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# HOW GROSS IS YOUR ASSIGNMENT? ACTIONS SPEAK LOUDER THAN WORDS WHEN TRANSFERRING GOODWILL

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## I. INTRODUCTION

Under U.S. law, if a trademark assignment is found to be "in gross"—that is, transferred without the corresponding goodwill—the assignment is invalid, and the trademark may be deemed abandoned.[1] This can occur even if the written transfer document expressly states that the mark is being transferred with the goodwill of the business. It is an evergreen problem that usually flies under the radar, until a particular assignment becomes the subject of litigation and the court scrutinizes its terms and the assignor's and assignee's past activities. This article discusses the due diligence and steps that should be taken when assigning a mark to reduce the risk of a subsequent abandonment finding.

## II. THE GENERAL RULE AGAINST ASSIGNMENTS IN GROSS

It is well settled that the transfer of a trademark or trade name without the goodwill in the mark is an invalid assignment "in gross." This rule stems from the principle that the right to a trademark grows from its use, and not from its mere adoption or acquisition.[2] Therefore, unlike other forms of intellectual property, such as patents and copyrights, a trademark is not a right "in gross or at large."[3] Rather, the function of a trademark is to designate the particular source of goods, or to convey information about the qualities of goods or services provided by a single source. If a trademark is used by an assignee in connection with a different goodwill—for instance, through use with a different line of business—or on different goods or services, there is a risk of deception and harm to consumers.[4] For this reason, the transfer of

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1 *See,* Sugar Busters LLC v. Brennan, 177 F.3d 258, 266 (5th Cir. 1999) (SUGAR BUSTERS service mark for retail of diabetic products not sufficiently similar to SUGAR BUSTERS for retail book and retail store services; hence, no goodwill was transferred and assignment was deemed in gross and invalid); Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) (holding trademark could not be sold separate from its goodwill); *compare* Sands, Taylor & Wood Co. v. Quaker Oats Co., 978 F.2d 947, 956 (7th Cir. 1992) (assignment of THIRST AID marks was valid and not in gross despite several years of interim non-use because goodwill was transferred with marks, and goodwill had not dissipated during period of non-use); Defiance Button Mach. Co. v. C&C Metal Prods., 759 F.2d 1053, 1059 (2d Cir. 1985) (finding a mark was not abandoned where the assets were sold because the mark was explicitly retained by the owner with the goodwill, and residual goodwill remained).

2 *See Marshak*, 746 F.2d at 929 ("A trademark is merely a symbol of goodwill and has no independent significance").

3 Int'l Cosmetics Exch., Inc. v. Gapardis Health & Beauty, Inc., 303 F.3d 1242, 1246 (11th Cir. 2002). *See also* J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, §§ 18:2-18:3 (5th ed. 2021).

4 *Marshak*, 746 F.2d at 929.

a trademark apart from its goodwill is considered an "in gross" assignment and is prohibited.[5]

## III. ASSIGNMENT IN GROSS CAN RESULT IN ABANDONMENT OF THE MARK

Because no rights transfer to the assignee through an assignment in gross, ownership of the rights remains with the original trademark owner.[6] Trademark assignment agreements often include terms requiring the assignor to agree to stop all use of a trademark upon assignment. Because the assignment in gross results in ownership of the rights being retained by the original owner, the assignor's actions or cessation of use after assigning the mark may result in abandonment of the trademark. The abandonment by the assignor results in forfeiture of the trademark rights and a break in any continuity of use, thus destroying any right of priority or goodwill that may have existed in the mark.[7]

Several courts have found a trademark to be abandoned by the assignor after the assignor failed to properly transfer goodwill in the mark (and did not itself continue to use it). For example, in *interState Net Bank v. NetB@nk, Inc.*, the assignee purchased a registration for the mark NETBANK for "electronic payment services featuring a system of electronic money coupons that are exchanged by means of an on-line computer service," and all goodwill in the mark.[8] However, the assignee did not adopt the NETBANK mark and instead began using a variation of the mark, NET.B@NK, for "online banking services."[9] Despite not using the NETBANK mark as recited in the assignment, the assignee proceeded to enforce the NETBANK mark through cease and desist letters. Two years after the assignment, the assignee finally adopted and began using the NETBANK mark.[10] The court found the assignment was an invalid assignment in gross because the assignee's online banking services were not substantially similar to

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5 United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918) (explaining the common law rule against assignments in gross); *see* 15 U.S.C. § 1060(b) ("A registered mark or a mark for which an application to register has been filed shall be assignable with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark.").

6 R & R Partners, Inc. v. Tovar, 447 F. Supp. 2d 1141, 1149 (D. Nev. 2006) (finding that assignor retained rights as a result of invalid assignment in gross); interState Net Bank v. NetB@nk, Inc., 348 F. Supp. 2d 340, 352 (D.N.J. 2004) (holding that the effect of the invalid assignment in gross was that the trademark remained with the original owner).

7 *interState Net Bank*, 348 F. Supp. 2d at 352 (finding abandonment where assignor ceased using the mark at the time of the assignment); Kleven v. Hereford, CV1302783ABAGRX, 2015 WL 4977185 (C.D. Cal. Aug. 21, 2015).

8 *Id.* at 345.

9 *Id.*

10 *Id.* at 346.

the assignor's electronic payment services, and because the assignee made no attempt to benefit from any existing goodwill in connection with those services.[11] The court ordered cancellation of the registration, finding that the invalid assignment resulted in reversion of the rights to the assignor.[12] Since the assignor had ceased using the NETBANK mark at the time of the assignment, however, the court found the assignor had abandoned any rights in the mark.[13]

Similarly, in *Kleven v. Hereford*, the court found the assignor had abandoned its registration after assigning the mark.[14] The court held that the terms of the assignment requiring the assignor not to compete with the assignee demonstrated an intent not to resume use,[15] stating that "the fact that [the assignor] assigned and gave away her right to Registration '135 (notwithstanding the fact that it was an invalid assignment) is sufficient circumstantial evidence of [assignor's] intent not to resume commercial use" of the mark.[16]

As shown by these two examples, if the court deems the assignment to be in gross, the assignor's intent to discontinue use of the mark and the intent not to resume use, as demonstrated by the assignment agreement, supports a finding of abandonment of the trademark, resulting in neither party owning rights in the mark. To avoid this result, the parties to an assignment should take care in drafting the terms requiring the assignor to cease any business under the mark. In appropriate circumstances, a license-back to the assignor could be considered to permit it to continue using the mark in a manner that evidences continuation of the goodwill in the mark under license from the assignee.[17] In an assignment/license-back, the assignor assigns its trademark rights to the assignee, but continues to use the trademark under a license from the assignee. Such an agreement permits the maintenance of the quality of goods, customer lists, formulae, management, etc., without requiring an

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11 *Id.* at 350-351.

12 *Id.* at 352.

13 *Id.*

14 *Kleven*, 2015 WL 4977185, at *22.

15 *Id*. at *23.

16 *Id*.

17 *See* E. & J. Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280 (9th Cir. 1992) ("A simultaneous assignment and license-back of a mark is valid, where it does not disrupt continuity of the products or services associated with a given mark."); Syntex Laboratories, Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45, 57 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971) (finding assignment valid where assignee licensed back mark to assignor); *see also* J. Atkins Holdings Ltd. v. Eng. Discounts, Inc., 729 F. Supp. 945, 951 (S.D.N.Y. 1990), as amended (Feb. 27, 1990) (finding no assignment in gross where assignee licensed mark to same company that was previously distributing goods bearing the B & W mark in the United States).

extensive transfer of assets and commercial knowledge relating to the trademark.[18]

Additionally, in some cases, courts have found that the act of the assignment in gross itself can result in abandonment of the trademark. For example, some courts have viewed the fact of the assignee's use of the mark in connection with different goods as a fraud on the purchasing public, resulting in abandonment of the mark.[19] This is because the mark has become divorced from its goodwill, and has therefore lost its significance as an indication of origin for the goods associated with the mark and owner.[20] Similarly, the Trademark Trial and Appeal Board has held that a registration may be considered abandoned due to an invalid assignment when the invalid assignment "causes the mark . . . to lose its significance as a mark."[21]

Once a court determines that a trademark has become invalid due to an assignment in gross and finds that the mark has been abandoned, it is in the court's power to order cancellation of any registration for the assigned mark.[22] Section 37 of the Lanham Act, 15 U.S.C. § 1119, empowers courts to direct the cancellation of an invalid trademark registration in any action involving the registration.[23] In particular, courts have found that cancellation is proper when a trademark has been abandoned.[24] Moreover, it is a court's duty to direct cancellation of the registration if the court finds the registration invalid.[25]

Thus, when drafting an assignment agreement, it is important to consider what steps the parties are taking to transfer goodwill of the business with the mark. An assignment in gross may result in the transfer of no priority rights, abandonment of the trademark, and, ultimately, cancellation of the assigned registration.

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18 *See E. & J. Gallo,* 967 F.2d at 1280. However, in the situation of a license-back, the assignee must maintain quality control to avoid a finding that the license-back is a "mere naked license," which can result in abandonment of the mark by the assignee licensor. *See* Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261 (C.C.P.A. 1978).

19 Sugar Busters LLC v. Brennan, 177 F.3d 258, 266 (5th Cir. 1999); *see also* Defiance Button Mach. Co. v. C&C Metal Prods., 759 F.2d 1053, 1059 (2d Cir. 1985).

20 *Defiance Button Machine Co.*, 759 F.2d at 1059.

21 *See* Ashland Licensing & Intellectual Prop. LLC & Valvoline Licensing & IP LLC, Cancellation No. 9205729, 2019 WL 1916109, at *31 (Apr. 26, 2019) (rejecting the claim that the mark had been abandoned due to an invalid assignment in gross (but cancelling it on other grounds)) [non-precedential TTAB decision].

22 *See* AmBrit, Inc. v. Kraft, Inc., 812 F.2d 1531, 1550-51 (11th Cir. 1986); Gracie v. Gracie, 217 F.3d 1060, 1065-66 (9th Cir. 2000).

23 PlayNation Play Sys. v. Velex Corp., 924 F.3d 1159, 1171 (11th Cir. 2019).

24 AmBrit, Inc. v. Kraft, Inc., 812 F.2d 1531, 1550-51 (11th Cir. 1986).

25 Gracie v. Gracie, 217 F.3d 1060, 1065-66 (9th Cir. 2000); *see also Ambrit*, 812 F.2d at 1550-51 (reversing a refusal to cancel an abandoned trademark registration).

## IV. HOW TO SHOW TRANSFER OF GOODWILL

The determination of whether goodwill has transferred with a trademark assignment is highly factual and is not guided by bright-line rules. Courts consider several different factors to determine if the goodwill of a business has been transferred with the trademark. For example, courts will look to (a) whether the purported assignee is using the mark on substantially similar goods as the assignor, (b) whether other assets were transferred with the trademark, (c) whether the assignor has continued to capitalize on the goodwill associated with the original mark, and (d) whether there is continuity between the prior owner and present owner, for example, through continuity of management.

As mentioned above, in determining whether an agreement transfers goodwill, the courts look beyond the language of the agreement.[26] Merely stating that "goodwill" is meant to be transferred by an agreement does little to actually transfer the goodwill associated with a mark. Conversely, the omission of words transferring goodwill from the assignment does not necessarily create an assignment in gross.[27] The courts look instead to the substance of the transaction and the parties' actions to see whether goodwill in the mark was transferred.[28]

### *A. Same or Substantially Similar Goods or Services*

The factor most commonly considered by the courts is whether the purported assignee of the trademark is continuing to use the mark on the same or substantially similar goods as the assignor.[29]

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[26] Money Store v. Harriscorp Fin., Inc., 689 F.2d 666, 676 (7th Cir. 1982) ("such a recitation is not necessarily dispositive"); Glow Indus., Inc. v. Lopez, 273 F. Supp. 2d 1095, 1108 (C.D. Cal. 2002) ("a mere recitation in the assignment agreement that the mark was assigned together with the good will of the business symbolized by the mark is not sufficient to establish a valid transfer"); Greenlon, Inc. of Cincinnati v. Greenlawn, Inc., 542 F. Supp. 890, 892 (S.D. Ohio 1982) (invalidating as an assignment in gross an agreement that purported to transfer a "federally registered mark, together with the goodwill symbolized by the mark . . . .").

[27] *See, e.g.,* Uptown Grill, L.L.C. v. Camellia Grill Holdings, Inc., 920 F.3d 243, 248-49 (5th Cir. 2019) ("trademark ownership and the related goodwill 'impliedly pass [ ] with ownership of the business, without express language to the contrary").

[28] *See, e.g.,* interState Net Bank v. NetB@nk, Inc., 348 F. Supp. 2d 340, 349 (D.N.J. 2004); Greenlon Inc. of Cincinnati v. Greenlawn, Inc., 542 F. Supp. 890, 892 (S.D. Ohio 1982); Liquid Glass Enters., Inc. v. Liquid Glass Indus. of Canada, Ltd., No. CIV. A. 90-1948, 1989 WL 222653 at *5 (E.D. Mich. Apr. 28, 1989) (holding assignment was invalid assignment in gross because assignor retained the goodwill).

[29] *See* Pepsico, Inc. v. Grapette Co., 416 F.2d 285, 289 (8th Cir. 1969); Sugar Busters LLC v. Brennan, 177 F.3d 258, 266 (5th Cir. 1999) (assignment in gross occurred when assignor used the mark on a retail diabetics supply store and assignee used the mark on a book for diabetics); Atlas Beverage Co. v. Minneapolis Brewing Co., 113 F.2d 672, 677 (8th Cir. 1940) (assignment in gross occurred when assignor used the mark on whiskey and assignee used the mark on beer); Boathouse Grp., Inc. v. TigerLogic Corp., 777 F. Supp. 2d 243, 251-52 (D. Mass. 2011) (assignment in gross occurred where the assignor

Many courts have held that when a trademark is transferred to be used on a new or different product, the goodwill that the mark represents cannot also be transferred.[30] This is because of the risk of deception to consumers arising out of the use of the trademark on a different product. The purchasing public learns to associate a trademark with a specific source or certain qualities. Once the trademark is applied to different goods, consumers, thinking a product will have one quality or characteristic, may buy a product only to find out that the product is, in fact, different.[31] Allowing the public to lose faith in the trademark and associate the mark with the new goods fails to provide the protection afforded to consumers by trademark law.[32]

Moreover, the goods do not have to be radically different to result in failure of transfer of goodwill and render the assignment in gross. Even minor changes in the product sold by the assignee can result in a finding of assignment in gross. For example, in *Pepsico, Inc. v. Grapette Co.*, the assignee purchased the trademark PEPPY, which the assignor had used in connection with a cola-flavored syrup for making soft drinks. The assignee, however, used the assigned PEPPY trademark in connection with pepper-flavored soft drinks, rather than cola-flavored syrups.[33] The court held that the purported assignment was an invalid assignment in gross because the assignee was not using the trademark "on a product having substantially the same characteristics" as the product of the assignor.[34] In two other cases, the courts rejected the assignee's argument that ready-to-drink beverages and powders used to make beverages are substantially similar, and found that goodwill in the mark had not been transferred.[35]

Clearly, it is important that the assignee conduct due diligence to determine the products or services with which the assignor is using the mark. If the assignor has already abandoned its mark,

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and assignee used the trademark on two different types of software); Indep. Baking Powder Co. v. Boorman, 175 F. 448, 455 (C.C.D.N.J. 1910) (assignment in gross occurred when assignor used the mark on alum baking powder and assignee used the mark on phosphate baking powder).

30 *Pepsico*, 416 F.2d at 289.

31 Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) (quoting *Pepsico*, 416 F.2d at 289); *accord Sugar Busters*, 177 F.3d at 265.

32 *Marshak*, 746 F.2d at 929.

33 *Pepsico*, 416 F.2d at 289.

34 *Id.* at 288.

35 Archer Daniels Midland Co. v. Narula, No. 99C6997, 2001 WL 804025 at *7 (N.D. Ill. July 12, 2001) (finding that goodwill in the NUTRISOY mark had not been transferred); *see also* Vital Pharm., Inc. v. Monster Energy Co., 472 F. Supp. 3d 1237, 1264-65 (S.D. Fla. 2020) (finding abandonment of the assigned mark and ordering cancellation of the assigned registration. Assignor had used the mark for a powdered nutritional supplement; assignee used the mark for ready-to-drink beverages).

there is no goodwill or trademark to transfer.[36] Similarly, if the assignor has only made *de minimis* or token use, then there may not be enough goodwill to transfer with the mark.[37] Also, the assignee's goods must be the same or substantially similar to those of the assignor in order for the goodwill to transfer (or a license-back arrangement should be considered).

### *B. Marketing to the Same Type of Consumers*

Even when the assignee applies the assigned mark to the same or substantially similar goods, the court may still find that goodwill has not transferred if the assignee's goods are marketed to a different audience. For example, in *Clark & Freeman Corp. v. The Heartland Co.*,[38] the assignee purchased the trademark HEARTLAND from Sears. Sears had used the mark on women's boots, but the plaintiff used the mark to sell men's boots and other men's shoes. The court held this was an invalid assignment in gross, finding that the assignor's and assignee's products were not substantially similar.[39] Many other cases have reached similar conclusions.[40]

In addition to similarities of products or services, courts also look for similar levels of quality and other steps to maintain consistency in how the mark is used. In *Vittoria N. Am., L.L.C. v. Euro-Asia Imports Inc.*, the court held that an assignment from an Italian company to its North American distributor was not in gross where the goods did not change. The court found that the assignee had taken significant steps to ensure the mark continued to signify the same high-end goods—in this case racing tires for bicycles—to which consumers were accustomed.[41] These steps, paired with the

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36 Parfums Nautee Ltd. v. Am. Int'l Indus., 22 U.S.P.Q.2d 1306 (T.T.A.B. 1992).

37 *See* Vaqueros De Las Olas, L.P. v. Marla Gibson Diaz, 2014 WL 11034335, at *2-4 (T.T.A.B. 2014) (finding question of fact remained whether assignment was in gross, and whether assets existed at the time of the transfer).

38 Clark & Freeman Corp. v. The Heartland Co., 811 F. Supp. 137, 138 (S.D.N.Y. 1993).

39 *Id.* at 141.

40 *See* BBC Grp. NV LLC v. Island Life Rest. Grp. LLC, 413 F. Supp. 3d 1032, 1042 (W.D. Wash. 2019), *reconsideration denied,* No. C18-1011 RSM, 2019 WL 4917060 (W.D. Wash. Oct. 4, 2019), and *reconsideration denied,* No. C18-1011-RSM, 2019 WL 4991533 (W.D. Wash. Oct. 8, 2019) (noting that "substantially similar products" must appeal to "similar customer groups" and finding that Korean restaurant and Mediterranean restaurants were not substantially similar); *interState Net Bank*, 348 F. Supp. 2d at 349 (retail consumer banking customers of assignee differ from online vendors using assignor's services); Glow Indus., Inc. v. Lopez, 273 F. Supp. 2d. 1108, 1113 (C.D. Cal. 2002) (finding that skin lotions and cleansers designed to improve skin health appear to appeal to different groups of consumers from fragrances and cosmetics, and thus questions of fact remained as to whether assignment was in gross).

41 Vittoria N. Am., L.L.C. v. Euro-Asia Imps. Inc., 278 F.3d 1076, 1083-84 (10th Cir. 2001).

lack of disruption in the quality associated with the goods, demonstrated that goodwill transferred with the mark.[42]

The substantial similarity analysis is highly factual, and the courts are not always consistent in applying the substantial similarity test. Compare, for example, *interState Net Bank v. NetB@nk, Inc.* (where the court found that an electronic payment service was not substantially similar to traditional banking services offered over the Internet), with *Visa, U.S.A., Inc. v. Birmingham Trust National Bank*[43] (where the court determined that a check approval service enabling payment by check for purchases upon showing a card in a grocery store *was* the "same basic service" as Visa's check card services). In *interState*, the court considered that the services offered by the assignee appealed to a different consumer group (namely, retail consumer banking customers) from the assignor's services (namely, vendors seeking to buy and sell low-cost items over the Internet).[44] In contrast, the court in *Visa* stated that the consumers of the assignor's and assignee's products were the same—namely, individuals who would find the cards useful in paying with personal checks.[45]

The cases discussed above illustrate that whether the assignor's and assignee's goods or services are the same or substantially similar is a more nuanced question than whether they are in the same class or serve a similar purpose. Courts also consider whether the goods or services are marketed to the same consumers and maintain similar qualities and characteristics.

### *C. Transfer of Tangible Assets*

Another factor courts consider is whether the assignee purchased any assets associated with the trademark, such as (1) physical equipment used by the assignor in making its trademarked goods, (2) formulas used to make the trademarked goods, or (3) customer lists for the trademarked goods.[46] While this factor can be highly telling, it is not necessary to transfer assets for

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42 *Id.* at 1084.

43 *interState Net Bank*, 348 F. Supp. 2d at 349; Visa, U.S.A., Inc. v. Birmingham Tr. Nat. Bank, 696 F.2d 1371, 1376 (Fed. Cir. 1982).

44 *interState Net Bank*, 348 F. Supp. 2d at 349.

45 *Visa, U.S.A., Inc.*, 696 F.2d at 1376.

46 *See* Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261 (C.C.P.A 1978); Mister Donut of Am., Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969); Pepsico Inc. v. Grapette Co., 416 F.2d 285, 290 (8th Cir. 1969); Archer Daniels Midland Co. v. Narula, No. 99C6997, 2001 WL 804025 at *7 & n.7 (N.D. Ill. July 12, 2001); Liquid Glass Enters. v. Liquid Glass Indus. of Canada, No. 88-71510, 1989 WL 222653, at *5 (E.D. Mich. Apr. 28, 1989); Greenlon, Inc. of Cincinnati v. Greenlawn, Inc., 542 F. Supp. 890, 894 (S.D. Ohio 1982). "The most telling sign of an assignment in gross is the transfer of the trademark separate and apart from any tangible assets." In re Impact Distrib., Inc., 260 B.R. 48, 54 (Bnkr. S.D. Fla. 2001).

a valid assignment to exist; as the court noted in *Hy-Cross Hatchery, Inc. v. Osborne*, "We do not see what legal difference it would have made if a crate of eggs had been included in the assignment, or a flock of chickens destined to be eaten."[47] A trademark may be validly transferred without the transfer of any tangible (or other related) assets, as long as the assignee continues to produce goods of the same quality and nature.[48] Nevertheless, the transfer of assets, such as machinery, manufacturing materials, formulas, or customer lists, is helpful to demonstrate that the goods being produced by the assignee are of the same quality as those of the assignor.

### *D. The Actions of the Assignor*

As mentioned above, assignment agreements often include terms requiring an assignor to cease all sales of goods under the assigned trademark. The assignment may also include non-compete terms. Such terms help to show that the goodwill in the trademark has been assigned to the assignee, provided that additional evidence of transfer of goodwill exists, as discussed above.[49] What happens, however, when the assignor continues to conduct the same business as it had before the transfer but under a different mark?

When an assignor continues to make its original product, or offer the same service, under a new trademark, this is a strong indication that the assignor has, in fact, transferred the goodwill it purported to assign to its own new trademark, rather than transferring that goodwill to the assignee. Where this factor is combined with the assignor's failure to transfer any tangible assets, the inference that no goodwill was transferred is especially strong. As Professor McCarthy has explained: "If the 'assignee' buys ***none*** of the tangible assets of the assignor and the assignor continues to sell the same products under a different mark, this would tend to prove that the assignee received no good will at all."[50]

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47 Hy-Cross Hatchery, Inc. v. Osborne, 303 F.2d 947, 950 (C.C.P.A. 1962).

48 Defiance Button Mach. Co. v. C&C Metal Prods., 759 F.2d 1053, 1059 (2d Cir. 1985).

49 *See* Cal. Packing Corp. v. Sun-Maid Raisin Growers, 81 F.2d 674, 678 (9th Cir. 1936) ("A manufacturer cannot make a valid assignment of a trade-mark and continue the manufacture or sale of the same products in connection with which the trade-mark was used."); *Archer Daniels Midland*, 2001 WL 804025 at *7 (no goodwill transferred where assignor "continues to sell the same products" under a new trademark); Indep. Baking Powder Co. v. Boorman, 175 F. 448, 451 (C.C.D.N.J. 1910) (assignor discontinued use of the trademark SOLAR, "but kept their business and continued to manufacture identically the same powder and sell it under the same symbols under which it had previously been sold, save that they did not use the name 'Solar.'"); Eiseman v. Schiffer, 157 F. 473, 476 (C.C.S.D.N.Y. 1907) (assignor "continued to conduct the business in which it has used the mark precisely as it had before, with the single exception that it affixed the mark 'Electra' instead of 'Radium' to the goods it sold.").

50 McCarthy, *supra* note 3, § 18:23 (emphasis in original); *see also Liquid Glass*, 1989 WL 222653 at *5 (assignor informed its customers that its products were available under a new trademark, evidencing an assignment in gross).

### *E. Continuity of Management*

If the assignor's management team joins the assignee, this can help ensure that the assignee is able to exploit the assignor's goodwill through use and implementation of the assignor's formulas and quality control procedures. [51] Further, continuity of management may be seen as evidence that the assignee is providing the same quality of goods or services that were originally offered by the assignor.[52] For example, courts have considered whether the assignee is run or owned by a former officer of the assignor in determining whether a trademark was validly assigned.[53] Courts have also looked at whether the personnel involved in the distribution of a product have remained unchanged.[54]

In *J. Atkins Holdings Ltd.*, the assignee, Atkins, received the rights to the B & W trademarks for loudspeakers in the United States along with the accompanying goodwill.[55] As part of the assignment agreement, Atkins agreed to grant a license for the distribution and exclusive sale of B & W loudspeakers in the United States to the same company that had previously been exclusively selling and distributing goods under the mark.[56] Because the same company, including all of its personnel, continued exclusively selling and distributing B & W branded goods in the United States, the court determined the assignment was not in gross.[57] Where there is no change in management, or in the employees responsible for the sale, manufacture, or distribution of goods or services under a particular mark, courts usually find that the business continues to operate as before, and the public continues to receive the same quality of goods and services to which it has become accustomed.[58]

### *F. Application of the Factors for Successful Transfer of Goodwill*

While the above factors are non-exhaustive and may not be applicable in every case, they provide insight into the types of due diligence and steps required to ensure goodwill is transferred with

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51 Marshak v. Green, 746 F.2d 927, 930 (2d Cir. 1984).

52 Spiral Direct, Inc. v. Basic Sports Apparel, Inc., 293 F. Supp. 3d 1334, 1366 (M.D. Fla. 2017) (quoting J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945, 950 (S.D.N.Y. 1990)).

53 Sik Gaek, Inc. v. Yogi's II, Inc., No. 10-CV-4077 ARR VVP, 2013 WL 2408606, at *3 (E.D.N.Y. June 3, 2013) (finding a genuine factual dispute of whether assignee acquired trademark with goodwill where owner of the assignee was also the president of assignor).

54 *J. Atkins Holdings Ltd.*, 729 F. Supp. at 951 (where company in charge of U.S. distribution remained unchanged, assignment was found not to be in gross).

55 *Id.* at 948.

56 *Id.*

57 *Id.* at 951.

58 *Id.*

the mark. By maintaining continuity of management; transferring customer lists, manufacturing know-how, ingredient lists, or recipes; or selling the same or substantially similar goods, the quality and nature of the goods sold under an assigned mark are more likely to remain unchanged, thus resulting in a lower risk of consumer deception.[59] Alternatively, if an assignee purchases nothing more than the trademark, and begins selling different goods under the mark, or the original owner continues to sell the very same goods under a different mark, the goodwill is unlikely to transfer, resulting in consumer deception and an assignment in gross.

## V. EFFECT OF ASSIGNMENT IN GROSS ON TRADEMARK PRIORITY

The issue of whether a trademark assignment is an invalid assignment in gross often arises in the context of litigation, where the assignee is attempting to enforce its rights against a third-party infringer. The party enforcing trademark rights acquired by assignment must establish that it has priority in the mark. The sale of a trademark without goodwill results in the "irreversible destruction of trademark priority earned by the seller up to the date of closing."[60] Therefore, if an assignment is determined to be in gross, the assignee attempting to assert its mark will be forced to rely on its own priority date and cannot benefit from the earlier use of the prior owner.[61]

This is also true for trademark registrations. It is common practice for an assignee to purchase a trademark registration with the goal of obtaining the assignor's priority date to enforce the mark against a third party. While there is no prohibition on purchasing a trademark registration for purposes of gaining priority, if the assignment violates the rule against assignment in gross, the assignee will not enjoy the benefit of the assignor's priority date.[62]

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59 *See* Matter of Roman Cleanser Co., 802 F.2d 207, 209 (6th Cir. 1986) (holding that "good will" does not mean machinery necessary to manufacture product in question but was satisfied by transfer of formulas and customer lists).

60 Neal R. Platt, *Good Will Enduring: How to Ensure That Trademark Priority Will Not Be Destroyed by the Sale of a Business*, 99 TMR 788, 793 (2009).

61 Clark & Freeman v. The Heartland Co., 811 F. Supp. 137, 139 (S.D.N.Y. 1993). *See also* Mister Donut of Am., Inc. v. Mr Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969); Ludden v. Metro Weekly, 8 F. Supp. 2d 7, 16 (D.D.C. 1998).

62 Under the anti-trafficking rule, an intent to use application cannot be assigned before the applicant files a verified statement of use "except for 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." 15 U.S.C.A. § 1060(a)(1). Similar to the anti-assignment in-gross provision, the purpose of this rule is to prohibit the buying and selling of a mark apart from any goodwill. In the case of applications filed on an intent to use basis, the mark "has not yet been used and thus has no legal basis as a 'trademark.'" McCarthy, *supra* note 3, § 18:13. Therefore, it is impossible to assign an

This is because "ownership of the trademark rests on adoption and use, not on registration."[63] In a battle for priority, it is the party who is first to actually use the mark, *not* necessarily first to register, who achieves priority.[64] The fact that a trademark is registered in and of itself does not extend the registrant's rights but rather confers only procedural advantages, albeit significant ones.[65] This distinction becomes important in the context of an assignment in gross. While the assignee's objective may be to obtain the registration and the priority date it conveys, the rule against an assignment in gross requires assignment of the underlying trademark rights together with the goodwill developed in the mark as it is actually used in the marketplace. Otherwise, the assignee will find itself without the underlying trademark rights and the procedural priority it hoped to obtain from the registration.

Unless goodwill is transferred with the trademark, the priority date will not be transferred with the registration, and the registration itself may be at risk of cancellation due to abandonment. Moreover, the rights acquired by valid assignment may be limited to the goods or services on which a trademark owner has actually used its mark.[66] This may be the case even if the identification of goods in the registration is stated generally (e.g., clothing), but the owner only sold specific goods in that category (e.g., shirts) under the trademark. For example, in *Schmidt v. Versacomp, Inc.*,[67] the plaintiff and defendant both sold boat lifts under the TNT trademark. After infringement litigation began, the plaintiff purchased a 1966 registration for a TNT trademark from Gray Manufacturing. The registration was for "vehicle lifts," but Gray had used the TNT trademark only on lifts for cars and trucks.[68]

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intent to use application for the sole purpose of obtaining priority unless the assignee is the successor to the business of the original applicant.

63 Turner v. HMH Pub. Co., 380 F.2d 224, 228 (5th Cir. 1967); *see also* McCarthy, *supra* note 3, § 16:18.

64 McCarthy, *supra* note 3, § 16:18. *See also* Long Grove Inv. v. Baldi Candy Co., 397 F. Supp. 3d 1190, 1195 (N.D. Ill. 2019); Industry Advanced Techs. v. Matthews Studio Equip., No. CV 17-4962, 2018 WL 6131228 at *10 (C.D. Cal. July 30, 2018).

65 Turner v. HMH Pub. Co., 380 F.2d 224, 228 (5th Cir. 1967). For example, a U.S. Trademark Registration creates a presumption that the trademark is valid, that the registrant owns the trademark, and that the registrant has the exclusive right to use the trademark for the registered goods, among other procedural advantages.

66 Jean Patou, Inc. v. Theon, Inc., 9 F.3d 971, 975 (Fed. Cir. 1993) ("[i]t is elementary that a registrant has rights under the statute only with respect to goods on which the trademark has been used."). However, nothing in the rule would prevent a valid assignee from later expanding its use under the mark to launch a related product, so long as the assignee continued to offer the same or substantially similar goods as those offered by the assignor. Ultimately, the court will still look to the underlying transaction to see if goodwill was validly transferred.

67 Schmidt v. Versacomp, Inc., No. 08-60084, 2011 WL 13172509 at *3 (S.D. Fla. Feb. 17, 2011).

68 *Id.*

The court held that the plaintiff's acquisition of Gray's TNT trademark was an assignment in gross because the plaintiff's boat lifts differed substantially from Gray's car and truck lifts.[69] The court expressly considered and rejected the plaintiff's argument that it was entitled to priority for all "vehicle lifts" because those were the goods recited in the registration.[70]

While this result may seem harsh, it comports with the general rationale behind the anti-assignment in gross rule. While a trademark registration may broadly cover "vehicle lifts," the mark will have acquired goodwill only with consumers who have encountered the mark in connection with the actual goods on which the mark is being applied.

## VI. BANKRUPTCY AND USE OF TRADEMARKS AS COLLATERAL

It is important to note that certain situations will make it difficult or impossible to satisfy all of the factors set forth above for avoiding an assignment in gross. For example, trademark rights may be assigned as a result of bankruptcy proceedings, where the assets are distributed to creditors. Or a trademark may be assigned as a security interest. In these situations, the validity of the assignment may be placed in jeopardy.

Courts generally hold that a trademark may validly be assigned as a result of bankruptcy proceedings. This is because upon the bankruptcy of the trademark owner, the trademark, together with the goodwill it symbolizes, becomes vested in the trustee and may then be sold as a combined asset of the estate.[71] However, the validity of the transfer may be less certain in the case of a security interest applied to a trademark. If assets and goodwill are transferred along with the security interest, then the transfer may be valid, so long as the trademark maintains its significance.[72] In contrast, if the security interest is held by a party with no intention to continue using the mark, or if no goodwill is transferred with the trademark, and there is a default triggering assignment of the mark, then the security interest could be found to be an in gross assignment.

For example, in *Haymaker Sports Inc. v. Turian,* [73] Avon, the trademark owner, and its attorneys entered into an agreement wherein Avon assigned the HAYMAKERS mark to its attorneys

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69 *Id.* at *5.

70 *Id.*

71 Johanna Farms, Inc. v. Citrus Bowl, Inc., 468 F. Supp. 866, 874 (E.D.N.Y. 1978).

72 *See* Matter of Roman Cleanser Co., 802 F.2d 207, 209 (6th Cir. 1986) (security interest was not an invalid in gross assignment where assignee received formulas and customer lists with trademarks).

73 Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 259 (C.C.P.A. 1978).

"together with the goodwill of the business" as collateral security for payment of attorneys' fees. However, Avon continued to use the mark.[74] After Avon's business declined, and it defaulted on the attorney-fee payments, the attorneys recorded the assignment.[75] The parties then entered into a second agreement, confirming the assignment, and stating that in the event of Avon permanently ceasing to do business, any owners of stock of the corporation would have the right to continue payments, and upon complete payment, the mark would be assigned to the individual making payments.[76] Avon ceased doing business. Turian, a stockholder of Avon, continued to make payments, and ultimately the attorneys assigned the mark to him.[77] However, the United States Court of Customs and Patent Appeals held that no rights transferred to Turian because the assignments were invalid.[78] Because the attorneys never played a role in the business, when they recorded the assignment with the United States Patent and Trademark Office, they obtained legal title only, without any goodwill, and thus the assignment was an invalid assignment in gross.[79] After this recordation it was "too late to 'resurrect' the agreement to assign the mark sometime in the future," and thus the assignment to Turian was also invalid.[80]

The court noted that this assignment was distinguishable from an assignment through bankruptcy, where the creditors or trustee succeed to all assets, both tangible and intangible.[81] In such bankruptcy assignments, a trademark can validly be assigned with the appurtenant goodwill and assets to a subsequent purchaser. It is possible, however, that a bankruptcy proceeding could result in the sale of some but not all assets, thus resulting in either an assignment in gross, or the sale of all assets except the intellectual property rights.[82] Therefore, it is important that creditors and trustees be cognizant of the rights they are acquiring and ensure that the tangible assets of the business are transferred with the goodwill and trademarks included in the purchase.

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74 *Id.*

75 *Id.*

76 *Id.*

77 *Id.* at 259-260.

78 *Id.* at 261.

79 *Id.*

80 *Id.*

81 *Id.* at 262.

82 *See* Engineered Abrasives, Inc. v. Richerme, No. 18 C 6562, 2020 WL 5365969, at *6 (N.D. Ill. Sept. 8, 2020) (holding that Engineered Abrasives did not acquire trademarks during a bankruptcy proceeding where trademarks were not listed in the bill of sale or asset purchase agreement and Engineered Abrasives did not acquire "all assets" in the bankruptcy sale).

It is also the case that some security interests could trigger an assignment in gross prior to default. For example, if a security interest is effectuated by means of an operative assignment as opposed to a conditional assignment, and the creditor-assignee does not take the goodwill and continue to use the mark, or the security interest does not include a license-back provision, then the assignment may be deemed an assignment in gross.[83] Similarly, if the security interest calls for a conditional assignment, but does not include the goodwill, then on default the assignment may become an invalid assignment in gross.[84] Therefore, careful due diligence is required when registering and perfecting security interests in trademarks to make sure the mark is in use, and that the goodwill is also included in the security interest. Otherwise, the security interest may have no value, as it could be found to be an invalid assignment in gross.

## VII. CONCLUSION

It is common practice for trademark lawyers to provide their clients with assignment documents that recite "transfer of goodwill" with "tangible assets as indicia of goodwill." The cases discussed above highlight how important it is to go beyond the words of the assignment agreement and conduct due diligence to make sure that the circumstances surrounding the assignment will support its validity, particularly when enforcing the mark against a third party. It behooves the assignee, for example, to maintain documents evidencing the transfer of physical and other related assets (such as customer lists, formulae, know-how, etc.) and ensure that the assignor is not continuing to sell substantially similar products under a different mark. By paying more careful attention to the circumstances surrounding the assignment, and maintaining evidence of transfer of assets and goodwill, the risk of an assignment in gross and/or abandonment finding will be substantially reduced.

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[83] McCarthy, *supra* note 3, § 18:7 (noting the difference between an operative assignment and a conditional assignment when discussing security interests). Because a conditional assignment does not convey any trademark rights but is merely an agreement to assign a mark in the future, a security interest founded on a conditional assignment should not violate the rule against assignments in gross. *Id.* However, if default triggers the assignment, goodwill must then transfer to the creditor-assignee. *Id.*

[84] *Id.* (noting that a security interest should never be in a trademark alone, divorced from goodwill).