Professional Perspective

Trademark Considerations for Naming Joint Ventures

Rachel Yu, Elizabeth Cheung, Elianne Neuman Schiff, and Rita Carrier, Sullivan & Cromwell

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In the corporate world, a partnership between two—or more—parties often results in the creation of a joint venture entity (JV). JVs provide flexibility for the parties, allowing them to allocate ownership shares, risks and profits, and customize a governance structure. Some JVs are named after both parent entities, while others adopt their names from one parent entity or take on their own unique identity from creation.

Naming a JV, and subsequently branding the JV's goods and services using such name, is often a complex consideration and a point of substantive negotiation between the parties involved. In some circumstances, the parties may wish to combine a distinctive trademark element of the corporate name of each parent, to emphasize the collaborative nature of a partnership. In other situations, such as those between a predominantly financial partner and an operational partner already established in the industry, the parties may want to tie the JV's brand more closely to that of the established party in the field and only refer to trademark elements of such party's corporate name.

This article explores considerations from a trademark perspective of naming a JV after one—or more—parent entities and using such branding in the marketing and sale of the JV's goods and services under current U.S. law.

Introduction

Imagine the following hypothetical: after months of intensive discussions, Alligator Company and Bumblebee Company have finalized the governing mechanisms of their JV. Alligator Company, as the party contributing the operating cash to the alliance, will control day-to-day operations, but Bumblebee Company, with its strong brand name and significant minority interest, will have veto rights over major events in the JV's lifecycle.

All that remains for the parties to decide prior to launch day is the JV's corporate name and, relatedly, the trademarks under which the JV will market and sell its goods and services. The parties consider several alternatives, including: basing the JV's name and trademarks on a combination of the parties' trademarked corporate names, in recognition of the partnership between the parties, such as "Alligator Bumblebee;" or basing the JV's name and trademarks solely on that of the parent with the brand with stronger consumer recognition, "Bumblebee B2."

What trademark licensing arrangement should the parties consider to ensure that the JV has adequate rights to protect its corporate name, use such name in the branding of its goods and services, and benefit from the goodwill of its brand?

For the JV to use "Alligator Bumblebee" or "Bumblebee B2" in its corporate name and in the branding of its goods and services, the JV may need a license from each parent entity from whose trademarked corporate name the JV derives its own. Even in the event that the JV intends to brand its commercialized goods and services with unrelated trademarks, it could still be best practice to enter into a trademark licensing arrangement with the parent entity(ies) if the JV uses the "Alligator" or "Bumblebee" trademark in its corporate name.

Ultimately, the JV is in the same position as any other third party that wants to use a trademark owned by another entity—save for that, on a practical level, a corporate parent is unlikely to sue the JV for trademark infringement. If the planned use will infringe the prior user's rights because it will give rise to the mistaken belief either that the prior user and later user are the same entity or that the later user is sponsored or approved by the prior user, the later user would need a license from the prior user.

Thus, whether the JV needs a license to use a parent's trademarked corporate name depends on a consideration of the factors that courts look at to determine whether confusion is likely, including the similarity between the parent's trademark and the JV's trademark and the similarity between the parties' goods and services. Just adding another word to a parent entity's trademarked corporate name—e.g., the addition of "Bumblebee" to Alligator Company—may not be sufficient to distinguish the parent trademark and the JV trademark, especially if there is a relationship between the parties' goods and services such that using similar trademarks would lead to confusion about the source or the sponsorship of the parties' goods and services.

To make such a determination, courts consider a myriad of factors, including, but not limited to, the subject matter of the parties' goods and services, the target consumers, the sophistication of the consumers, the parties' trade channels, how the goods and services are marketed, and the strength of the parent's trademark.

Notably, the goods and services do not have to be identical or even competitive to find a likelihood of confusion—there just needs to be some relationship between the parties' goods and services such that they are related in the minds of consumers. For example, a relation in some manner between, or similar conditions surrounding, the marketing of the goods of the JV and those of Bumblebee Company could increase the likelihood that they would be encountered by the same customers under circumstances that would lead to the mistaken belief that the goods originate from the same source.

Nor would the parent entity's lack of a trademark registration preclude a finding of trademark infringement—and thus obviate the need for a trademark license. An infringement claim may be based on ownership of an unregistered mark, and infringement may lie even in the use of another's mark only as a trade or corporate name.

The Value of a Registered Trademark

Suppose that Alligator Company and Bumblebee Company agree to name the JV "Bumblebee B2" and that the JV is in a position to own the rights in the "Bumblebee B2" trademark because the goods and services that it will provide under that mark are sufficiently different from those that Bumblebee provides under its mark. Where confusion is not likely, in lieu of a licensing agreement, the parties should consider a coexistence agreement between the JV and the parent(s), which should include controls on the parties' uses of similar marks so that confusion remains unlikely.

Assuming that the JV is indeed in a position to own rights in the "Bumblebee B2" trademark, Alligator Company and Bumblebee Company should consider whether the JV, as the owner of the mark, should apply to register "Bumblebee B2" as a trademark in the United States Patent and Trademark Office (USPTO), particularly given the parties' intent for the JV to brand its commercialized goods and services under that trademark. As a threshold matter, it is important to note that, under U.S. trademark law, the use of a trademark is separate and apart from the registration of a trademark; only the owner of a trademark may apply to register it.

There are distinct advantages to the JV's ownership of a registered trademark, particularly in enforcement actions against third parties. In addition to the registration constituting nationwide constructive notice of the claim of ownership of the trademark, trademarks registered on the USPTO's Principal Register enjoy a presumption of validity, a presumption of use as of the priority date, and a presumption that the registrant has the exclusive nationwide right to use the mark with the goods and services in the registration.

Thus, a trademark owner may have a leg up in proving the elements of a trademark infringement claim if the mark that it is asserting is a registered trademark. And even before the trademark owner resorts to litigation, the ownership of a registered trademark may be more convincing in cease and desist letters and takedown notices sent to a third-party infringer, with a daunting registration number that is searchable in the public-facing USPTO database.

That is not to say that registration is mandatory—and, given the delays at the USPTO, it is very possible that the JV will need to rely on common law rights for at least one year until its trademark registration is finalized. The JV could, as noted above, enforce an unregistered trademark under common law rights against a third party. But, there are a number of hurdles it would need to overcome.

The JV would need to demonstrate, pursuant to Section 43(a) of the Lanham Act: an interest in a valid trademark; use of the trademark before the defendant commenced use of its trademark; and that the defendant's use of its trademark is likely to cause consumer confusion. Each circuit has developed its own test to determine whether consumers are likely to be confused about the origin of goods or services bearing certain trademarks, but the tests are fundamentally similar. However, even if the requirements of Section 43(a) are met, from an organizational and financial perspective, for a JV in its early years of business, pursuing a claim that could very well lead to years of costly litigation may be impractical, if not impossible.

Taking a more holistic view, the parties may alternatively look to enforcement by the parent entities "on behalf of" the JV. Could Bumblebee Company assert its own registered "Bumblebee" trademark against infringers of the JV's "Bumblebee B2" trademark?

While that is an option, it may not offer the strongest protection for the JV. Depending on the third party's use, it may be more difficult to prove likelihood of confusion with the parent entity's trademark than the JV's trademark. For example, if the third party were using the exact same "Bumblebee B2" trademark as the JV in the exact same manner, it would be easier for the JV to show likelihood of confusion than it would be for Bumblebee Company, which would be asserting its "Bumblebee" mark. Then, there follows the more nuanced analysis of the manner of use.

Trademark rights, by their nature, are field limited. If a third party were to begin using "Bumblebee B2" in a field that infringes the JV's rights and Bumblebee Company were to claim that the third party is infringing its "Bumblebee" trademark, the question in front of the court would be whether confusion is likely between the third party's use of "Bumblebee B2" in the third party's field and Bumblebee Company's use of its "Bumblebee" trademark in its field, not the JV's use of the "Bumblebee B2" trademark in the JV's field.

Although the JV may be in a field that is related to one in which one or more of its parents operate, in leveraging the industry experience of, and realizing synergies between, its parent entities, it is unlikely that the business of the JV entirely overlaps with that of the applicable parent(s). In fact, the scope and activities of the JV's business may be purposely distinct and separate from those of its parent entities. To protect the interests of the parent entities and ensure that the JV is the exclusive vehicle through which the parent entities develop, manufacture, or otherwise commercialize a good or service, parent entities are often subject to non-compete covenants restricting their activities in the field of the JV. Thus, ultimately, it is likely that the JV would be the strongest plaintiff for a trademark infringement suit.

Domain Names

Despite the advantages afforded, the parties may reconsider the JV's registration of a trademark. Perhaps Bumblebee Company does not want the JV, of which it is only a minority shareholder, to register a trademark so similar to its own. Or the parties may come to an impasse during the negotiation of one or more trademark licenses granted to the JV, particularly given the issues raised below. Whatever the reason, the parties may decide to look to domain name registrations as a proxy to protect the JV's use of its trademark in its field of business.

In fact, in preparation for the commercial launch of the JV, the parties may have already reserved domain names containing the proposed trademarks of the entity—and variations thereof—to prevent cyber squatters. Would a domain name registration for "BumblebeeB2.com" be sufficient to preclude a third party from using or registering a "Bumblebee B2" trademark, even without the JV obtaining a trademark registration?

Unfortunately, domain name registrations alone are unlikely to form the basis for successfully challenging a third party that seeks to use or register the trademarks included in such domain names. To support a claim to the exclusive right to use a trademark contained in such a domain name, the JV would need to associate the domain name with a website that provides goods and services. Especially prior to the commercial launch of the JV, a domain name that resolves to an inaccessible website or a website devoid of content would not create sufficient rights in the trademark contained in the domain name to prevent a third party from using the trademark.

However, this is not to suggest that domain name registrations are not valuable in protecting the JV's rights to its trademark. Through continued use in commerce—including use in connection with the domain name—the JV could develop common law rights to the trademark, and such common law rights may be helpful for the JV's enforcement against third-party infringers.

Trademark License Considerations

Perhaps, following thoughtful deliberation, the parties resolve to name the JV "Bumblebee B2," brand its goods and services under the "Bumblebee B2" trademark, and provide for a trademark license from Bumblebee Company to the JV to use the "Bumblebee" name. Below, we focus on a few select provisions common in trademark licenses that merit additional consideration in this JV context.

License Term & Terminability

As noted above, JVs provide significant flexibility for the parties in structuring their partnership. One aspect of this flexibility is demonstrated in the duration of the JV's corporate existence. A JV may be established for a finite term, for example, to operate a project or program with a definite end date. Alternatively, the parties could have longer-term objectives for their partnership and intend for the JV to continue indefinitely, or may simply not have a clear sense of what to expect from the venture. From a practical perspective, the parties would likely want the term of the trademark license to generally mirror the life of the JV entity itself.

That being said, the parent-licensor has a reasonable basis for wanting to ensure that its interests in the licensed trademark are sufficiently protected. For example, the JV's actions under the "Bumblebee B2" brand may damage the value of the "Bumblebee" brand. The potential exit of the parent-licensor from the JV arrangement and the potential entrance of a third-party acquirer would heighten this concern. On the other hand, contractual provisions that are overly favorable to the parent-licensor, such as the ability to terminate the license at will, could allow the parent-licensor to exert control over the JV in a manner that exceeds the governance rights otherwise contemplated in the JV's governing documents.

In our example, Bumblebee Company, as the minority parent, may have only minority governance rights. However, as the parent lending its trademarked corporate name to the JV, it could gain additional leverage through the trademark license.

Compared to trademark licenses in other contexts, such as licenses granted to authorized distributors or resellers of the licensor's products, the partners should carefully consider the parent-licensor's ability to terminate the license and draft the relevant provisions of the agreement with the operational and strategic challenges associated with the unique relationship of the parties as partners in the venture in mind. Overly one-sided contractual arrangements in a JV context could suggest a level of distrust of the parent-licensor in the other JV partners, which could affect negotiations and the partnership at a broader level, as well as the effectiveness of the JV's governance mechanisms in protecting its rights. For example, providing the parent-licensor with the right to terminate the license at will could invite too much uncertainty.

For JVs with brand-oriented businesses in particular, the prospect that the brand could be taken away at any moment for any or no reason may, unsurprisingly, lead to reluctance on the part of the other JV parties to invest in the brand. Unless the parent-licensor has well-founded reasons justifying its right to terminate the trademark license at will, it would generally be better to tailor the terminability of the license to its specific concerns, such as a material breach of the license terms or its exit from the JV.

Further, to provide clarity, Alligator Company and Bumblebee Company could expressly define what constitutes a "material breach" in the contract. Given the significance of the licensed trademark to JVs that provide goods and services using such trademark to consumers, Alligator Company may want to limit "material breaches" to breaches of specific contractual provisions or repeated breaches, and stipulate the dispute resolution mechanisms and remedies applicable upon such breaches.

Such limitations may indeed be acceptable to Bumblebee Company, depending on the extent of its rights in the operations and governance of the JV. For example, if Bumblebee Company generally has consent rights with respect to the JV's marketing strategy and materials through branding committees or other governance mechanisms, it is unlikely that the JV will breach license provisions that restrict the materials on which the JV may use the licensed trademark. Thus, the parties should consider their respective rights and responsibilities under the other JV agreements when negotiating the terminability of the license.

Another "for cause" termination right that many license agreements include is the right of a party to terminate the contract upon the other party's bankruptcy or insolvency. Such types of provisions—

referred to as "ipso facto" clauses—are generally unenforceable upon a U.S. bankruptcy filing and during the pendency of the bankruptcy proceeding. However, if the ability to terminate the trademark license is important to Bumblebee Company in the event of the JV's insolvency, it should perhaps consider including termination triggers that occur prior to an actual bankruptcy filing—for example, the inability or failure of a party to pay its debts as they become due.

Besides broad termination triggers tied to the JV's financial condition, the fact that JVs rarely go bankrupt as a practical matter may alleviate Bumblebee Company's concerns—JV operating agreements typically include mechanisms that would allow the parents to dissolve the JV entity and distribute its assets prior to an actual bankruptcy filing.

Quality Control

A fundamental principle of U.S. trademark law is that a trademark can only be validly licensed if the licensor exercises sufficient control over the nature and quality of the goods and services sold by the licensee under the licensed trademark, lest the licensor lose some or all of its rights in the trademark. In the JV context, quality control provisions may be crafted to give the licensor significant power over the licensee, be it approval rights with respect to manufacturers and suppliers, inspection and audit rights, or rights to be notified of any disputes or investigations by regulators, among other examples.

On the other hand, the JV—and in our case, Alligator Company, as the other parent entity—has an argument for minimal quality control provisions to minimize Bumblebee Company's oversight: courts have found that a licensor does not necessarily abandon its trademark in the absence of express quality control provisions in the license agreement, so long as the licensor reasonably relies upon the licensee's own efforts to control quality.

This argument is particularly convincing in the context of affiliated companies. In our hypothetical, if Bumblebee Company is already involved in the operation and governance of the JV entity, that is arguably already a form of quality control in and of itself.

Alternatively, from Bumblebee Company's perspective, a breach of the quality control provisions in the trademark license could be a "material breach." However, given that a licensor is not required to have the ability to terminate a license for a licensee's breach of quality control obligations in order to demonstrate sufficient control, Bumblebee Company may be satisfied with equitable remedies, such as the ability to seek an injunction until the breach is adequately cured. Bumblebee Company may argue that certain breaches are incurable—e.g., certain reputational harms cannot be undone—but the parties will want to give careful consideration to what leverage Bumblebee Company should have over the JV in the name of "quality control."

Brand Extensions & Derivative Trademarks

In its narrowest formulation, the trademark license granted by Bumblebee Company to the JV may be limited to use of the trademark in the JV's corporate name. But as a practical matter, the JV may wish to use the "Bumblebee" trademark in other ways in its business, including:

- Branding its goods and services with the "Bumblebee B2" trademark;
- Creating "brand extension trademarks"—e.g., "Bumblebee B2 Light"—for future versions of its goods and services; and
- Naming future subsidiaries as its operations expand—e.g., naming a wholly owned subsidiary responsible for operations outside the U.S.as "Bumblebee B3."

Although Bumblebee Company may wish to retain a blanket consent right over the creation and use of any new trademark that derives from "Bumblebee," the parties may wish to provide for some scenarios that could give the JV operational flexibility. For example, if the parties are contemplating brand extensions as part of the business plan, and Alligator Company does not want to provide a minority shareholder with another veto right outside of the negotiated governance structure, it may insist on the JV's ability to create new brand extension trademarks within preapproved parameters.

If, as noted above, the JV operates in a field distinct enough from that of its namesake parent, Bumblebee Company may very well allow the JV to create and use trademarks that derive from its "Bumblebee" trademark. In such a situation, the question arises as to which party should own such trademarks and the accompanying registrations. In implementing a uniform trademark strategy and attempting to minimize any complications that may arise from splitting ownership of the "Bumblebee" trademark, Bumblebee Company may request to be the owner of such derivative trademarks.

But perhaps to maximize control of and rights to the trademarks—including outside of its field—the JV may insist on ownership of these derivative trademarks. In such a case, Bumblebee Company will want to consider how such trademarks may affect its strategy as to its derivative trademarks, as well as the treatment of such trademarks in the event of dissolution of the JV.

Enforcement & Defense

Perhaps during a routine search, the JV discovers that a competitor is operating as Bumblebee BeeToo in the same field as the JV. As the exclusive licensee of the "Bumblebee" trademark in its field, should the JV have the right to bring an enforcement action against the third party, even without Bumblebee Company's consent? Should Bumblebee Company have an obligation to cooperate with such an action, including joining such action if required for standing? What if the third party is infringing both the JV's exclusive rights and Bumblebee Company's retained rights? If there are any recoveries from enforcement actions, how should such recoveries be split between the JV and Bumblebee Company? Conversely, should Bumblebee Company have any obligation to notify or consult with the JV regarding infringements of the "Bumblebee" trademark in the licensor's retained field? And if Bumblebee BeeToo challenges the "Bumblebee" or "Bumblebee B2" trademark or brings an infringement action against both the parent and the JV, who should control the action—and should the other party have any input with respect thereto?

These are complicated considerations, particularly given the intertwined relationship of the "Bumblebee" and "Bumblebee B2" trademarks. From a business perspective, each of the JV and Bumblebee Company has a strong interest in its respective trademark. On the one hand, Bumblebee Company may have an established presence in the market with a robust portfolio of goods and services that are associated with its brand. On the other hand, the JV has a vested interest in leveraging such a brand—hence the parties' resolution to name it after a corporate parent.

Given the strong operational and governance rights that Alligator Company may have in the JV, Bumblebee Company may wish to retain strict control over both the "Bumblebee" and "Bumblebee B2" trademarks. But from Alligator Company's perspective, the JV arguably should at least be able to protect its trademark within its own exclusive field, as it is the entity suffering harm from competitors. Ultimately, these issues may require extensive negotiation to balance the competing interests of the parties.

Exiting the Joint Venture

While Alligator Company and Bumblebee Company may have entered into the JV without a specific plan on whether, when or how they will each exit the venture, they should determine how the trademark license would be treated in various exit scenarios upfront to avoid any surprises down the road. Even if the JV does not have a brand-oriented or consumer-facing business, it may still wish to avoid name changes due to administrative burdens. The JV would need to make filings with the relevant state registries and regulatory agencies, inform third parties—e.g., service providers—and update its materials and systems—e.g., internal email domain names.

However, these challenges are still significantly less concerning than additional issues faced by a company whose business and value are centered around its brand. A name change by a consumer goods company that sells goods under its trademarked corporate name, for example, may necessitate increased spending on marketing to avoid a detrimental impact on its sales figures and brand recognition, outcomes that depend in part on factors beyond its control and could ultimately be unavoidable.

Moreover, each type of exit entails different considerations. The JV may undertake an initial public offering (IPO) of its shares to become a public company. While the parents may not exit their investment in the JV entirely pursuant to the IPO, their control over the company would be affected both by the reduction in their ownership percentage and additional compliance requirements applicable to a publicly listed company—such as corporate governance standards and disclosure obligations, including those resulting from a corporate name change.

For Bumblebee Company, this diminished control would be a concern, as it would likely extend to Bumblebee Company's oversight of the JV's usage of the licensed mark. Even if an IPO is not expressly contemplated, Bumblebee Company should take this exit scenario into account when thinking through the terminability and other terms of the trademark license.

Aside from the IPO scenario, it is possible that Bumblebee Company may sell its interests in the JV, either by itself or with Alligator Company as a whole company sale. In order to protect its rights in the licensed mark, Bumblebee Company may push to have the continuation of the trademark license upon any such sale or specified sales—e.g., to its competitors—be at its option. As it would no longer be an affiliate of the JV and have operational or governance rights over the company after the sale, Bumblebee Company may condition its consent on the modification of certain license terms—e.g., more stringent quality control obligations, added termination rights, or the introduction of royalty payments. Especially if the JV has a brand-oriented business, Bumblebee Company's right to amend or terminate the trademark license upon a sale of its interests should be factored into the valuation of such interests, as well as into the sale mechanics.

Finally, Alligator Company and Bumblebee Company may decide that their partnership has run its course and elect to dissolve the JV. How the JV's assets are allocated between the parties upon dissolution should inform their discussion on the treatment of the trademark license in this exit scenario. For example, Alligator Company may negotiate for the option to continue the JV's business on its own after the JV is dissolved. Bumblebee Company should consider how a post-dissolution trademark license grant to Alligator Company may limit the expansion of Bumblebee Company's own use of its trademarked corporate name. Alternatively, the parties may elect to abandon the JV's business entirely.

In such event, the parties could contractually provide that all rights, including goodwill, in the trademark would revert to Bumblebee Company as licensor. Nonetheless, as a good faith gesture to its prior JV partner, Bumblebee Company may agree to certain restrictions with respect to its future use of its trademark, such as not using the JV's former "Bumblebee B2" mark.

Conclusion

Given the many complex issues related to naming and branding the JV, the parties may establish a branding committee to oversee such decisions. Ultimately, the parties should settle on a trademark that best aligns with their objectives for the partnership. If leveraging existing brand name recognition of one or both parties is crucial, then the points discussed above—among others—should be considered carefully. If not, then perhaps choosing an entirely new brand for the JV may be the winning solution.