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Time to traffic in trademarks

Traffic in trademarks?! These words are blasphemy to trademark traditionalists, but it's high time we recognized trademarks for the intellectual property they are, removing the theoretical constraints and legal baggage placed on them by decades of misguided jurisprudence.

Specifically, it is time to say goodbye to the "assignment in gross" rule — the notion that trademarks can only be sold along with the so-called "good will" of the seller's business.

In April, bankrupt consumer electronics chain Circuit City announced its intention to sell its defunct brand to the highest bidder.

Enter Systemax Inc., an IP vulture investor that previously purchased the CompUSA brand upon that firm's 2008 bankruptcy. Systemax offered $6.5 million for the Circuit City trademark (including its web domain).

At the time of the announcement Circuit City stores had already been shuttered, and of its 34,000 workers only a small staff remained to clean up loose ends. Nevertheless, "the Circuit City name and website still have value," said company spokesman Bill Cimino. "This is one asset we knew could be sold."

And he was right. Around 40 other parties expressed interest in acquiring the assets, which were sold at a May bankruptcy auction. Systemax won the bidding for a reported $14 million, plus the promise of at least $3 million from future revenues from the assets.

At the transaction date, the stores and the website remained closed. Sometime later, the site reopened "under new ownership," one of "the Systemax group of companies," proclaiming itself "all-new and ready to serve you with a wider selection of products than previously offered in Circuit City stores or online." There are no plans to reopen stores.

What's wrong with this picture? To most observers, nothing. But trademark attorneys know that "brand foreclosure sales" are susceptible to challenge under Section 10 of the Trademark Act, which provides that trademarks are assignable only "with the good will of the business in which the mark is used... ."

Selling a mark without the associated good will is considered an assignment in gross, resulting, according to black-letter law, in a void transaction and abandonment of the underlying mark. The prohibition is intended to protect consumers by guaranteeing some measure of continuity in the quality of branded goods and services.

Consistent with these principles, an interested party (a losing bidder, perhaps?) could begin using the Circuit City name itself and, when challenged as an infringer, defend on the ground that an improper assignment had effectively voided the brand. The argument seems sound: For months prior to the sale, there was no company at all — no physical stores, no website, and no employees to maintain the quality of goods and services provided under the Circuit City banner.

Who was left to vouch for the company's policies with respect to brand policy, management, and quality? What "good will" could have passed, other than the beaten-down reputation of another bankrupt retailer? It seems a textbook example of "trafficking in trademarks" — selling only the brand and not the hard assets or "good will" it may previously have enjoyed. As the new site itself trumpeted, the operation was "all new."

And yet it is unlikely that the rule would be followed and the transaction voided. Equity loathes a forfeiture of rights, so with only rare exceptions, courts over the years have gone to great lengths to find some semblance of continuity between trademark owners, some justification for concluding that the assigned mark still represents the same level of quality as before, thereby avoiding the "in gross" label. In short, the rule against "trafficking in trademarks" is honored mainly in the breach.

The rule was born when "good will" equated more closely with "hard assets." If a manufacturer sold its facilities along with its brand, there was a good chance product quality would remain consistent, and consumers' continued patronage would not be misplaced.

But this notion has become quaint. Today, many producers own few hard assets: their property is almost purely intellectual — patents, trade secrets, know-how, formulas, copyrights, and, yes, trademarks. The idea that the latter can only be sold along with the nebulous "good will" is divorced from the realities of the marketplace. In a service-dominated economy, the rule has even less vitality.

Chicago-based Ocean Tomo, an intellectual property merchant bank, has spearheaded the formation of IPX International, an exchange for intellectual property assets that is to begin trading in 2010. The first products will be tied to patent assets. There should be a viable market for brand assets as well, a market in which this important corporate property can be evaluated, packaged, securitized, and ultimately traded without the constraints of archaic legal barriers to liquidity.

In 1939, Edward S. Rogers, a prominent architect of our federal trademark law, argued that the notion that "deception will result from the permission to transfer trademarks without good will ... [is] an entire delusion." What was true then is even more compelling now. It's time to traffic in trademarks. ■

(The opinions expressed in this column are solely the author's.)

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