

A Reminder To Pay Attention To IP Rights In Corporate Transactions or Oh No! There Go Your Trademark Rights – Go, Go Dogzilla!

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ABOUT THIS CLIENT ALERT:

'Rights to a name or no rights to a name?' That is the often the question asked of the courts when two companies are competing over a name. This client alert takes us through the details of how to handle a filed trademark application during an inter-company asset transfer so as not to lose significant naming rights.

Just as Tokyo fell to the fictional movie-monster Godzilla, the owner of the trademark ZILLA recently lost its battle against a competing trademark, DOGZILLA, because it did not handle its trademark application properly in an intercompany asset transfer. Intra-company assignments of trademarks and other IP frequently occur in corporate restructurings or reorganizations, or in the management and reorganization of a company's IP assets. A recent precedential decision by the Trademark Trial and Appeal Board (TTAB) provides a reminder that care must be taken to handle such IP transfers correctly or you could suffer a significant loss of IP rights. The TTAB held that because a company improperly assigned a trademark registration to its parent company during the application process, the company lost its registration and accompanying priority rights, and, accordingly, lost an infringement claim against a competitor. *Central Garden & Pet Company v. Dorskocil Manufacturing Company, Inc.*, Oppositions No. 91188816 and 91190058 and Cancellation No. 92050852 (TTAB August 16, 2013).





In the United States, trademark rights are based on use of the mark in commerce; and, in infringement cases, priority between the two parties is based on which party first used the mark in commerce. However, a trademark application can be filed in the United States Patent and Trademark Office (“USPTO”) based on an intent to use the mark in commerce. Once the owner of an intent-to-use application uses of the mark in commerce, the registration will issue and the owner has “constructive use” priority rights in the mark dating back to the filing date of the application. In other words, without the benefit of the “constructive use” priority rights, the trademark registration owner would have to rely on its later date of actual use of the mark in commerce to prove its priority in an infringement action, rather than relying on the earlier filing date provided by the intent-to-use application.

In this case, Central Garden & Pet Company (“Central”) owned a registration for the mark ZILLA for “pet food; pet treats” and “vivariums, terrariums, . . . aquariums,” and related equipment, as well as “pet food.” Dorskocil Manufacturing Company, Inc. (“Dorskocil”) owned a registration for the mark DOGZILLA and filed applications in the USPTO for the marks PETZILLA and DOGZILLA, all for “dog toys” or “pet toys.” Central commenced an action in the TTAB to oppose Dorskocil’s applications and to cancel its registration. Dorskocil filed a counterclaim seeking to cancel Central’s ZILLA registration on the grounds that Central improperly assigned the application for the mark.

The US Trademark Act provides that the owner of a pending intent-to-use application **cannot** assign the application before the applicant begins using the mark in commerce and files a Statement of Use in the USPTO. 15 U.S.C. §1060(a)(1). The only exception to this rule is “an assignment to a successor to the business of the applicant, or portion thereof, to which the mark pertains, if that business is ongoing and existing.” This exception allows, for example, one company to acquire another company’s trademark rights (including intent-to-use trademark applications) provided that the acquiring company also acquires all of the assets of the other company relating to the line of assigned trademarks.

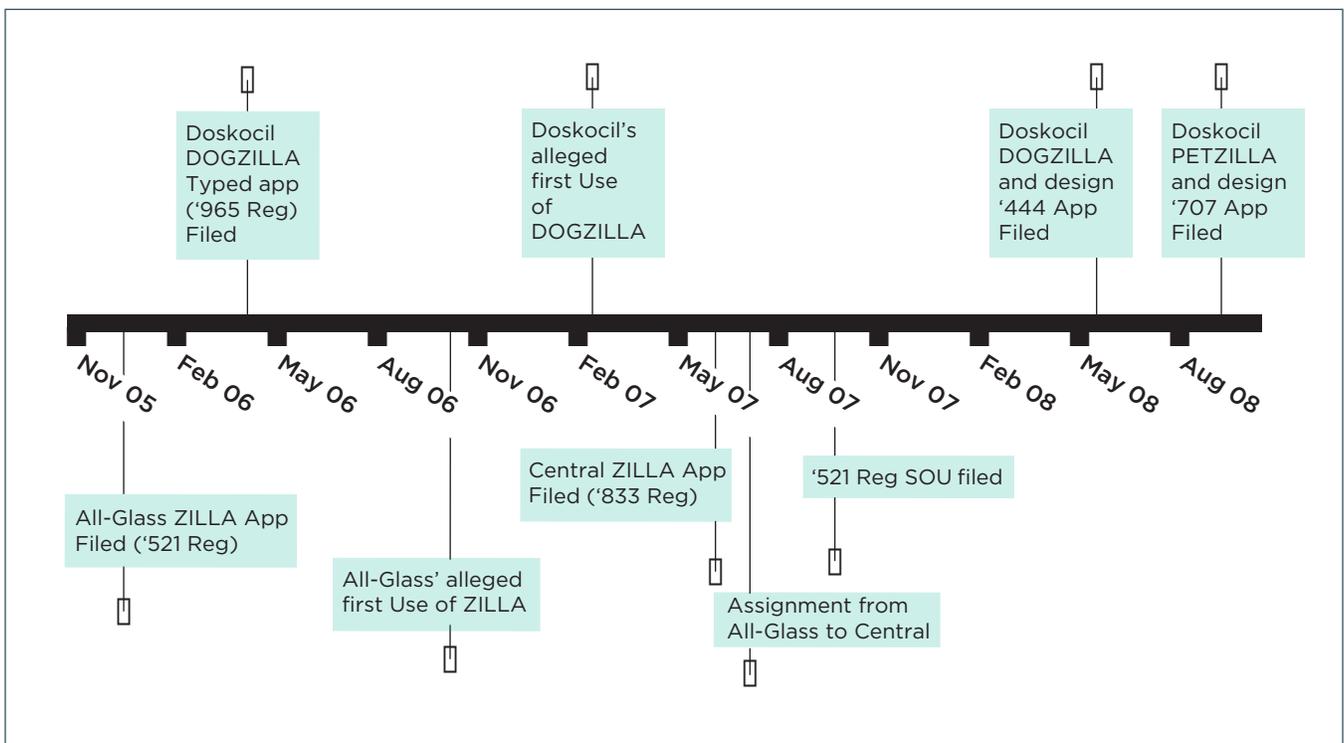
Here, Central owned Pennington Seed, Inc., which in turn owned several subsidiary corporations. In 2000 or 2001, Pennington Seed acquired All-Glass Aquarium Co., Inc. (“All-Glass”). On December 7, 2005, All-Glass filed an intent-to-use application in the USPTO to register the trademark ZILLA. On June 26, 2007, prior to filing a Statement of Use, All-Glass assigned its application to Central. The assignment document contained fairly standard assignment language (for the substantive portions of the assignment, see endnote 1.) On September 17, 2007, Central filed a Statement of Use alleging that Central began use of its ZILLA mark on September 25, 2006, and a registration issued for the mark.

Aspen Pet Products, Inc., which later merged with Duskocil, filed an intent-to-use application to register DOGZILLA on April 4, 2006. On February 19, 2007, Aspen filed a Statement of Use alleging that it began actual use of the mark in commerce on February 9, 2007, and the USPTO issued a registration for DOGZILLA. On June 27, 2009, Aspen merged with Duskocil, with Duskocil surviving. (See chart below showing the sequence of the key dates in this case.)

When Central opposed Duskocil's applications, Duskocil counterclaimed that Central's registration for ZILLA was improperly assigned when All-Glass assigned the intent-to-use application for the mark prior to filing a Statement of Use. Therefore, Duskocil claimed Central's registration was invalid.

The TTAB agreed with Duskocil. The assignment agreement noted above was the only agreement between All-Glass and Central. Central did not offer any evidence that the assignment document was part of a larger transaction between the companies, i.e., there was no assignment to Central of the business of All-Glass, or a portion thereof, that related to the ZILLA mark. The TTAB noted that: "In particular, Central was not the successor to All-Glass or any part of it; All-Glass continued in the exact same business after the transfer as it had conducted previously, including the production and

SEQUENCE OF KEY DATES IN THIS CASE





sale of products under the ZILLA mark.” In fact, Central admitted that the only assets transferred from All-Glass to Central were the ZILLA mark and the related goodwill.

Central argued that Dorskocil’s counterclaim was a “hypertechnical” reading of the Trademark Act which “runs counter to the purpose” of the ban on assignment of intent-to-use applications because “at the time of the assignment, Central . . . and All-Glass were closely related companies, and the assignment did not cause any confusion or discontinuity in the use of the ‘ZILLA’ mark.”

The TTAB acknowledged the close relationship between the companies, but nonetheless stated:

We have not forgotten that Central owned all of the stock in Pennington Seed, and that Pennington Seed owned all of the stock in All-Glass, which in turn owned the ZILLA application. In one sense, it could be said that Central owned the application all along. But the application was neither filed by Central nor by Pennington, Central’s subsidiary; the application was filed by All-Glass, which was Pennington’s subsidiary. Central chose to structure its business using multiple and separate corporate subsidiaries, each of which counts as a “person” under the Trademark Act. . . . Such a business structure may offer some advantages, but it also comes with some strictures, and the existence of a corporation cannot be turned on or off at will to suit the occasion. This result is merely the flip side of the principle that a parent corporation is not liable for the wrongs of its subsidiary absent disregard of corporate separateness, such as an “alter ego” relationship. . . . Central purchased and maintained All-Glass as a separate corporation, and All-Glass, not Central, filed the ZILLA application, asserting that it had a bona fide intention to use the mark in commerce. We cannot ignore the fact that the intent-to-use application was transferred from one entity to another in a transaction that did not satisfy the requirements of the statute.

Central also argued that Congress did not intend the ban on assignment of intent-to-use applications to apply to these types of intra-corporate assignments. Rather, as Central accurately noted, the legislative history shows Congress intended to prevent the “trafficking” of intent-to-use applications. The TTAB, however, declined to second guess Congress, and held that All-Glass’s assignment of the intent-to-use application to register ZILLA prior to filing a Statement of Use for the mark was a clear and literal violation of the Trademark Act.

Accordingly, the TTAB cancelled Central’s registration for ZILLA. Therefore, Central did not have the benefit of its earlier “constructive use” priority and, because Central’s date of actual use was subsequent to the filing date of Dorskocil’s DOGZILLA application, the TTAB ruled in favor of Dorskocil.



This is yet another case where not handling IP rights correctly in an intra-corporate reorganization created significant problems for a company (see http://www.freeborn.com/assets/freeborn_peters_client_alert-will_your_companys_reorganization_make_your_company_a_copyright_infringer.pdf) for my previous article concerning the improper transfer of license rights to copyrighted software in an intra-corporate reorganization). When structuring intra-corporate reorganization, you need to take need care to ensure your company's IP assets are handled properly in order to avoid potentially disastrous results.

¹ "NOW THEREFORE, in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged;

ASSIGNOR agrees to sell, assign, transfer and convey, and by this instrument hereby sells, assigns, transfers and conveys to ASSIGNEE, its successors, legal representatives and assigns, ASSIGNORS' [sic] entire right, title and interest in and to the Mark and the goodwill of the business appurtenant to and connected with the Mark, all rights at common law in the Mark, and ASSIGNOR further assigns, transfers, sells and conveys to ASSIGNEE, its successors, legal representatives and assigns, the right to renew, protect, defend and enforce any and all rights to the Mark including the right to sue for past infringement, the right to enforce any and all trademark rights of ASSIGNOR and causes of action therefor, presently known or unknown and inuring to ASSIGNEE, and the right to recover all claims for damages or for compensation for past infringement arising out of any cause of action, whether presently known, unknown, accrued or to accrue."



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