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COMMENTARY

THE SWITCH THROWN WRONG— HOW *RAILRUNNER* SENT INTENT-TO-USE DOWN THE WRONG TRACKS

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In 1988, when Congress passed a law that allowed U.S. companies for the first time to apply to register trademarks that were not yet being used, it worried that it was creating a market for trademarks unattached to any actual business.[1] Congress therefore elected to prohibit the transfer of these new "intent-to-use" applications at any time before the applicant filed its proof that the mark was in use, except to "a successor to the business of the applicant, or portion thereof, to which the mark pertains, if that business is ongoing and existing."[2] However, as a consequence of federal courts' misunderstanding of the nuances of trademark law and their misreading of overly broad statements made by the Trademark Trial and Appeal Board, a tribunal to which the courts defer because of its expertise,[3] this exception to the "anti-assignment" rule is now being observed so parsimoniously that it will soon not exist as any exception at all.

It all started to go wrong in the Trademark Trial and Appeal Board decision *Railrunner N.A., Inc. v. New Mexico Department of Transportation.*[4] The intent-to-use application for the mark NEW MEXICO RAILRUNNER, filed by the New Mexico Mid-Region Council of Governments, had been assigned to the New Mexico Department of Transportation before filing of an amendment to allege use or a statement of use. The application was assigned because there were plans to expand the transportation system beyond the applicant's jurisdiction, so it was transferred to a state-wide agency.[5] The application was opposed by Railrunner N.A. on

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1. *See* H.R. Rep. No. 100-1028, at 11-12 (1988) ("By closely limiting assignments, these provisions will protect against trafficking in marks and help ensure that the intention of the 'intent to use' applicant is bona fide.").

2. United States Trademark Act of 1946, as amended ("Lanham Act"), § 10(a), 15 U.S.C. § 1060(a) (2012).

3. Grupo Gigante SA de CV v. Dallo & Co., 391 F.3d 1088, 1095 (9th Cir. 2004).

4. Opp. No. 91172851, 2008 TTAB LEXIS 58 (T.T.A.B. July 17, 2008) (non-precedential).

5. *Id.* at *9.

the basis of likelihood of confusion, but Railrunner also alleged that the assignment of the intent-to-use application before an allegation or statement of use was filed voided the application.[6]

The applicant offered no evidence that any assets other than the trademark application itself were transferred.[7] The Board's conclusion that the application was void was therefore a straightforward application of the statutory language.[8]

However, in its statement of the legal standards to be applied in the case, the *Railrunner* Board quoted the statute correctly but then inaccurately summarized it:

> "[N]o application to register a mark under section 1051(b) of this title shall be assignable prior to the filing of [an amendment to allege use or a statement of use], except for an assignment to a successor to the business of the applicant, or a portion thereof, to which the mark pertains, if that business is ongoing and existing." In other words, prior to the filing of an allegation of use, an intent-to-use applicant may not transfer its application to another, unless it transfers with it at least that part of applicant's business to which the mark pertains. And as the last clause of the quoted subsection emphasizes, even that transfer is only permissible if the applicant actually has such a business, i.e., *if the applicant is already providing the goods or services recited in the application*.[9]

The TTAB thus, as *dicta*, added a requirement that the applicant must already be providing the goods or services described in the application. That is not what the statute says; the statute says that a business must exist, not that it has reached a stage where the goods or services are being offered, or that the goods or services being offered use the mark. In fact, two months after *Railrunner*, the TTAB itself dismissed such a narrow interpretation of Section 10 in *Excel Oyj v. D. Ascoli*:[10]

> [W]e are not concerned whether [the transferor] had an ongoing and existing business for each of the goods identified in the application at the time of the assignment under the mark. This is a requirement applicant urges us to read into the statute. The intent to use provisions of the statute do not

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6. *Id.* at *1-2.

7. *Id.* at *14-15 ("Applicant has provided no explanation of the facts and circumstances of such a transfer, including such fundamental facts such as what was transferred and when.").

8. *Id.* at *17-18. Note that the question of the legal effect of a purported transfer of an intent-to-use application without any ongoing business was decided in *Clorox Co. v. Chemical Bank*, 1996 TTAB LEXIS 15, 40 U.S.P.Q.2d (BNA) 1098 (T.T.A.B. 1996). *Clorox Co.* held that the assignment was not invalid but rather the application was void.

9. *Id.* at *6-7 (Internal citations and parentheticals omitted; emphasis added).

10. Opp. No. 91160397, 2008 TTAB LEXIS 562 (T.T.A.B. Sept. 19, 2008) (non-precedential).

> require a party to develop production capacity in a particular field before filing an intent to use application to register a mark for use in that field. . . . Rather, we consider the statute as allowing for assignment of intent to use applications when (i) the overall business of the applicant was transferred, or (ii) if the intent to use applicant remained an "ongoing and existing" business after the assignment, the portion thereof to which the mark pertains was transferred. The statute must allow for the transfer of a Section 1(b) application claiming a bona fide intention to use the mark for goods which are not yet in production or which may be in the planning stage, and which may represent an extension of an applicant's business. The statute does not require that the mark ultimately must be used on each of the goods identified in the application that has been transferred lest the assignment, ex post facto, be rendered invalid.[11]

Nevertheless, the district courts are starting to apply the standard misstated in *Railrunner*. In *Greene v. Ab Coaster Holdings, Inc.*,[12] the original trademark applicant had transferred an intent-to-use application to defendant Ab Coaster. Ab Coaster contended that its predecessor had an ongoing business distributing wellness products (such as massagers) and had been actively engaged in the business of developing the AB COASTER abdominal exercise devices by analyzing various marketing strategies, creating sample devices, and filing patent applications. It was the portion of the business related to the AB COASTER exercise device that was transferred.[13]

Citing *Railrunner*, the *Ab Coaster* court held that only a mark in use can be transferred:

> Thus, the Lanham Act required Bodytime Wellness [the assignor] to have assigned to Tristar (its alleged "successor") the portion of its existing and ongoing business pertaining to the Ab Coaster mark. See 15 U.S.C. § 1060(a)(1). Bodytime Wellness, however, did not have "an ongoing and existing business" related to the Ab Coaster mark in December 2006 at the time of the assignment because the mark was not in use, i.e., Bodytime Wellness was not in the business of "providing goods or services" related to the Ab Coaster exercise device. *See Railrunner N.A. Inc.*[14]

11. *Id.* at *22-24 (internal citations and footnotes omitted); *see also* Restifo v. Power Beverages, LLC, Opp. No. 91181671 (T.T.A.B. Sept. 21, 2011) (non-precedential) (valid transfer when the ongoing and existing business was exploration of licensing the trademark).

12. No. 2:10-CV-38, 2:10-CV-234, 2012 U.S. Dist. LEXIS 136890 (S.D. Ohio Sept. 25, 2012).

13. *Id.* at *24.

14. *Id.* at *27.

The more recent *Sebastian Brown Products, LLC v. Muzooka Inc.*[15] continues down the wrong path started by *Ab Coaster*. While recognizing the inconsistency between *Railrunner* and *Excel Oyj*, and claiming not to adopt *Railrunner*, the *Sebastian Brown Products* court nevertheless held that the assignment of an intent-to-use application requires a transfer of the goodwill associated with the mark, which amounts to the same thing:

> The Court need not resolve the conflict in TTAB decisions, or adopt the *Railrunner* interpretation, to conclude that an "ongoing and existing" business to which a mark pertains requires at least some use of the mark in commerce. This is simply another way of stating that the mark must have accrued goodwill before the mark may be validly assigned.[16]

This statement was based on a misreading of another Trademark Trial and Appeal Board case involving Section 10, *Central Garden & Pet Co. v. Doskocil Mfg. Co.*[17] As in *Railrunner*, in *Central Garden* the only thing transferred was the trademark application.[18] The applicant in *Central Garden* argued that the "ongoing and existing" business was nevertheless transferred because the assignment of the application recited that the goodwill was transferred. The Board remarked that this must not be all that is required for the transfer of an "ongoing and existing" business; because any trademark assignment requires the assignment of the goodwill, there must be more than that needed to transfer a business when assigning an intent-to-use application.[19] But *Central Garden* did not mean to say that goodwill had to be transferred in the assignment of an intent-to-use application, only that goodwill alone would not be enough.

The *Sebastian Brown Products* court did not address the applicant's argument that requiring use of a mark before the assignment of the application would "render the 'ongoing and existing' business exception superfluous."[20] Further, the *Sebastian Brown Products* court also misunderstood the legislative history of the Lanham Act. The court opined that "requiring some use of a mark before the assignment of an intent-to-use application is consistent with the legislative history of the 'ongoing and existing'

15. No. 15-CV-01720-LHK, 2016 U.S. Dist. LEXIS 33483 (N.D. Cal. Mar. 14, 2016).

16. *Id.* at *32.

17. 108 U.S.P.Q.2d (BNA) 1134 (T.T.A.B. 2013) (precedential).

18. *Id.* at 1147.

19. *Id.* at 1147-48 ("The part of Trademark Act § 10(a)(1), pertaining specifically to assignments of intent-to-use applications, plainly requires more than that the assignee be the recipient of the goodwill associated with the mark or it would be superfluous.").

20. *Id.* at *32; *see* TRW Inc. v. Andrews, 534 U.S. 19, 31, 122 S. Ct. 441, 449 (2001) ("It is a cardinal principle of statutory construction that a statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall be superfluous, void, or insignificant").

business exception,"[21] but instead just the opposite is true. *Sebastian Brown Products* creates exactly the situation that the intent-to-use provisions were intended to remedy.

The intent-to-use application was added to the Lanham Act so that businesses could adopt brands early:

> The Lanham Act's preapplication use requirement also creates unnecessary legal uncertainty for a U.S. business planning to introduce products or services into the marketplace. It simply has no assurance that after selecting and adopting a mark, and possibly making a sizable investment in packaging, advertising and marketing, it will not learn that its use of the mark infringes the rights another acquired through earlier use. In an age of national, if not global, marketing, this has a chilling effect on business investment. . . . S. 1883 addresses these problems.[22]

However, by essentially prohibiting the assignment of intent-to-use applications until a business is successfully operational, *Ab Coaster* and *Sebastian Brown Products* are taking us back to a period of legal uncertainty. A product name or mark can make or break a product, and an entrepreneur may have identified the name or mark long before forming an operating company or actually using the mark. But after these decisions, because of the risk that a court will hold that a transfer was void, the entrepreneur cannot file trademark applications during this period of early development, when he or she may not yet have formed the final legal entity or know the full shape of its business strategy, but has legitimately started work on the task. Instead, the entrepreneur has to wait until the operating company is formed so that this entity can file the application and no transfer will be needed, or wait until the mark is actually in use.

This incorrect interpretation of the law by the aforementioned courts also encourages the use of sham license agreements, where the applicant, who may not have any relationship with the successor to the business, nevertheless retains ownership of, and licenses the application to, the successor, and assigns it only after proof of use is filed.[23] This pretextual license benefits no one, and quite possibly still harms the new owner, since the transferring business is not actually exercising quality control or overseeing

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21. *Sebastian Brown Prods.* at *33-34.

22. S. Rep. 100-515 at 5-6.

23. *See, e.g.*, Mintz Levin, *Oops! Assignment of Intent-to-Use Trademark Applications: Easy But Not Simple*, Copyright and Trademark Matters (Aug. 22, 2013) https://www.copyrighttrademarkmatters.com/2013/08/22/oops-assignment-of-intent-to-use-trademark-applications-easy-but-not-simple/ (suggesting that an incorporator who files an application before forming the entity should license the trademark to the entity rather than assign it and that one should create a license agreement—"A written license is highly recommended for this purpose"—presumably to document the sham).

product development. This strategy may therefore only succeed in substituting the threat of a challenge that the license was "naked"[24] for the threat of a challenge that the assignment was invalid.

The *dicta* in *Railrunner* is an incorrect statement of the law. However, courts have latched on to it because of its easy bright-line application. But the law as written is not so crude, and the courts must back away from this incorrect interpretation of the exception to the anti-assignment rule.

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24. *See, e.g.*, Eva's Bridal, Ltd. v. Halanick Enters., 639 F.3d 788, 791 (7th Cir. 2011) (holding that failure to exercise quality control was an abandonment of the trademark).