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The (Rather Large) Truth behind the Pizzapotamus: How Brand Portfolio Packages with Arguably Fraudulently Procured Trademarks Harm Purchasers, Licensees and the Public

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THE (RATHER LARGE) TRUTH BEHIND THE PIZZAPOTAMUS: HOW BRAND PORTFOLIO PACKAGES WITH ARGUABLY FRAUDULENTLY PROCURED TRADEMARKS HARM PURCHASERS, LICENSEES AND THE PUBLIC

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Americans today obsess about speed, craving real-time information, swift service, and overnight results. In the last century, traditionally time-consuming activities—everything from baking a turkey to building a house to connecting to the internet—have been modified to speed up the process. Wood burning ovens have been replaced by pressure cookers and convection ovens; hand-made homes have been replaced by factory built models; dial-up modems have been replaced with high-speed cable connections. One company, Circle®Brands, is attempting to capitalize on the American obsession with speed—in the context of brand creation. Traditionally, companies would spend millions of dollars over several years or even decades developing a brand for a particular product, creating logos, advertising, slogans, websites, custom “1-800” numbers, and more. But with changing economic trends in American markets and increasing outsourcing, many American companies may soon be looking for cheaper, faster alternatives for brand development.

Circle®Brands believes the availability of brand identity portfolios would allow companies to avoid at least some of the initial start-up costs and headaches of marketing a new product or service.1 This is the mission of Circle®Brands: “In an effort to speed firms’ impact and time to market, Circle®Brands has boldly reverse-engineered the customary approach to branding by creating and trademarking (by way of licensees) comprehensive brand identity packages in advance of any client initiative, something that has never been done before now.”2 Circle®Brands intends to speed up the initial branding process by offering brand identity packages, where savvy entrepreneurs and time-crunched executives alike can purchase a brand package portfolio to make their product or service distinctive in the market and to give them a competitive edge.3 The portfolio includes everything a company or owner could need for the new product or service, including “distinct registered brand names and taglines (by way of licensees), logos, complementary toll-free vanity telephone numbers, web addresses, and complete marketing strategies”4—complete

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with necessary, registered trademarks and registrations. With the help of a ready-made brand identity, product and service owners literally can establish a brand overnight, before even affixing the name of the brand or its logo onto any products or services.

How, though, would—and should—trademark law respond to this novel marketing scheme, given the traditional focus of trademark law on use as the basis for rights? This paper explores the legal implications and the societal effects, from a trademark perspective, of selling brand packages, complete with sold or licensed registered trademarks. Part I discusses why the trademarks associated with brand packages are arguably fraudulently procured; Part II examines the effects of procuring fraudulent registrations, both in terms of the problems purchasers of brand package portfolios may encounter with respect to trademarks and in terms of economic and social policy; Part III argues that the United States Patent Office (USPTO) must do more to ensure trademarks such as those included in brand package portfolios are not fraudulently procured.

II. THE FIVE-LETTER “F” WORD IN THE CONTEXT OF TRADEMARK REGISTRATION PROCUREMENT

It is a word that brings about shame and fear in the mind of any attorney who values her reputation and wants to keep it lustrous—fraud. No one likes to point the fraud finger or have the finger pointed at them, and some courts have even described fraud defenses as "disfavored," but recently the number of actions for fraud in obtaining the registration of a trademark has increased, as courts are more willing to cancel entire registrations because of fraudulent procurement. Circle®Brands could soon be adding its registered trademarks to the list of registrations cancelled for fraud, all because its registrations were issued without actual use of the marks in commerce.

A. When and How Fraud Rears Its Ugly Head

For a fraud claim to be actionable, the party alleging fraud must prove the opponent knowingly made false, material statements while obtaining or renewing a trademark registration. Fraud must be shown by clear and

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5 Throughout this paper, the general term “trademark” will be used to refer to trademarks, trade names, trade dress, and service marks, unless otherwise noted.


7 Mister Leonard Inc. v. Jacques Leonard Couture Inc., 23 U.S.P.Q.2d 1064, 1066 (T.T.A.B. 1992). Some commentators have suggested that in these fraud actions, the focus is on whether the registrant made the statements knowingly. See also Podcast, William M.
convincing evidence “with little or no room for speculation or surmise [and] considerable room for honest mistake, inadvertence, erroneous conception of rights, and negligent omission.”8 Fraud can arise from defects in the registration or renewals regarding date of first use, ownership, use on claimed goods or services, or disclosure of use by others.9 No doubt, courts and the USPTO take fraud accusations very seriously.

While fraud is certainly a serious offense both against our legal system and against society in general, due to the limited contexts in which fraud charges can be raised, the party who commits the fraudulent activity could go undetected forever.10 Often, the issue of fraud is brought to the attention of the USPTO or court by either a party who wishes to oppose the issuance of a registration for a mark or an accused infringer who wishes to

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10 See id. § 31.59.
invalidate a registration upon which it is accused of infringement. Fraud is not the type of action that the USPTO or court can bring sua sponte. A party with standing must bring the issue before the USPTO or court.

While neither a court nor the USPTO can bring an action for fraud, the USPTO is not completely shielded from examining the issue of fraud, especially in the early stages of trademark registration. For example, as part of the application and renewal process, the USPTO reviews specimens that the applicant or registrant has submitted that show use of the trademark in commerce. To ensure that the trademarks are appropriately issued or renewed, the USPTO is responsible for comparing the application’s or registration’s cited use of the mark on the goods or services with the specimens the applicant or registrant submits. If there is a discontinuity between the stated use and the actual use (as shown through the specimen), the USPTO is supposed to deny issuance of the registration or the renewal.

B. The Use Requirement of Registration

While fraud may arise from several different defects in the registration or renewals, defective use of the mark is particularly interesting with respect to Circle® Brands’ conduct. In the United States, a mark owner may protect her mark through common law trademark rights only if the mark is used and, unlike a patent, conception of the mark is irrelevant. "The right to use a trademark is recognized as a kind of property, of which the owner is entitled to the exclusive enjoyment to the extent that it has actually been used." Therefore, coming up with the idea of the trademark, without more, is not enough to establish the right to exclude others from using the trademark.

While trademark rights exist without registration, many mark owners choose to register their marks to put other potential users throughout the

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11 See id. Note that plaintiff mark owners may still rely on common law trademark rights, even if the associated registration is cancelled. However, even under common law, the mark owner must still use the mark in commerce. Therefore, with or without registration, the mark owner does not have any rights to enforce if it does not use the mark.

12 See The Trade-Mark Cases, 100 U.S. 82, 94 (1879)("The ordinary trade-mark has no necessary relation to invention or discovery. The trade-mark recognized by the common law is generally the growth of a considerable period of use, rather than a sudden invention. . . . The trade-mark may be, and generally is, the adoption of something already in existence as the distinctive symbol of the party using it. At common law the exclusive right to it grows out of its use, and not its mere adoption. . . . It requires no fancy or imagination, no genius, no laborious thought. It is simply founded on priority of appropriation.").


14 Rolley, Inc. v. Younghusband, 204 F. 2d 209, 212 (9th Cir. 1953)("He who first affixes a trade-mark upon his goods is its owner, not the person who first conceives the idea.").
United States on notice of their ownership and to establish priority should a junior user attempt to use the mark. Trademark registration, therefore, does not create or grant trademark rights, since those rights exist only through use. Instead, registration is a method of cataloging and recording who owns what rights and from what date those rights began. Under the registration requirements, a mark owner must show use of the trademark in commerce or show intent to use the mark in commerce.\textsuperscript{15} Even if a party files based on intent to use, its rights ultimately depend on use, and the applicant must subsequently verify that the mark is used in commerce within six months of the notice of allowance.\textsuperscript{16} Extensions may be granted in six-month increments for not more than two years,\textsuperscript{17} but again, ultimate use in commerce must be shown for the registration to be valid and not subject to cancellation.

Use has both formal and functional requirements. Formally, the use of the trademark must be in close connection physically with the goods or services on which the trademark is attached, such as on the product itself, or on the hang-tags, labels, or packaging.\textsuperscript{18} For services, the mark owner must be able to demonstrate “a direct association between the mark and the services, i.e., that the mark be used in such a manner that it would readily be perceived as identifying the source of the services.”\textsuperscript{19} Ordinarily, it would not be sufficient to simply think of a word or phrase, write it down, and apply for registration. As described above, the conception of the trademark, without more, lacks meaning and is thus not registrable.\textsuperscript{20} This formal requirement of close proximity is one of the reasons trademark applications must specify “the goods [or services] in connection with which the mark is used.”\textsuperscript{21} Once registration is granted, an additional formal requirement of maintaining trademark registration is a periodic showing of use and payment of fees.\textsuperscript{22}

Functionally, the use must be of the type that allows consumers to identify the source of the product or service to which the mark is attached. Therefore, the mark must be used as a mark so that consumers can associate

\textsuperscript{15} Trademark Act of 1946 (Lanham Act) 15 U.S.C. § 1051(a)(3)(c) (2006)(requiring use in commerce); § 1051(b) (requirements for an intent to use application).
\textsuperscript{17} 15 U.S.C. § 1051(d)(2).
\textsuperscript{18} 15 U.S.C. § 1127.
\textsuperscript{19} In re Adair, 45 U.S.P.Q.2d 1211, 1214 (T.T.A.B. 1997).
\textsuperscript{20} An applicant would be able to conceive of a trademark and apply for an intent-to-use application. However, to enforce exclusivity of use of that trademark, the applicant must prove use of that trademark. See discussion supra Part I.B.
\textsuperscript{22} 15 U.S.C. § 1059(a).
the product or service bearing the mark with a specific source, and the mark must be used in a manner in which consumers in the marketplace can encounter the mark, i.e., the mark must be used in commerce.

Whether the mark is being used as a mark is a somewhat more straightforward inquiry than whether the mark is being used in commerce. To establish whether the mark is used as a mark, courts will often look for contextual clues such as other words (especially other generic or descriptive words) that identify the product or service, a constant pattern or design of the trademark, prominence of the trademark on the good, repeated use of the trademark, and use of symbols following the trademark such as “TM” or “®”.

Determining whether the mark is used in commerce is much more difficult. While the Lanham Act specifies that the mark must be used in commerce, the statute does not define the type or quantity of use in commerce that will be sufficient to show use. However, the most newly amended version of the statute does give more guidance as to the type of use that is sufficient under the statute. Commerce is defined as “commerce which may be lawfully regulated by Congress”, and use in commerce is “bona fide use of a mark in the ordinary course of trade, and not made merely to reserve a right in a mark.”

Sufficient use in commerce would mean that the mark appears on the goods or on its container, tags, or displays, and the goods are sold or transported in commerce; sufficient use of services would mean the mark is used or displayed in connection with the sale or advertising of the services, where the services are in commerce. While this clarification is somewhat helpful, neither the questions of how many goods must display the trademark nor of how long and in what form the services must display the trademark are addressed; resolution of these questions are instead left to the discretion of the examining attorney or to the trier of fact.

The Trademark Manual of Examining Procedure (T.M.E.P.), the guidebook for attaining trademark registrations with the USPTO, adds little more to the statute’s vague definition, beyond clarifying that the applicant must actually use the trademark for the use to count. Because the applicant/mark owner usually produces the goods or “uses the mark in the sale or advertising of services he or she performs,” the manual states that the owner of the mark or the person entitled to use the mark must file the registration. This requirement has important implications that reduce the

24 Id.
25 T.M.E.P. § 803.01
26 Id.
number of trademarks filed by parties that are not actually using the mark. For example, where the applicant neither owns nor is entitled to use the mark at the time of filing, "the application is void and cannot be amended to specify the correct party as the applicant, because the applicant did not have a right that could be assigned."\(^{27}\) Similarly, with an intent to use application, where "the applicant is not the person with a bona fide intention to use the mark in commerce, the application is void."\(^{28}\) Note again that "us[ing] the mark in commerce" means using the mark as a mark. Selling or licensing the mark in commerce would not be a sufficient use of the mark.

C. The Goodwill Requirement for Trademark Sale or Licensure

Even if a trademark owner has protectable rights and has legitimately acquired registration for its marks, the company must determine—and purchasers must find out—the value of the trademark in order to sell or license the trademark. While trademarks may seem akin to real property, trademarks are not property that can be conveyed in gross.\(^{29}\) Instead, trademarks must be sold or licensed along with the underlying goodwill of the mark.\(^{30}\) Trademarks sold without goodwill are recognized as

\(^{27}\) Id.; See T.M.E.P. § 803.06.

\(^{28}\) T.M.E.P § 1201.

\(^{29}\) The rationale behind this well-established principle is that of prevention of consumer confusion, which is one of the hallmark functions of trademarks. Prevention of consumer confusion has not always been the primary goal of protecting trademarks. Since Medieval times, merchants have used marks on goods to show ownership of the goods on which the mark is attached. See Mark P. McKenna, The Normative Foundations of Trademark Law, 82 Notre Dame L. Rev. 1839, 1849 (2007). In the guild system, marks helped merchants distinguish between goods they made and goods they did not make. Because of this emphasis on the mark as an indication of ownership, the early English common law cases regarding trademarks center on deceit, where non-mark owners have used a mark to pass-off goods as those of the mark owner. Id. at 1850-60 (describing in depth the development of trademark law). Courts were not concerned with "vindicating the rights of consumers" but instead were concerned with addressing injuries the producer or service provider had suffered "that resulted indirectly from deception of consumers." Id. at 1857. Over time, the courts and legal scholars began to recognize trademarks also protected consumers by offering a reduction in search costs, a protection of their choices, a receipt of consistent (but not necessarily high) quality, and a differentiation between products. See William M. Landes & Richard A. Posner, Trademark Law: An Economic Perspective, 30 J.L. & Econ. 265, 275–76 (1987). Some courts today are willing to broaden the scope of trademark protection even further by allowing initial interest confusion, post-sale confusion, and dilution causes of action. See, e.g., Brookfield Comm'ns, Inc. v. West Coast Ent. Corp., 174 F.3d 1036 (9th Cir. 1999) (initial interest confusion); Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208 (2d Cir. 1999) (dilution); Ferrari S.P.A. Esercizio v. Roberts, 944 F.2d 1235 (9th Cir. 1991) (post-sale confusion). Note that the idea that these forms of confusion, and particularly dilution, benefit consumers, is a relatively controversial development in the law.

\(^{30}\) In the early case of Hanover Star Milling Co. v. Metcalf, the court explained,
assignments in gross. Sales of trademarks without the requisite goodwill are prohibited because the consumer would lack the assurance he was receiving the same product or service from the new mark owner. By requiring any transfer of a trademark to include the goodwill associated therewith, the customer is not “misled or confused as to the source and nature of the goods or services that he or she acquires.”

Determining whether the goodwill is transferred along with the trademark can be a difficult matter because goodwill is a somewhat elusive concept. In general, goodwill is “the positive perception and reaction of the consumer that results in repeat purchases.” Thus, for goodwill to exist, a consumer must encounter the mark on several occasions and develop positive associations with the mark. Generally, the sale of the whole business will sufficiently transfer goodwill and therefore trademark rights: “A sale of a business and of its goodwill carries with it the sale of the trademark used in connection with the business, although not expressly mentioned in the instrument of sale.” The sale of goodwill along with the trademark is necessary because the goodwill is so tied up with the consistent quality guarantee the mark represents. If the purchaser of the business intends to continue to use the marks on goods of the same quality, the goodwill must be sold along with the mark to ensure consumers that the quality remains the same. To retain constant quality, the necessary assets of the sale would include “those that permit the assignee to ‘go on in real continuity’ with the past business of the assignor.”

“The trademark is treated as merely a protection for the good will, and not the subject of property except in connection with an existing business.” 240 U.S. 403, 414 (1916). Because “[a] trademark has no independent significance apart from the good will it symbolizes[,] . . . a trademark cannot be sold or assigned apart from the good will it symbolizes.” MCCARTHY, supra note 9, at § 18:2. See also United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918) (“[T]he right to a particular mark grows out of its use, not its mere adoption; its function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another’s product as his; and it is not the subject of property except in connection with an existing business.”). See also Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) (“A trade name or mark is merely a symbol of goodwill; it has no independent significance apart from the goodwill it symbolizes. . . . [A] trademark cannot be sold or assigned apart from the good will it symbolizes.”).

31 MCCARTHY, supra note 9, at § 18:3.
32 Green River Bottling Co. v. Green River Corp., 997 F. 2d 359, 362 (7th Cir. 1993).
33 Sugar Busters LLC v. Brennan, 177 F.3d 258, 265 (5th Cir. 1999).
35 President Suspender Co. v. MacWilliam, 238 F. 159, 162 (2d Cir. 1916).
used to look at whether there was evidence that assets associated with the mark owner were transferred along with the mark.\(^{37}\) today there is no requirement that there must be a transfer of some physical assets for the assignment or license to be valid.\(^{38}\) In fact, a recitation that the sale includes transfer of goodwill will sometimes, but not always, be sufficient, so long as the requisite continuity is present.\(^{39}\) Mark owners may also transfer trademarks for use in a business to be established, if that business is then subsequently established.\(^{40}\)

The Lanham Act,\(^{41}\) which codifies modern trademark law, places an emphasis on goodwill. Under the Lanham Act, to assign or license a trademark, the mark owner must simultaneously transfer the goodwill.\(^{42}\) The T.M.E.P. explains, "[t]he primary purpose of this provision [§ 1060] is to ensure that a mark may only be assigned along with some business or goodwill, and to prevent 'trafficking' in marks." Therefore, both legislators and the USPTO recognize the possibility of buying, selling, or licensing trademarks alone, and both have specifically mandated against doing so.

Further, where the mark owner does not completely transfer the rights to the trademark along with the underlying goodwill but instead licenses the mark, the owner must retain control over the quality of the goods and services associated with the mark. Additionally, the licensee may make the first use of the trademark in support of the licensor's application for registration,\(^{43}\) but the licensee must be a "related company" such that the mark owner controls the mark "with respect to the nature and quality of the


\(^{38}\) See Money Store v. Harriscorp Fin., Inc., 689 F.2d 666, 676 (7th Cir. 1982).

\(^{39}\) See id. at 676–77; see also Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978).

\(^{40}\) Rogers v. Ercona Camera Corp., 277 F.2d 94, 99 (C.A.D.C. Cir. 1960) ("[A] transfer of a trademark will not be deemed to be a transfer in gross if under the contract it appears that it was transferred for use in a business to be established and if it was so used."). However, the owner must still show use, discussed in Part I.B, supra. See McCarthy, supra note 9, at § 18.6 ("[T]his does not mean that the assignor never had any established business. If that was so, there was never any usage of the mark and hence no legal mark. . . . To constitute a valid assignment, there must be a 'trademark' to assign. A trademark exists only in connection with an on-going business. If the 'assignor' has made no trademark use of a designation, then there are no trademark rights to assign.").


\(^{42}\) 15 U.S.C. § 1060(a)(1) ("A registered mark or 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.").

\(^{43}\) 15 U.S.C. § 1055; T.M.E.P. §§ 1201.01, 1201.03(f).
goods or services on or in connection with which the mark is used."\textsuperscript{44}
Where the licensor does not maintain control of the nature and quality of the goods or services, the mark may be deemed abandoned under § 1127 and, therefore, cancelled under § 1064, because a lack of control creates the risk that goods or services bearing the same trademark will be of varying quality, and could deceive the public.\textsuperscript{45}

The determination of the value of the trademark also stems from the amount of goodwill the mark has, and, as a result, is often a difficult calculation. In other words, a trademark will be more valuable and worth more money if consumers can readily identify the mark with a specific source. Part of the reason that determining the value of a trademark is so difficult is that trademarks and goodwill are inseparable. In the context of the sale of an entire business, the value of the trademark(s) is described as that of the goodwill, which is essentially the amount a purchaser will pay in excess of the value of the tangible assets. In the context of trademark licensing, the value of the trademark depends on how much each side values the mark based on many factors, including the prevalence of the mark in the marketplace, the amount of time and energy sunk into marketing, the ability for consumers to associate the mark with the source, etc. A trademark without goodwill and the associated consumer recognition will be of little, if any, monetary value.

III. CIRCLE® BRANDS’ ARGUABLY FRAUDULENT AND DECEPTIVE CONDUCT

Circle®Brands touts, as one of its biggest selling points, that the purchaser of the brand portfolio package receives registered trademarks. The purchaser therefore does not have to worry about incurring costs associated with attaining registration, and the purchaser receives a “distinction that is impossible for competitors to duplicate.”\textsuperscript{46} However, under both the common law and statutory schemes, a mark owner must use the trademark to create and sustain trademark rights. Circle®Brands’ stated use and actual use differ dramatically, and, as a result, Circle®Brands has not used the marks appropriately, which in turn has led to a lack of

\textsuperscript{44} 15 U.S.C. § 1127.
\textsuperscript{45} See Dawn Donut Co. v. Hart’s Food Stores, Inc., 267 F.2d 358, 366 (2d Cir. 1959); see also Stanfield v. Osborne Inds., Inc., 52 F.3d 867, 871 (10th Cir. 1995) (“When ‘a trademark holder engages in naked licensing, without any control over the quality of the goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor.’” (quoting from First Interstate Bancorp v. Stenquist, 16 U.S.P.Q.2d 1704, 1706 (N.D. Cal. 1990))).
\textsuperscript{46} Circle®Brands, supra note 2, at 2 (quoting Circle®Brands President Susan Murphy).
development of goodwill. Without the requisite goodwill behind the marks, Circle®Brands cannot sell or license the marks. Arguably, Circle®Brands has procured and has renewed its trademarks through fraudulent means, and now seeks to sell its valueless fraudulently attained marks.

A. Circle®Brand’s Lack of Use

Circle®Brands’ stated use is arguably fraudulent because it has merely come up with the ideas of its trademarks, without having the associated goods or services behind them. For example, there is no actual pizza restaurant associated with PIZZAPOTAMUS, no tangible map/napkin and business associated with MAPKIN, and no standing flower shop associated with BLOOMSERVICE. Yet, for all these marks, Circle®Brands has registrations. Circle®Brands’ use of the trademarks therefore has no close physical connection with the goods or services to which the trademark is purportedly attached. Viewing the mark, consumers would not be able to identify the source of the mark because there is no product or service. This defeats the entire purpose of trademarks—to allow consumers to associate a given mark with a specific source. Therefore, Circle®Brands has engaged in fraudulent conduct in procuring its trademark registrations because there are no products or services associated with the marks.

Even if Circle®Brands argues the marks are merely for advertising and not for the products or services themselves, the same problem persists. Granted, the marks Circle®Brands lists on its website include contextual clues including other descriptive words that identify the product or service, a constant pattern or design of the trademark, repeated use of the trademark, and use of symbols following the trademark such as “TM” or “®”. However, Circle®Brands lacks prominence of the trademark on the good or service—because no real good or service exists. Without real products or services behind the marks, the marks are meaningless and should not be granted registration.

Yet, many of the marks have attained registration certificates. An inspection of the uses listed for the marks reveals descriptions of “advertising” or “promotional services”. The specimen used to show the

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48 See PIZZAPOTAMUS, supra note 47.

49 See, e.g., U.S. Trademark Reg. No. 2,153,953 (issued Apr. 28, 1998) (listing the use for “PIZZAPOTAMUS” as “advertising services, namely promoting the services of restaurants through appearance and use of a costumed character and through distribution of
advertising service is often a website. Citation of a short and forgettable website does not seem to be enough to constitute use under traditional formal and functional requirements, especially since the businesses for which the advertising service is promoting are all currently fictitious. The mark is not used or displayed in connection with the sale or advertising of the services; instead the mark is used to advertise for the actual product or service itself—the pizza restaurant or the accounting service—not the service which is advertising those businesses with the mark. But if the mark is only being used to advertise the mark, then the mark is not functioning as a mark. It would not be helping consumers identify the source (which would be Circle®Brands) of the product or service (which here would be the service of advertising). Instead it would be helping consumers identify something entirely different, such as a pizza restaurant for the mark PIZZAPOTAMUS or a flower shop for the mark BLOOMSERVICE.

Circle®Brands' alleged use is also not use in commerce, as required by the Lanham Act. The marks are not being used in the ordinary course of trade because no trade for the marks exists. Circle®Brands' marks do not appear on goods, containers, tags, or displays, and the goods are neither sold nor transported in commerce—because those goods do not exist; Circle®Brands' marks are not displayed in connection with the sale or advertising of the services in commerce—because the services do not exist. The marks, while appearing on Circle®Brands's company profile and on individual brand websites, never appear in commerce on the goods or services to which the mark is intended to attach. Circle®Brands is not the source of the pizzas to which the PIZZAPOTAMUS mark refers, nor is it the source of the accounting service to which the “WE Do the Math” slogan references. Without any client in mind, much less without the request of any client, Circle®Brands has created entire brand packages, including registered trademarks. Circle®Brands is merely reserving a right for some

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For a view of the brand portfolio packages Circle®Brands currently offers, see Circle®Brands, supra note 3. As of Nov. 17th, 2009, this website lists ten different brand portfolio packages that are available. Id.


See Circle®Brands, supra note 3 (last visited Nov. 17, 2009)(note that not all of the marks on the Circle®Brands' website are registered or bear the registration mark). See also
other company—a pizza restaurant or an accounting service—to use the mark at some future date.

Moreover, because Circle®Brands, as the applicant for the mark, does not produce the goods or use the mark in the sale or advertising of services it performs, Circle®Brands neither owned nor was entitled to use the mark at the time of filing. As a result, the USPTO should have deemed the application void. Even if, hypothetically speaking, Circle®Brands files an intent to use application and finds a party to purchase the brand portfolio package prior to the issuance of the registration, the registration would still be void because Circle®Brands would never have had a bona fide intention to use the mark in commerce. Again, the bona fide intention to use the mark must be on the goods or in association with the services, which Circle®Brands never intends to do. Selling or licensing its marks in commerce would not be a sufficient use of the marks. Additionally, in that hypothetical scenario, Circle®Brands would have no ability to amend the application to specify the correct party (the purchaser) as the applicant because Circle®Brands did not have a right that could be assigned.

Unfortunately, Circle®Brands’ arguably fraudulent conduct could be perpetually undetected because there will likely never be a context in which fraud charges may be brought. The likelihood of Circle®Brands having to enforce its trademark rights against a junior user or a senior user enforcing its rights against Circle®Brands is potentially small. However, the USPTO should have seen through this alleged sham registration from the start and not allowed the registrations to issue. While Circle®Brands may never be brought to justice for its conduct, steps should be taken by the USPTO to ensure that fraudulent registrations such as these do not issue again, because fraudulent registrations cause significant harm both to the purchasers of these brand portfolio packages and to society as a whole.

B. Circle®Brands’ Attempted Sale or Licensure Without Goodwill

The Circle®Brands philosophy seems to be in tension with the principle that the transfer of trademark rights must include the goodwill associated with the mark. The company sees its “intellectual brand properties as valuable real estate for forward-thinking companies who want

United States Patent and Trademark Office, Trademarks, Home Page, http://www.uspto.gov/main/trademarks.htm (a search of the USPTO trademark registration website reveals the trademarks and trade names that bear a registration mark (®) are in fact registered with the USPTO. Follow “Search Marks” hyperlink; then follow “New User Form Search (Basic)” hyperlink; then search for the mark (e.g., BLOOMSERVICE or WE DO THE MATH)).
to hit the ground branding.”\textsuperscript{54} Circle®Brands, as the mark owner, does not and can never have “real estate” in the marks. Circle®Brands seems to misunderstand that it must retain control over the goods and services used in connection with the marks and instead takes the position that the marks can be bought, sold or licensed just as the mark alone. The company must sell or license the goodwill along with the mark. However, Circle®Brands lacks any goodwill in the mark because it has never used the mark as a mark. No consumers have had the chance to develop an association between the mark on a given product or service with a specific source.

Circle®Brands may argue that consumers could have come into contact with the mark, thus giving the marks an iota of goodwill. After all, many of the trademarks Circle®Brands has registered have been described as “advertising services,” as evidenced by the existence of a website.\textsuperscript{55} However, it is difficult to see how one website advertising a non-existent product or service that few if any consumers have even heard of much less purchased (which would be impossible because the product or service advertised does not actually exist) can give rise to any goodwill.

Circle®Brands may also try to claim the licensee/purchaser, as the first user, will develop the goodwill for the mark. However, under the Lanham Act, the applicant must still retain control of quality of the products or services to which the mark is connected. Circle®Brands does not anywhere on its marketing information state that it will retain control of the quality. And how could it? Circle®Brands is a marketing business; it likely lacks knowledge of how to control the quality of a pizza restaurant or a flower service. Any purchaser certainly would not be a related company as the Lanham Act requires.

Moreover, the business to which the trademark is transferred may have a different use for the trademark than the use that Circle®Brands intended, and Circle®Brands does not seem to want to engage in policing that use. For example, Circle®Brands claims in its trademark registration that the mark PIZZAPOTAMUS is used for “advertising services, namely promoting the services of restaurants through appearances and use of a costumed character and through distribution of printed and audio-visual materials.”\textsuperscript{56} To the extent the mark has developed any goodwill, it could

\textsuperscript{54} Circle®Brands, \textit{supra} note 2, at 2.

\textsuperscript{55} See, e.g., U.S. Trademark Reg. No. 2,153,953 (issued Apr. 28, 1998) (listing the use for “PIZZAPOTAMUS” as “advertising services, namely promoting the services of restaurants through appearance and use of a costumed character and through distribution of printed and audio-visual materials” and citing a website as evidence); U.S. Trademark 3,079,774 (listing the use for “get SMITTEN!” as “promoting business and tourism in the state of Michigan” and citing a website as evidence).

only be in connection with these advertising services. Yet, it is unlikely that any purchaser of the PIZZAPOTAMUS mark intends to use the mark for advertising services; instead, the purchaser will likely use the mark to allow consumers to associate the mark on the pizza box with the purchaser’s restaurant.

IV. HARMs ASSOCIATED WITH FRAUDULENTLY PROCURED TRADEMARK REGISTRATIONS

Even if companies that market an entire brand package, complete with trademark registrations, attain trademark registrations and offer to sell or license these trademarks, the question remains as to whether the purchaser and society, as a matter of policy, benefit in the long run from these registered trademarks. While the idea of streamlining the process by which companies can enter the marketplace with new brands is very attractive, companies such as Circle®Brands that market entire brand portfolios complete with trademark registrations are engaging in risky behavior that has significant potential costs on purchasers, consumers, the USPTO, and society in general.

A. Potential Pitfalls for Purchasers

Potential purchasers will likely encounter several problems when purchasing a brand package portfolio. First, the purchaser must determine whether the price for the brand portfolio package, which includes the value of the sold or licensed trademarks, is reasonable. In the context of brand portfolios, little if any goodwill exists. It would seem unlikely that the creator of the trademark could charge the purchaser any more than the cost of the registration and the cost of her time thinking of the trademark and registering it. This conception of a trademark’s value without any sort of reference to goodwill seems directly opposed to the traditional notions of trademark value, which could possibly cause both consumers and mark holders to reevaluate how they value trademarks.

The purchaser could also run into problems of wasted resources. For example, a junior user or a similar competing mark owner could petition to cancel the mark due to a fraudulent registration if the purchaser is not using the mark on all the goods that Circle®Brands listed in the original application. The petitioner may be able to show the Circle®Brands intended to deceive the USPTO by including goods or services on which it had no intention of using the mark. If the petitioner can show non-use of even one listed good or service, then, under Bose the entire registration is subject to cancellation. Hopefully, the purchaser will make sure it is using
the mark on all the listed goods and services and take steps to amend the registration if it is not using the mark on specific goods or services—a process that could potentially sap up resources and cause headaches for the purchaser of a seemingly easy to implement brand package portfolio. Even scarier, the purchaser who brings suit could subject its mark to complete cancellation if the court finds the purchaser either had no ability to purchase or license the mark. This is because Circle®Brands did not have anything to sell or license since its registrations were invalid due to its lack of sufficient use of the mark prior to registration. The purchaser would then have lost the time and money it spent attaining allegedly valid registered trademarks.

Additionally, the purchaser could run into problems regarding adequate standing if it attempts to bring an infringement action or an opposition proceeding on a mark that the purchaser believes infringes on the mark it bought from Circle®Brands. A court could find that the purchaser lacks standing to bring an action against a potential infringer because the purchaser has not adequately acquired ownership of the mark, since the mark was transferred to the purchaser without the associated goodwill that is generally required to transfer mark ownership. Lacking standing, the purchaser would be unable to defend whatever rights it may have in the trademark. Without the ability to defend its rights in the trademark, what then is the value of the trademark purchased?

B. Increased Consumer Confusion

As far back as 1916, the Supreme Court identified the purpose of trademarks was to help consumers "identify the origin or ownership of the article to which [the trademark] is affixed." More recent courts have stated that "trademarks help consumers to select goods. By identifying the source of the goods, they convey valuable information to consumers at lower costs. Easily identified trademarks reduce the costs consumers incur in searching for what they desire and the lower costs of search the more competitive the market."

Avoiding purchaser confusion and decreasing search costs are both clearly at the heart of why we as a society have allowed for the protection of trademarks.

Yet, the trademarks Circle®Brands has acquired do not serve these goals. Currently, Circle®Brands has registered trademarks, but there are no products or services to which the marks are affixed. Circle®Brands does

58 Scandia Down Corp. v. Euroquilt, Inc., 772 F.2d 1423, 1429 (7th Cir. 1985).
not have any goods that consumers can select. Consumers receive no valuable information from the marks, because there is nothing behind the marks.

Additionally, Circle®Brands’ current marks likely increase search costs for consumers because consumers could easily think that the brand packages offered for sale by Circle®Brands actually currently exist. A consumer could find the websites bearing the marks PIZZAPOTAMUS or BLOOMSERVICE, complete with 1-800 number, and believe that either a pizza or flower business is behind the marks. This could increase a consumer’s search costs because the consumer would spend time and energy looking at the website and even dialing the number when, in fact, there is no restaurant or flower business associated with the mark. Likewise, the marks do not help consumers reduce their search costs because the consumer would never be able to use the mark to get what she needed because there is no product or service attached to the mark. The consumer will be unable to use the mark to find what she desires.

If several companies engaged in practices similar to what Circle®Brands is doing, the marketplace would be flooded with marks behind which no legitimate product or service stands. This could have disastrous results on overall consumer confusion in the marketplace. Consumers would constantly have to determine whether the mark they see is a true mark, linked to a product or service, or if it is a mark awaiting purchase.

As consumer confusion increases, the overall competition in the marketplace would decrease. Companies would be forced to expend time and money on even more ostentatious advertising to allow consumers to develop associations between the trademark and the product or service the company is offering. Without such marketing, consumers would be unable to discover products and services associated with lesser-known trademarks, because they would likely be confused as to whether the mark is a true mark with a product or service behind it. Increased marketing budgets would definitely cause the financial ruin of many corporations, especially in these uncertain economic times, and many lesser-known legitimate trademark owners would be forced to exit the market.

C. Wasting USPTO and Court Resources

One of the strongest policy reasons against allowing such creation of a brand identity package is that of wasted resources of judicial entities. With promises of “offer[ing] a sustainable competitive advantage... and a clear
promise of distinction that is impossible for competitors to duplicate," customers for companies should literally be pounding down the doors to get to these packages. But what if they don’t? Circle®Brands is investing significant human and financial resources in both creating and registering these trademarks. The USPTO is already inundated with legitimate trademark applications. Courts around the country suffer from overscheduled dockets. Do we really need to waste the time of the examining attorney and other USPTO staff or potentially the time of judges and clerks by clogging the system with trademarks that no one will want to use?

All of Circle®Brands’ time and energy could also be in vain if another junior user uses the mark on goods or services prior to use by a company to which it sells the mark. Circle®Brands posts many of the brand portfolio packages it offers on its website. Another party who sees the ideas on Circle®Brands’ website could use that name for her own business. What is to stop an entrepreneur who wants to open a pizza restaurant with the PIZZAPOTAMUS mark? If she uses the mark in connection with service of selling pizza—not “advertising services”—the junior user would seem to have a good case for being able to use the mark, especially since the junior user could argue she has a non-competing service. In the end, if the junior user prevails, the resources used in acquiring Circle®Brands’ trademarks and the resources used in attempting to enforce its arguably ill-procured rights are significantly wasted. Those same resources could have been used in attaining the registrations for and defending the rights of legitimate trademarks. How, then, could this happen?

V. THE BLAME GAME: IS CIRCLE®BRANDS THE ONLY PARTY ON WHOM BLAME SHOULD FALL?

While Circle®Brands should certainly be held accountable for registering marks it has not used properly should the issue arise, the USPTO, too, should share in some of the blame for allowing such arguably bogus registrations to slide through trademark registration. Indeed, the USPTO suffers from many of the same ailments as other bureaucratic institutions, but as a quasi-legislative, quasi-judicial governmental body, the

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59 Circle®Brands, supra note 2, at 2.
61 See, e.g., Matrix Motor Co. v. Toyota Jidosha Kabushiki Kaisha, 290 F. Supp. 2d 1083 (C.D. Cal. 2003) (finding that a car manufacturer who thought of a name for a car, but did not produce or sell any cars with that name in the U.S. could not prevent another car company from using the name).
USPTO has the burden of protecting the public. From the beginning, trademarks have served the purpose of helping consumers identify source and avoiding consumer confusion. When trademarks are procured through fraudulent mechanisms, that quid pro quo does not exist—fraud leads to consumer confusion and an inability to identify source, as consumers are unable to distinguish marks that are true source-identifiers from marks that are not.

In addition, allowing fraudulently procured marks to issue causes unnecessary and expensive burdens on mark owners who have not engaged in such fraudulent activities. Innocent parties with marks that potentially infringe on the fraudulently procured mark could be forced to expend time and money if the fraudulently procured mark owner brings an infringement action. Likewise, legitimate mark owners who believe the fraudulently procured mark infringes upon their marks are forced to use the legal system to enforce their rights against the fraudulently procured marks. In either case, the potential for unjust enrichment is high, since many of these types of suits will be settled outside of court, and the fraud issues will never be brought before the courts or the USPTO.

The burden of discovering fraudulent activity and making sure those who engaged in that fraud are brought to justice is a heavy burden that should not be undertaken lightly. Unfortunately, because of the gravity of the accusation and sensitivity around the issue, coupled with the fact that fraud can only be brought up under certain circumstances, the issue is not often pursued. But this burden should fall somewhere, and the USPTO is the entity most likely to catch it from the start. However, as evidenced by the increasing number of fraud accusations associated with infringement actions and opposition proceedings, many applications are slipping by the USPTO that frankly should have been spotted.

Therefore, the USPTO must be more vigilant and play a more active role in making sure that mark owners are actually using the mark in the manner specified so that the fraud is discovered. If the patent office does not vigorously examine each application and statement of use for fraud, there is a large probability that no one will ever discover the fraud. And if that fraud is not discovered, the interests of the public are at risk. The USPTO must step in and take a closer look at all applications and renewals to ensure trademark registrations are legitimately issued.

VI. CONCLUSION

In theory, brand portfolio packages may be a great idea: they decrease the time it takes a company with a new product or service to enter the market, and they eliminate many of the startup headaches that entrants
have—especially when dealing with pesky trademarks. In practice, however, brand portfolio packages that include registered trademarks have the potential to cost a lot more than they are worth, assuming they are worth anything to anyone to start. These damaging costs include cancellation of the registration if the registration was procured by fraud and an inability for the purchaser to defend the rights it believes it purchased. While the USPTO should pay more attention to ensuring registrations are legitimately issued and renewed, business owners, too, must not fall into the potential trap of purchasing brand portfolio packages. Unfortunately, in this difficult economy we are suffering through, business owners may wish to cut corners wherever they can and try any new idea to increase their brand power, regardless of the potentially fraudulent conduct in which the registrants could be engaging. While an idea may be “a terrible thing to waste”, 62 not all ideas can survive the competitive marketplace. Some ideas should stay just that—ideas.

62 Circle®Brands, supra note 2, at 2.