



Mark F. Marshall
City Attorney
1040 Harley-Davidson Way
Sturgis, SD 57785
(605) 347-4422
www.sturgis-sd.gov

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Via E-mail: eolson@lynnjackson.com

Erik S. Olson
Lynn Jackson
909 Saint Joseph Street
Suite 800
Rapid City, SD 57709

Re: *Sturgis Motorcycle Rally, Inc. Sale of Collateral*

Greetings:

The purpose of this letter is to respond to Ms. Olson’s letter of October 14, 2021 concerning the potential sale of SMRI intellectual property. It appears that First Interstate Bank intends to sell the assets without the good will associated with the marks. Such a sale is problematic as discussed below.

The sale of a trademark without its goodwill is an “assignment in gross” and is invalid. *See* 15 U.S.C. § 1060(a)(1) (A registered mark shall be assignable with the good will of the business in which the mark is used.) As the Eleventh Circuit Court of Appeals has explained: “[I]t is well-settled law that the transfer of a trademark or trade name without the attendant good-will of the business which it represents is, in general, an invalid, ‘in gross’ transfer of rights.” *Int’l Cosmetics Exchange, Inc v. Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1246; (11th Cir. 2002) (*quoting Berni v. Int’l Gourmet Rest. of Am.*, 838 F.2d 642, 646 (2d Cir.1988)).

This “anti-assignment-in-gross” rule is deeply rooted in trademark law. *See, e.g., United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918) (noting the “fundamental error of supposing that a trade-mark right is a right in gross”). The rule’s basic purpose is to prevent the consumer deception that is likely to occur when a party purchases a trademark and then uses that mark for a different product. *See Heron Dev. Corp. v. Vacation Tours, Inc.*, 2017 WL 5957743, at *5 (S.D. Fla. Nov. 30, 2017). When the purchaser of a trademark makes meaningful changes to the product, sale under the same tradename may “result in a fraud on the purchasing public, who reasonably assume that

the mark signifies the same nature and quality of goods” sold. *Id.* (quoting MCCARTHY ON TRADEMARKS § 18:3). “The consumer might buy a product thinking it to be of one quality or having certain characteristics and could find it only too late to be another.” *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). “As a matter of theory, the prohibition on transfers in gross should be a firm one.” Stephen L. Carter, *The Trouble with Trademark*, 99 *Yale L.J.* 759, 786 (1990).

Note also that a similar issue came up in *Star Buffet, Inc. v. TGB Glory, LLC*, 2019 WL 1435821, at *5 (E.D. Ark. Mar. 29, 2019) (Footnote omitted), and was described as follows:

A related question of fact is whether the bankruptcy trustee's sale of the marks to Steven Barnhill in 2010 was a transfer in gross. Plaintiffs contend that the bankruptcy trustee conveyed Barnhill's marks to Steven Barnhill in the abstract, without an association to assets used to generate goodwill. The Lanham Act provides that a registered mark shall be assignable with the goodwill of the business in which the mark is used. See 15 U.S.C. § 1060(a)(1). This requirement recognizes that “[t]here is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed.” *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97, 39 S. Ct. 48, 50–51 (1918); see also *Mid-List Press v. Nora*, 374 F.3d 690, 693 (8th Cir. 2004) (noting that property in a trade name exists only when associated with an ongoing business). The transfer of a trademark without its associated goodwill is an “assignment in gross” that gives the assignee no rights in the mark. *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 288 (8th Cir. 1969).

Please know the City of Sturgis reserves the right to petition the United States Patent and Trademark Office to cancel all the registrations offered for auction on the ground that the sale constitutes an assignment in gross that will lead to confusion in the marketplace.

If First Interstate Bank elects to cancel the proposed sale, the City of Sturgis is open to negotiating a purchase of the collateral. May I hear from you?

City of Sturgis

/s/ *Mark F. Marshall*

Mark F. Marshall
City Attorney