwill that accompanies the mark; that is, "the portion of the business or service with which the mark is associated." *Id.* Defendants claim that the transfer of the "SUGARBUSTERS" mark to plaintiff was in gross because "[n]one of the assignor's underlying business, including its inventory, customer lists, or other assets, were transferred to [plaintiff]." Defendants' view of goodwill, however, is too narrow. Plaintiff may obtain a valid trademark without purchasing any physical or tangible assets of the retail store in Indiana—"the transfer of goodwill requires only that the services be sufficiently similar to prevent consumers of the service offered under the mark from being misled from established associations with the mark." *Id.* at 1376 (internal quotation marks omitted); *see Marshak,* 746 F.2d at 930 ("The courts have upheld such assignments if they find that the assignee is producing a product or performing a service substantially similar to that of the assignor and that the consumers would not be deceived or harmed."); *PepsiCo,* 416 F.2d at 288 ("Basic to this concept [of protecting against consumer deception] is the proposition that any assignment of a trademark and its goodwill (with or without tangibles or intangibles assigned) requires the mark itself be used by the assignee on a product having substantially the same characteristics."); *cf. Money Store v. Harriscorp Fin., Inc.,* 689 F.2d 666, 678 (7th Cir. 1982) ("In the case of a service mark . . . confusion would result if an assignee offered a service different from that offered by the assignor of the mark.").

[12] The district court found, without expressly stating the applicable legal standard, that "[t]here has been a full and complete transfer of the good will related to the mark." *Sugar Busters,* 48 U.S.P.Q.2d at 1514. The proper standard, as discussed above, is whether plaintiff's book and the retail store in

Indiana are sufficiently similar to prevent consumer confusion or deception when plaintiff uses the mark previously associated with the store as the title of its book. We conclude that even if the district court applied this standard, its finding that goodwill was transferred between Elliott and plaintiff is clearly erroneous.

[13] In concluding that goodwill was transferred, the district court relied in part on its finding that the mark at issue is registered in International Class 16, "information, literature, and books." However, the registration certificate issued by the United States Patent and Trademark Office states that the service mark is "in class 42" and is "for retail store services featuring products and supplies for diabetic people." *Id.* The district court also relied on its finding that "plaintiff is moving forward to market and sell its own products and services, which comport with the products and services sold by the Indiana corporation." *Id.* Steward testified, however, that plaintiff does not have any plans to operate a retail store, and plaintiff offered no evidence suggesting that it intends to market directly to consumers any goods it licenses to carry the "SUGAR BUSTERS!" name. Finally, we are unconvinced by plaintiff's argument that, by stating on the cover of its diet book that it may "[h]elp treat diabetes and other diseases" and then selling some of those books on the Internet, plaintiff provides a service substantially similar to a retail store that provides diabetic supplies. *See PepsiCo,* 416 F.2d at 286–89 (determining that pepper-flavored soft drink and cola-flavored soft drink are not substantially similar and therefore purported assignment was in gross and invalid). We therefore must conclude that plaintiff's purported service mark is invalid. Thus, its trademark infringement claim under 15 U.S.C. § 1114 cannot succeed on the merits and the district court improperly relied on this ground in granting plaintiff's request for a preliminary injunction.

{The court remanded the case for a determination of, among other things, whether the plaintiff's book title was protectable as an unregistered mark.}

- **Questions and Comments**

1. *What about the similarity of the books' titles?* In a portion of the *Sugar Busters* opinion not excerpted here, the plaintiff argued that even if the assignment at issue was not valid, it nevertheless possessed trademark rights in the title of its book *Sugar Busters!*, and the defendant's title *Sugar Bust for Life!* would confuse consumers into mistakenly believing that the latter book was affiliated with the former. In analyzing this claim, the *Sugar Busters* court cited numerous cases in support of trademark law's longstanding rule that titles of single creative works are not registrable as trademarks, apparently because titles are merely descriptive. Titles are "the proper name of a specific thing, not the differential of a species." *Sugar Busters LLC v. Brennan*, 177 F.3d 258, 268–69 (5th Cir. 1999) (quoting *International Film Serv. Co. v. Associated Producers, Inc*., 273 F. 585, 587 (S.D.N.Y.1921) (Hand, J.)). However, because titles of individual books may be protected under Lanham Act § 43(a) upon a showing of secondary meaning, the *Sugar Busters* court remanded the case back to the district court to determine if the title possessed the requisite secondary meaning. *See Sugar Busters*, 177 F.3d at 270. For more on the peculiar (and probably incoherent) treatment that trademark law affords to titles of individual creative works (including movies), see MCCARTHY § 10:4.

2. *Assignment and the importance of due diligence*. In 1998, Volkswagen AG purchased Rolls-Royce Motor Cars from Vickers PLC for £430 million ($712.7 million at the time, about $540 million currently), including the traditional manufacturing facility at Crewe, England. Inexplicably, what Volkswagen failed to appreciate was that the Rolls-Royce trademark for automobiles was owned not by Rolls-Royce Motor Cars but rather by Rolls-Royce PLC, the manufacturer of airplane engines. Rolls-Royce PLC had licensed the mark to Rolls-Royce Motor Cars under a license that terminated in the event that Rolls-Royce Motor Cars was sold. When the sale of Rolls-Royce Motor Cars triggered the termination of their license to use the Rolls-Royce trademark on automobiles, Rolls-Royce PLC licensed the mark instead to Volkswagen's rival BMW, which was Rolls-Royce PLC's manufacturing partner for various aircraft engines (and the entity that Rolls-Royce PLC had hoped would purchase the automaker). Thus, Volkswagen had

purchased the means to manufacture Rolls-Royce automobiles in all but name. In an effort to avoid litigation, Rolls-Royce PLC, Volkswagen, and BMW eventually reached an agreement in which BMW paid Rolls-Royce PLC £40 million in exchange for the assignment to BMW of the Rolls-Royce trademark for automobiles. BMW agreed to lease the mark to Volkswagen through 2002, after which Volkswagen would no longer be able to use the mark. On January 1, 2003, BMW-owned Rolls-Royce Motor Cars opened its new Goodwood manufacturing plant in England—thus freeing it of any need to rely on the Crewe, England plant. *See* Tom Buerkle, *BMW Wrests Rolls-Royce Name Away from VW*, N.Y. TIMES, July 29, 1998, http://www.nytimes.com/ 1998/07/29/news/bmw-wrests-rollsroyce-name-away-from-vw.html.

F. The First Sale Doctrine

The first sale doctrine has been defined as follows:

> The resale of genuine trademarked goods generally does not constitute infringement. This is for the simple reason that consumers are not confused as to the origin of the goods: the origin has not changed as a result of the resale. Under what has sometimes been called the "first sale" or "exhaustion" doctrine, the trademark protections of the Lanham Act are exhausted after the trademark owner's first authorized sale of that product. Therefore, even though a subsequent sale is without a trademark owner's consent, the resale of a genuine good does not violate the [Lanham] Act.
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> This doctrine does not hold true, however, when an alleged infringer sells trademarked goods that are materially different than those sold by the trademark owner . . . .

Davidoff & CIE, S.A. v. PLD Intern. Corp., 263 F.3d 1297, 1302 (11th Cir. 2001).

A crucial question under the first sale doctrine, then, is what constitutes a "material difference" such that the resale of the materially different good under the original trademark would violate the trademark owner's rights. The following three opinions address this issue. The first, *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947), involving refurbished spark plugs, is one of the foundational first sale doctrine cases in U.S. trademark law. The second, *Davidoff & CIE, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297 (11th Cir. 2001), is an oft-cited opinion considering whether the scratching off of batch codes on bottles constitutes a material difference. The third case, *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356 (Fed. Cir. 2003), involves refurbished golf balls.

Note that the first sale doctrine is not strictly speaking a defense to trademark infringement in which the defendant bears the burden of persuasion. The plaintiff bears the overall burden of persuading the court that consumers would be confused as to the true nature of the goods sold by the defendant.

Champion Spark Plug Co. v. Sanders
331 U.S. 125 (1947)

Mr. Justice DOUGLAS delivered the opinion of the Court.

[1] Petitioner is a manufacturer of spark plugs which it sells under the trade mark 'Champion.' Respondents collect the used plugs, repair and recondition them, and resell them. Respondents retain the word 'Champion' on the repaired or reconditioned plugs. The outside box or carton in which the plugs are packed has stamped on it the word 'Champion,' together with the letter and figure denoting the particular style or type. They also have printed on them 'Perfect Process Spark Plugs Guaranteed Dependable' and 'Perfect Process Renewed Spark Plugs.' Each carton contains smaller boxes in which the plugs are individually packed. These inside boxes also carry legends indicating that the plug has been renewed.[1] But respondent company's business name or address is not printed on the cartons. It supplies customers with petitioner's charts containing recommendations for the use of Champion plugs. On each individual plug is stamped in small letters, blue on black, the word 'Renewed,' which at times is almost illegible.

[2] Petitioner brought this suit in the District Court, charging infringement of its trade mark and unfair competition. *See* Judicial Code s 24(1), (7), 28 U.S.C. s 41(1), (7), 28 U.S.C.A. s 41(1, 7). The District Court found that respondents had infringed the trade mark. It enjoined them from offering or selling any of petitioner's plugs which had been repaired or reconditioned unless (a) the trade mark and type and style marks were removed, (b) the plugs were repainted with a durable grey, brown, orange, or green paint, (c) the word 'Repaired' was stamped into the plug in letters of such size and depth as to retain enough white paint to display distinctly each letter of the word, (d) the cartons in which the plugs were packed carried a legend indicating that they contained used spark plugs originally made by petitioner and repaired and made fit for use up to 10,000 miles by respondent company.[2] The District Court denied an accounting. *See* 56 F.Supp. 782, 61 F.Supp. 247.

[3] The Circuit Court of Appeals held that respondents not only had infringed petitioner's trade mark but also were guilty of unfair competition. It likewise denied an accounting but modified the decree in the following respects: (a) it eliminated the provision requiring the trade mark and type and style marks to be removed from the repaired or reconditioned plugs; (b) it substituted for the requirement that the word 'Repaired' be stamped into the plug, etc., a provision that the word 'Repaired' or 'Used' be stamped and baked on the plug by an electrical hot press in a contrasting color so as to be clearly and distinctly visible, the plug having been completely covered by permanent aluminum paint or other paint or lacquer; and (c) it eliminated the provision specifying the precise legend to be printed on the cartons and substituted therefor a more general one.[3] The case is here on a petition for certiorari which we granted because of the apparent conflict between the decision below and *Champion Spark Plug Co. v. Reich*, 121 F.2d 769, decided by the Circuit Court of Appeals for the Eighth Circuit.

[4] There is no challenge here to the findings as to the misleading character of the merchandising methods employed by respondents, nor to the conclusion that they have not only infringed petitioner's trade mark but have also engaged in unfair competition. The controversy here relates to the adequacy of the relief granted,

[1] 'The process used in renewing this plug has been developed through 10 years continuous experience. This Spark Plug has been tested for firing under compression before packing.'

'This Spark Plug is guaranteed to be a selected used Spark Plug, thoroughly renewed and in perfect mechanical condition and is guaranteed to give satisfactory service for 10,000 miles.'

[2] The prescribed legend read:

'Used spark plug(s) originally made by Champion Spark Plug Company repaired and made fit for use up to 10,000 miles by Perfect Recondition Spark Plug Co., 1133 Bedford Avenue, Brooklyn, N.Y.'

The decree also provided:

'the name and address of the defendants to be larger and more prominent than the legend itself, and the name of plaintiff may be in slightly larger type than the rest of the body of the legend.'

[3] 'The decree shall permit the defendants to state on cartons and containers, selling and advertising material, business records, correspondence and other papers, when published, the original make and type numbers provided it is made clear that any plug referred to therein is used and reconditioned by the defendants, and that such material contains the name and address of defendants."

particularly the refusal of the Circuit Court of Appeals to require respondents to remove the word 'Champion' from the repaired or reconditioned plugs which they resell.

[5] We put to one side the case of a manufacturer or distributor who markets new or used spark plugs of one make under the trade mark of another. *See Bourjois & Co. v. Katzel*, 260 U.S. 689; *Old Dearborn Distributing Co. v. Seagram-Distillers Corp*., 299 U.S. 183. Equity then steps in to prohibit defendant's use of the mark which symbolizes plaintiff's good will and 'stakes the reputation of the plaintiff upon the character of the goods.' *Bourjois & Co. v. Katzel*, *supra*, 260 U.S. at page 692

[6] We are dealing here with second-hand goods. The spark plugs, though used, are nevertheless Champion plugs and not those of another make. There is evidence to support what one would suspect, that a used spark plug which has been repaired or reconditioned does not measure up to the specifications of a new one. But the same would be true of a second-hand Ford or Chevrolet car. And we would not suppose that one could be enjoined from selling a car whose valves had been reground and whose piston rings had been replaced unless he removed the name Ford or Chevrolet. *Prestonettes, Inc., v. Coty*, 264 U.S. 359, was a case where toilet powders had as one of their ingredients a powder covered by a trade mark and where perfumes which were trade marked were rebottled and sold in smaller bottles. The Court sustained a decree denying an injunction where the prescribed labels told the truth. Mr. Justice Holmes stated, 'A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. * * * When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.' 264 U.S. at page 368.

[7] Cases may be imagined where the reconditioning or repair would be so extensive or so basic that it would be a misnomer to call the article by its original name, even though the words 'used' or 'repaired' were added. *Cf. Ingersoll v. Doyle*, D.C., 247 F. 620. But no such practice is involved here. The repair or reconditioning of the plugs does not give them a new design. It is no more than a restoration, so far as possible, of their original condition. The type marks attached by the manufacturer are determined by the use to which the plug is to be put. But the thread size and size of the cylinder hole into which the plug is fitted are not affected by the reconditioning. The heat range also has relevance to the type marks. And there is evidence that the reconditioned plugs are inferior so far as heat range and other qualities are concerned. But inferiority is expected in most second-hand articles. Indeed, they generally cost the customer less. That is the case here. Inferiority is immaterial so long as the article is clearly and distinctively sold as repaired or reconditioned rather than as new. The result is, of course, that the second-hand dealer gets some advantage from the trade mark. But under the rule of Prestonettes, Inc., v. Coty, supra, that is wholly permissible so long as the manufacturer is not identified with the inferior qualities of the product resulting from wear and tear or the reconditioning by the dealer. Full disclosure gives the manufacturer all the protection to which he is entitled.

[8] The decree as shaped by the Circuit Court of Appeals is fashioned to serve the requirements of full disclosure. We cannot say that of the alternatives available the ones it chose are inadequate for that purpose. We are mindful of the fact that this case, unlike *Prestonettes, Inc., v. Coty*, supra, involves unfair competition as well as trade mark infringement; and that where unfair competition is established, any doubts as to the adequacy of the relief are generally resolved against the transgressor. *Warner & Co. v. Lilly & Co*., 256 U.S. 526, 532. But there was here no showing of fraud or palming off. Their absence, of course, does not undermine the finding of unfair competition. *Federal Trade Commission v. Winsted Hosiery Co*., 258 U.S. 483, 493; *G. H. Mumm Champagne v. Eastern Wine Corp*., 2 Cir., 142 F.2d 499, 501. But the character of the conduct giving rise to the unfair competition is relevant to the remedy which should be afforded. *See Jacob Siegel Co. v. Federal Trade Commission*, 327 U.S. 608. We cannot say that the conduct of respondents in this case, or the nature of the article involved and the characteristics of the merchandising methods used to sell it, called for more stringent controls than the Circuit Court of Appeals provided.

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[9] Affirmed.

Davidoff & CIE, S.A. v. PLD Int'l Corp.
263 F.3d 1297 (11th Cir. 2001)

ANDERSON, Chief Judge:

[1] This case appears to be the first time that this circuit has addressed the circumstances under which the resale of a genuine product with a registered trademark can be considered infringement. We recognize the general rule that a trademark owner's authorized initial sale of its product exhausts the trademark owner's right to maintain control over who thereafter resells the product; subsequent sales of the product by others do not constitute infringement even though such sales are not authorized by the trademark owner. However, we adopt from our sister circuits their exception to this general rule—i.e., the unauthorized resale of a materially different product constitutes infringement. Because we conclude that the resold products in the instant case are materially different, we affirm.

I. BACKGROUND

[2] Davidoff & Cie, S.A., a Swiss corporation, is the manufacturer of DAVIDOFF COOL WATER fragrance products and owns the U.S. trademark. Davidoff & Cie, S.A. exclusively licenses Lancaster Group US LLC (collectively "Davidoff") to distribute its products to retailers in the United States. Working outside of this arrangement, PLD International Corporation ("PLD") acquires DAVIDOFF fragrances that are intended for overseas sale or that are sold in duty-free sales. PLD then distributes them to discount retail stores in the United States.

[3] At the time that PLD acquires the product, the original codes on the bottom of the boxes are covered by white stickers, and batch codes on the bottles themselves have been obliterated with an etching tool. The etching leaves a mark on the bottle near its base on the side opposite the DAVIDOFF COOL WATER printing. The mark is approximately one and one-eighth inches in length and one-eighth of an inch wide. The batch codes are removed, according to PLD, to prevent Davidoff from discovering who sold the fragrances to PLD because Davidoff would stop selling to those vendors.

II. DISTRICT COURT PROCEEDINGS

[4] [T]he district court granted a preliminary injunction, prohibiting PLD from selling, repackaging or altering any product with the name "DAVIDOFF" and/or "COOL WATER" with an obliterated batch code. This appeal followed.

V. TRADEMARK INFRINGEMENT: LAW

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B. *Resale of a Genuine Trademarked Product and the Material Difference Exception*

[5] The resale of genuine trademarked goods generally does not constitute infringement. *See, e.g., Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.,* 988 F.2d 587, 590 (5th Cir. 1993); *NEC Electronics v. CAL Circuit Abco,* 810 F.2d 1506, 1509 (9th Cir. 1987). This is for the simple reason that consumers are not confused as to the origin of the goods: the origin has not changed as a result of the resale. *See Enesco Corp. v. Price/Costco Inc.,* 146 F.3d 1083, 1085 (9th Cir. 1998) (quoting *NEC,* 810 F.2d at 1509). Under what has sometimes been called the "first sale" or "exhaustion" doctrine, the trademark protections of the Lanham Act are exhausted after the trademark owner's first authorized sale of that product. *See Iberia Foods,* 150 F.3d at 301 n. 4; *Enesco,* 146 F.3d at 1085; *Allison v. Vintage Sports Plaques,* 136 F.3d 1443, 1447-48 (11th Cir. 1998). Therefore, even though a subsequent sale is without a trademark owner's consent, the resale of a genuine good does not violate the Act.

[6] This doctrine does not hold true, however, when an alleged infringer sells trademarked goods that are materially different than those sold by the trademark owner. Our sister circuits have held that a materially different product is not genuine and therefore its unauthorized sale constitutes trademark infringement. *See Nestle,* 982 F.2d at 644 (1st Cir.); *Original Appalachian Artworks,* 816 F.2d at 73 (2d Cir.); *Iberia Foods,* 150 F.3d at 302-3 (3d Cir.); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.,* 112 F.3d 1296, 1302 (5th Cir. 1997); *cf. Enesco,* 146 F.3d at 1087 (9th Cir.) (quoting *Warner-Lambert Co. v. Northside Dev. Corp.,* 86 F.3d 3, 6 (2d Cir. 1996)) (noting that a non-conforming product is not genuine and "its distribution constitutes

trademark infringement”). We follow our sister circuits and hold that the resale of a trademarked product that is materially different can constitute a trademark infringement.[5] This rule is consistent with the purposes behind the Lanham Act, because materially different products that have the same trademark may confuse consumers and erode consumer goodwill toward the mark. *See Iberia Foods,* 150 F.3d at 303; *Nestle,* 982 F.2d at 638.

[7] Not just any difference will cause consumer confusion. A material difference is one that consumers consider relevant to a decision about whether to purchase a product. *See Martin's Herend Imports,* 112 F.3d at 1302; *Nestle,* 982 F.2d at 641. Because a myriad of considerations may influence consumer preferences, the threshold of materiality must be kept low to include even subtle differences between products. *See Iberia Foods,* 150 F.3d at 304; *Nestle,* 982 F.2d at 641.

[8] The caselaw supports the proposition that the resale of a trademarked product that has been altered, resulting in physical differences in the product, can create a likelihood of consumer confusion. Such alteration satisfies the material difference exception and gives rise to a trademark infringement claim. *Nestle,* 982 F.2d at 643-44 (applying the material difference exception, e.g., differences in the composition, presentation and shape of premium chocolates); *Original Appalachian Artworks,* 816 F.2d at 73 (applying the material difference exception where the infringing Cabbage Patch Kids dolls had Spanish language adoption papers and birth certificates, rather than English).

VI. APPLICATION OF THE EXCEPTION IN THIS CASE

[9] The district court found that etching the glass to remove the batch code degrades the appearance of the product and creates a likelihood of confusion. In addition, the court credited testimony of the marketing vice-president that the etching may make a consumer think that the product had been harmed or tampered with. We defer to the district court's finding that the etching degrades the appearance of the bottle. This finding is not clearly erroneous in light of the stylized nature of the fragrance bottle, which has an otherwise unblemished surface. Indeed, based on our own examination and comparison of the genuine fragrance bottle and the bottle sold by PLD, we agree with the district court that a consumer could very likely believe that the bottle had been tampered with. We agree with the district court that this alteration of the product could adversely affect Davidoff's goodwill, creates a likelihood of consumer confusion, satisfies the material difference exception to the first sale doctrine, and thus constitutes a trademark infringement. We believe that the material difference in this case is comparable to, or more pronounced than, the product differences in *Nestle* and *Original Appalachian Artworks* where the First and Second Circuits applied the material difference exception and found trademark infringement.

[10] PLD directs us to two cases, *Graham Webb International Ltd. Partnership v. Emporium Drug Mart, Inc.,* 916 F.Supp. 909 (E.D.Ark. 1995), and *John Paul Mitchell Systems v. Randalls Food Markets, Inc.,* 17 S.W.3d 721 (Tex.App. 2000), where courts have held that the removal of batch codes on hair care products does not constitute infringement. They are both distinguishable from the instant case. Neither court found that the removal affected the overall appearance of the product to the extent that it might be material to a consumer decision to purchase the product. In *Graham Webb,* the court noted that the removal of batch codes resulted in

[5] PLD argues that the material difference test only applies to so-called gray-market goods: foreign made goods bearing a trademark and intended for sale in a foreign country, but that are subsequently imported into the United States without the consent of the U.S. trademark owner. We reject this argument and join the Third Circuit in noting that infringement by materially different products “is not limited to gray goods cases . . . . The same theory has been used to enjoin the sale of domestic products in conditions materially different from those offered by the trademark owner.” *Iberia Foods Corp. v. Romeo,* 150 F.3d 298, 302 (3d Cir. 1998). Indeed, several courts have held that the purchase and resale of goods solely within the United States may constitute infringement when differences exist in quality control or the products themselves. *See Enesco Corp. v. Price/Costco Inc.,* 146 F.3d 1083 (9th Cir. 1998); *Warner-Lambert Co. v. Northside Dev. Corp.,* 86 F.3d 3 (2d Cir. 1996); *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.,* 988 F.2d 587 (5th Cir. 1993); *Shell Oil Co. v. Commercial Petroleum Inc.,* 928 F.2d 104 (4th Cir. 1991).

"almost imperceptible scratches" that were not likely to confuse consumers. 916 F.Supp. at 916. And in *Randalls Food Markets,* the court stated that "there was no evidence that removal of the batch codes defaced the bottles." 17 S.W.3d at 736. In the instant case, the etching on the fragrance bottle is more than almost imperceptible scratches. Indeed, the district court credited testimony that consumers may regard the bottles as harmed or tampered with. We agree with the district court that the physical difference created by the obliteration of the batch code on PLD's product constitutes a material difference. *See John Paul Mitchell Systems v. Pete-N-Larry's Inc.,* 862 F.Supp. 1020, 1027 (W.D.N.Y. 1994) (concluding that removal of batch codes from bottles of hair care products, leaving noticeable scars on the bottles and erasing some of the information printed, constitutes a material difference).

[11] PLD also attempts to cast the effect of the etching as minimal. PLD argues that the etching is on the back side of the bottle beneath several lines of printing that identifies the manufacturer and distributor, country of origin and volume, while the front side contains the trademarks in gold and black script letters. This may be true, but the etching is clearly noticeable to a consumer who examines the bottle. At oral argument, PLD argued that only the packaging but not the product itself—i.e., the liquid fragrance inside the bottle—had been altered by the etching. In marketing a fragrance, however, a vendor is not only selling the product inside the bottle, it is also selling the "commercial magnetism" of the trademark that is affixed to the bottle. *Mishawaka Rubber,* 316 U.S. at 205, 62 S.Ct. at 1024. The appearance of the product, which is associated with the trademark, is important to establishing this image. This makes the appearance of the bottle material to the consumer decision to purchase it. Because the etching degrades the appearance of the bottles, the DAVIDOFF fragrance that PLD distributes is materially different from that originally sold by Davidoff. Therefore, we agree with the district court that PLD's sale of this materially different product creates a likelihood of confusion, and satisfies Davidoff's burden of establishing a likelihood of success on the merits.

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