



# Bulletin

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## **Gone But Not Goodbye: Residual Goodwill in Abandoned U.S. Trademarks**

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After the commercials end and the product is pulled from store shelves, some trademarks retain IP value derived from their capacity to elicit consumer recognition. Residual goodwill is the legacy ability of a trademark to identify the source of a product after it is no longer produced. Trademark owners can abandon their property either explicitly or through non-use. In the United States, under 15 U.S.C. § 1127 a mark is presumed abandoned “[w]hen 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 [constitutes] abandonment. ‘Use’ of a mark means ... bona fide use ... in the ordinary course of trade, and not made merely to reserve a right in a mark.” Abandonment is used to defend against an infringement claim based on use of a mark occurring after the previous owner had purportedly abandoned the mark. The previous owner can, however, rebut an abandonment defense if the mark maintains residual goodwill.

### WHY DOES RESIDUAL GOODWILL REBUT ABANDONMENT?

Residual goodwill gives the new trademark user instant recognition, even in new markets unaffiliated with the former product or company. If the new user applies the abandoned mark to inferior goods, the previous owner’s reputation—if that owner is still in business—may be tarnished without redress. Additionally, if the mark creates a false impression concerning the product’s producer, consumers can be confused or misled, which is a concern in and of itself, but which also allows the new user to capitalize on the previous owner’s reputation. To reduce unwarranted negative intrusions on the previous owner’s reputation and to help minimize consumer confusion, U.S. courts have found, to varying degrees, that residual goodwill can rebut a presumption of abandonment.

Arguments can be made, however, that a previous trademark owner should not retain residual goodwill. First, measuring goodwill is complicated, because courts may examine a myriad of factors and assign variable evidentiary weight to each. Second, trademark law sometimes tolerates minimal consumer confusion. Finally, eliminating residual goodwill would strengthen the abandonment defense, which increases the probability of new market entrants by decreasing infringement defense litigation costs, encourages companies to continue using their marks and minimizes the incentive to “warehouse” marks.

### HOW DO YOU PROVE RESIDUAL GOODWILL?

Because U.S. courts lack consistency in standardizing the burden a trademark owner must meet to rebut a presumption of abandonment, the residual goodwill inquiry is anything but uniform or reliable. Where

residual goodwill is present, courts prefer finding infringement, in lieu of the default policy favoring competition and the prevention of warehousing. Still, U.S. courts rarely find residual goodwill alone enough to rebut a presumption of abandonment.

Where courts have found residual goodwill sufficient to rebut a presumption of abandonment, there was often *de minimis* use, continued recognition or little elapsed time since the use ended. Often *de minimis* use involved products that had a presence in resale markets, or a situation where the previous owner manufactured replacement parts or provided technical assistance. See *Ferrari S.P.A. Esercizio Fabriche Automobili e Corse v. Roberts*, 944 F.2d 1235, 1238 (6th Cir. 1991). Courts have also examined the strength of continued public recognition and the resulting likelihood of consumer confusion. See *id.* at 1240; *Peter Luger Inc. v. Silver Star Meats Inc.*, 63 U.S.P.Q.2d 1555, 1563 (W.D.Pa. 2002) (finding residual goodwill where continued public recognition was evidenced when the infringing new user launched products with little marketing yet increased sales by 80 percent, while the previous owner experienced a corresponding sales decrease).

Residual goodwill generally decreases as time passes; therefore, the more time elapsed since use has ceased, the less likely a court will find residual goodwill sufficient to rebut a presumption of abandonment. In two cases the court found residual goodwill to exist five years after use had ceased. See *Seidemann Yachts Inc. v. Pace Yacht Corp.*, Civil No. JH-87-3490 (D. Md. 1989) (owner made no sales for five years, but continued efforts to sell the business, together with the trademark rights), *aff'd*, 898 F.2d 147 (4th Cir. 1990); *Luger*, 63 U.S.P.Q.2d at 1559, 1561 (previous owner had used mark for 50 years prior to cessation; new user adopted similar trade dress). In another, because 15 years had passed since use ceased, the court found that there was no residual goodwill. *Hornblower & Weeks Inc. v. Hornblower & Weeks Inc.*, 60 U.S.P.Q.2d 1733, 1736 (T.T.A.B. 2001) (no evidence of bad faith or intent on part of new adopter).

The passage of time does not always destroy goodwill, however, such as in a case involving SKIPPY peanut butter, where the court found no abandonment even though 23 years had passed since the mark had been applied to the product. *Skippy Inc. v. CPC International Inc.*, 674 F.2d 209, 216 (4th Cir. 1982) (court swayed by strong evidence of lack of intent to abandon).

Not surprisingly, courts are unlikely to find in favor of a new user whose intent was to confuse consumers by capitalizing on the previous owner's reputation. See *Peter Luger*, 63 U.S.P.Q.2d at 1561. If, however, the new user disclaims association with the previous owner, courts are unlikely to find residual goodwill sufficient to rebut abandonment because the new user effectively rejects any residual goodwill and minimizes confusion through the disclaimer. See *In re Wielinski*, 49 U.S.P.Q.2d 1754, 1756 (T.T.A.B. 1998); *Rust Environment & Infrastructure v. Teunissen*, 131 F.3d 1210, 1217 (7th Cir. 1997). The previous owner's actions also can influence whether confusion is likely. If the previous owner changed names before the new user adopted the mark, thus reducing overlap and the likelihood of confusion, courts are less likely to find infringement. See *id.* at 1215.

#### PRACTICE TIPS FOR NEW ADOPTERS

**Disclaimers** If you adopt a mark that could lead to consumer confusion, particularly if your product is related to the previous owner's product, take reasonable precautions to prevent confusion by informing customers that you are not affiliated with the previous mark holder.

**Assignment** If you are purchasing a mark, ensure that the purchase agreement contains an explicit assignment of the goodwill associated with the mark and, if applicable, a covenant not to compete under a similar mark.

**Evaluate Past Owner** If the prior user of the mark is still in business, tread more carefully because the former owner could be harmed and could object.

## PRACTICE TIPS FOR TRADEMARK OWNERS

**Continued Use** If you are temporarily suspending or ceasing the use of a mark, ensure that you have a clear intention and an explicit plan to resurrect the mark. Attempts to license or assign a mark are evidence of an intent to resume use. Courts will also look at your reasons for ceasing use of the mark.

**Brand Transition** If you carefully transition the goodwill from your previous mark to a new mark, courts may find that the residual goodwill has transferred to the new mark.

**Defend the Mark** If you are not using a mark, but intend to resume use, continue to object to any unauthorized use, as the failure to do so is strong evidence of abandonment.

## CONCLUSION

Without a consistent definition of residual goodwill, U.S. courts maintain flexibility in crafting decisions that reconcile the statutory standard for abandonment with the Lanham Act's goal of reducing consumer confusion as embodied in notions of residual goodwill. As is often the case, the honest producer's efforts to avoid consumer confusion will be recognized by the courts.