

Ownership

Who owns a trademark when the relevant contract is silent?

The Third Circuit has become the latest forum to determine how courts should resolve issues of trademark ownership between a manufacturer and the exclusive distributor of a particular product when the parties' contract is silent on the issue

Lamenting that “[t]oo often the silence of contracting parties must be filled by the voice of the courts,” in *Coverttech Fabricating, Inc v TVM Building Products, Inc* (855 F 3d 163 (3rd Cir 2017)), the Third Circuit has joined a growing number of circuits to adopt the six-factor McCarthy test.

This test balances the following factors to determine ownership rights where a contract fails to address issues of trademark ownership between a manufacturer and an exclusive distributor of a particular product:

- Which party invented or created the mark?
- Which party first affixed the mark to goods sold?
- Which party's name appeared on packaging and promotional materials in conjunction with the mark?
- Which party exercised control over the nature and quality of goods on which the mark appeared?
- To which party did customers look as standing behind the goods (eg, which party received complaints for defects and made appropriate replacement or refund)?
- Which party paid to advertise and promote the trademarked product? (*Id* at *3, 8-13.)

The Third Circuit correctly noted that its adoption of this test is “consistent with [other] sister Circuits, which... have [also] endorsed some version of the McCarthy test” (see *id* at *13; *TMT N Am, Inc v Magic Touch GmbH*), 124 F 3d 876, 884 n4 (7th Cir 1997); *Sengoku Works Ltd v RMC Int'l, Ltd*, 96 F 3d 1217, 1220 (9th Cir 1996)). Indeed, as the third circuit court to adopt the McCarthy test, the Third Circuit's decision strongly indicates that the test will be the governing standard for resolving such issues moving forward.

Therefore, while manufacturers enjoy the presumption of ownership of the trademark rights associated with their products under the McCarthy test, the *Coverttech* decision (and the four years of protracted litigation preceding it) illustrates the potential danger of relying solely on that presumption. Rather, manufacturers (and, for that matter, distributors) would be best served by addressing the ownership issue head on in manufacturing or distribution agreements. A contract which is silent on ownership may end up sounding a lot like lengthy, costly, uncertain and fact-intensive litigation.

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Background and first use test

In 1998 Coverttech Fabricating, Inc – a Canadian manufacturer of protective packaging and reflective insulation products – entered into an oral agreement with TVM Building Products, Inc to exclusively market and distribute Coverttech's line of insulation products in the United States under the ULTRA trademark. While Coverttech reviewed and approved advertising materials which TVM designed, Coverttech otherwise played no role in marketing, sales or customer services. In 2007, the parties entered into a private-label agreement, whereby Coverttech manufactured products for TVM to sell under the TVM mark. Coverttech also continued to sell certain ULTRA branded products to TVM for resale. Neither of these agreements specified whether Coverttech or TVM owned the ULTRA mark.

Shortly thereafter, TVM began to market its own products under the ULTRA trademark without Coverttech's authorisation. TVM also applied to register the ULTRA mark with the US Patent and Trademark Office (USPTO). When Coverttech learned of TVM's application, it initiated opposition proceedings before the USPTO and launched a federal lawsuit to halt TVM's registration and use of the ULTRA mark.



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The dispute hinged on the answer to what could have been an easy question: Who owned the ULTRA trademark? However, because the parties' agreements never specified their respective ownership interests, the question was not straightforward at all. First, the district court answered the question by applying the traditional first use test (ie, examining which party was the first to use the ULTRA mark in commerce). Relying on the record developed at trial, the court ruled that Coverttech first used the mark and was, therefore, its rightful owner. TVM appealed.



Third Circuit's adoption of McCarthy test

Although the Third Circuit affirmed the district court's ruling that Covertech owned the trademark, it arrived at that answer by another route. The Third Circuit rejected the first use test, finding it improper for evaluating trademark ownership as between manufacturers and distributors because of the unique characteristics of that non-competitive business relationship. The Third Circuit observed that if the first use test were applied to manufacturers and distributors, "ownership rights would inure to the benefit of the distributor in a multitude of cases based simply on the fact that the distributor, albeit at the manufacturer's direction, made the initial sale of goods bearing the mark to the public". This result would inequitably tip the scales in favour of distributors to the detriment of manufacturers.

Eschewing the first use test on that basis, the Third Circuit instead adopted a test recommended by trademark scholar J Thomas McCarthy in his seminal treatise on trademark law, and already adopted by the Seventh and Ninth Circuits. Under the McCarthy test, manufacturers enjoy a presumption of ownership over exclusive distributors when no contractual term specifies ownership. The distributor may rebut the presumption by establishing that the aforementioned six factors weigh in its favour.

Once the Third Circuit identified the McCarthy test as the proper analytical framework, it applied it to the record with regard to the ULTRA mark. As to the first factor, the district court had found that Covertech first developed and used the ULTRA mark – the Third Circuit left that finding undisturbed. Second, the record conclusively established that Covertech handled the labelling of the product. However, because both Covertech and TVM's names appeared on the product's packaging, the third factor was deemed neutral. For

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the fourth factor, the Third Circuit was persuaded that Covertech's bearing of responsibility for warranties of ULTRA branded products tipped the balance in its favour, despite evidence that TVM provided technical support. Covertech's warranties and consumer testimony associating the ULTRA mark with Covertech also clinched the fifth factor – to whom do customers look as standing behind the goods – in favour of Covertech. Only the final factor favoured TVM, as TVM undisputedly paid to market and advertise the ULTRA brand in the United States pursuant to the distribution agreement.

The Third Circuit thus concluded that, on balance, the factors favoured Covertech and affirmed its ownership of the mark. The court cautioned that merely counting the number of factors for either party was not dispositive; the weight due to each factor would necessarily vary with the facts of the case.

Conclusion

The Third Circuit has now joined the Seventh and Ninth Circuits in adopting the fact-intensive McCarthy test to settle trademark ownership disputes between manufacturers and distributors whose relevant contracts are silent on the issue. Parties to manufacturing or distribution agreements would thus be well advised to address trademark ownership rights directly in the agreement itself. Failure to do so risks subjecting the parties to protracted, expensive and uncertain litigation, which would be necessary to adjudicate ownership rights under the fact-intensive, multi-factor McCarthy test. **WTR**



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