
Federal Circuit: Assignments of Intent-to-Use Applications Will be Closely Scrutinized

By Leo Kittay

Emerald Cities Collaborative, Inc. v. Roese, No. 2016-1703, 2016 WL 7210145 (Fed. Cir. Dec. 13, 2016) (not precedential)

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The Federal Circuit's recent decision in *Emerald Cities Collaborative, Inc. v. Roese* provides a reminder that any agreement to assign a pending intent-to-use trademark application will be closely scrutinized to determine whether the transfer violates the statutory prohibition against trafficking in inchoate marks.

Even an agreement, such as the one in this case, that explicitly purports to assign the mark *only upon registration* will be rejected if other provisions within the agreement transfer too much control to the assignee at the time of execution. Thus, the very provisions a purchaser would typically include in a protectively drafted trademark assignment, if included in an assignment of an intent-to-use application, might very well cause the resulting registration to be forever vulnerable to cancellation. Trademark owners should take this holding as a firm reminder that agreements to assign intent-to-use applications must be timed and structured with care and thoughtful counsel.

Section 10 of the Lanham Act, 15 U.S.C. Section 1060(a)(1), provides that no pending trademark application filed pursuant to Section 1(b), otherwise known as an intent-to-use application (an “ITU”), is assignable until the applicant notifies the United States Patent & Trademark Office that it has commenced use of the mark in commerce, either by filing a statement of use or amending the application to one based on use (together a “Statement of Use”). (The sole exception to this rule, which does not apply in this case, concerns an assignment to a successor to the applicant’s business if that business is ongoing and existing. See 15 U.S.C. § 1060(a)(1).) The prohibition is intended to “prevent utilization of the intent-to-use system to traffic in marks” that lack any attendant goodwill. S. REP. 100-515, 25, 1988 U.S.C.C.A.N. 5577, 5587.

Because of Section 10, purchasers of pending ITU applications from non-successor entities prior to the filing of a Statement of Use often will execute an agreement under which the assignment will take place upon registration or, at least, upon the filing of a Statement of Use, and not upon the agreement’s execution date.

In *Emerald Cities Collaborative*, the Trademark Trial and Appeal Board (the “Board”) cancelled Emerald Cities Collaborative Inc.’s (“ECC”) registration after Sheri Jean Roese (“Roese”), a defendant in an opposition brought by ECC, challenged the manner in which ECC had purchased the mark from the original applicant, an individual named Perry Orlando (“Orlando”). Opposition No. 91197060, *aff’d*, No. 2016-1703, 2016 WL 7210145 (Fed. Cir. Dec. 13, 2016). Roese demonstrated to the Board and then to the Federal Circuit that the agreement between ECC and Orlando, which was executed before the filing of a Statement of Use, was an assignment effective on the execution date. Notably, *several key provisions of the agreement explicitly indicated that they would not take effect until the application had matured to registration*, and, on this basis, ECC’s counsel argued that the agreement was merely an agreement to assign the mark in the future, not an immediate assignment. Nevertheless, the Board held, and the Federal Circuit affirmed, that the agreement, taken as a whole, appeared to instantly transfer “control and ownership of the . . . application in a ‘manner tantamount to an assignment.’” *Emerald Cities Collaborative, Inc. v. Roese*, No. 2016-1703, 2016 WL 7210145, at *5 (Fed. Cir. Dec. 13, 2016) (citing Board decision). As such, the registration was held to have violated Section 10 of the Lanham Act and was cancelled.

The agreement, entitled “Trademark Assignment and License,” set out the terms of a transfer of the trademark THE EMERALD CITY from Orlando to ECC, with a license back from ECC to Orlando. ECC

urged the Court to consider the assignment and license provisions, both of which explicitly referenced the post-registration timing. The “Assignment” paragraph read:

Orlando agrees to convey and assign unto ECC, all right, title and interest in and to the Mark and any and all derivatives thereof, together with any and all goodwill associated therewith, and the right to sue and recover damages and profits for past, present and future infringement, if any, related to the Mark, at such time as the Mark is registered at the [PTO]. . . .

*Id. at *1 (emphasis added by Court). The “License” paragraph read “**Upon registration of the Mark by the [PTO] and completion of the transfer of the Mark to ECC, ECC agrees to license certain rights in the Mark to Mr. Orlando**” *Id.* (emphasis added).*

However, applying Delaware’s law of contract interpretation (which governed the agreement), the Court looked beyond this language to the whole of the agreement to determine the true nature of the transfer. In so doing, the Court identified a number of provisions that undermined the timing mentioned in the sections quoted above, including the following:

- Regarding use of the mark “[b]etween the Effective Date and the Registration Date, Orlando may continue to use the Mark” and must use the mark by a date certain.
- Upon receipt of a payment due “promptly” after execution, Orlando must provide ECC’s agent with an irrevocable Power of Attorney “to take over continued prosecution of the application.”
- The agreement “commences on the Effective Date.”
- Upon termination of the agreement, Orlando “shall promptly cease use of the Mark.”
- Orlando must adhere to basic quality control requirements.
- “Orlando shall not challenge ECC’s use of the Mark or support challenges by third parties, whether before or after the Registration Date.”
- “Only ECC shall have the exclusive right to file oppositions or claims against the users of confusingly similar trademarks.”

Provisions such as these are typical in arm’s-length trademark assignments with phase-out or license-back components, and it is not surprising that a purchaser would want to obtain these protections vis-à-vis an assignor. However, the Federal Circuit’s decision strongly indicates that purchasers must be

wary of incorporating such terms in an ITU transfer agreement. Instead, circumspect drafting and/or multiple agreements are likely required so as not to leave the subject registration forever vulnerable to cancellation, and the negotiated agreement moot.

Note: The Federal Circuit indicated that its opinion is non-precedential, meaning that while parties may cite this case in future Federal Circuit proceedings, the Court will not be bound by its prior holding. But, as a practical matter, it would be risky for putative assignees of ITUs to ignore the decision or its reasoning.

Primary Contacts

Leo Kittay