



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

COUNCIL REPORT – SMRI INTELLECTUAL PROPERTY

BACKGROUND

On June 30, 2010, First Interstate Bank acknowledged, without defining, the rights of the City of Sturgis, the Sturgis Area Chamber of Commerce, Sturgis Motorcycles, Inc., and Good Sports, Inc., to intellectual property, such as trademarks, owned by Sturgis Motorcycle Rally, Inc. FIB granted to the City, the Chamber, Sturgis Motorcycle Rally, and Good Sports the right to pay any debt secured by the intellectual property of SMRI and to purchase the intellectual property. A copy of FIB's June 30, 2010, letter is attached as Exhibit A.

Events happened that triggered the right to assume SMRI's debt and purchase the trademarks. No one assumed the SMRI debt and purchased the intellectual property.

FIB also granted the parties the right to participate in any sale or bid process if the trademarks were the subject of a foreclosure or offered for sale.

On August 23, 2021, FIB released its lien on a list of trademarks. FIB had determined, for various reasons, that the released marks did not have any value. A copy of the lien release is attached as Exhibit B. On September 9, 2021, these marks were offered for sale by SMRI's dissolution lawyers, Gerry & Klum Ask, with the advice that the property would be abandoned if it was not purchased. A copy of the September 9, 2021, letter is attached as Exhibit C. The notice of sale did not generate any bids. Some of these marks may be abandoned and some the registrations may have expired due to the passage of time.

On October 14, 2021, and again on October 18, 2021, FIB's lawyers offered the City, the Chamber, Sturgis Motorcycles and Good Sports, the opportunity to bid in an on-line auction for 12 trademarks which may have some value, copies of which are attached as D and E. Counsel for the City advised FIB of legal issues affecting the sale. A copy of the City Attorney's letter is attached as Exhibit f. As a result of that communication, the City and FIB have negotiated a tentative agreement for the purchase of the mark.

The essential terms of the agreement provide for the payment of \$75,000 by the City for an assignment of all the trademarks that are subject to FIB's lien and a mutual release. The proposed sale is contingent on the right of the Chamber, Sturgis Motorcycles and Good Sports to either bid or consent to the sale, payment of a termination fee to the auction company of up to 20% of the sale price; approval by the City Council and either consent or approval by SMRI. A copy of the proposed Settlement Agreement and Mutual Release as currently negotiated is attached as Exhibit G.

Staff contacted Jerry Berkowitz and Al Rieman and suggested the City's willingness to license the marks for a fixed royalty for limited time. Staff prepared the following request for consent but has not communicated it.

Dear Jerry and Al,

As you know, the City of Sturgis is negotiating the purchase of SMRI's remaining intellectual property. The City's purpose is to protect its recently unveiled marks, and not to sell merchandise. The City is willing to license the use of what it refers to as the "heritage marks" to both of you for an 11% royalty on the wholesale price of any merchandise sold for a period of three years in return for your consent to the sale. The City intends to donate 50% of the royalties generated by the license agreement to Sturgis Rally charities and the remaining 50% to the Sturgis Rally Endowment.

Please let me know if you have questions and if you are willing to consent to the sale.

Please contact me or Daniel if you have any questions or concerns.

Robin Baldwin and Sam Monahan expressed some interest in purchasing the marks but may chose not to bid if given a limited royalty. Neither Monahan nor Baldwin are creditors entitled to notice or the right to participate in the sale.

ANALYSIS

Purchasing the marks may be in the City's best interest for several reasons:

- Controlling all the marks would eliminate the confusion in the marketplace over Rally merchandise.
- Purchasing the marks would facilitate the registration of the City's new marks before the United States Patent and Trademark Office.
- Purchasing the marks would allow the City a better opportunity to market the City's marks worldwide.
- Purchasing the marks is less costly than challenging the validity of the marks in a proceeding before the USPTO.
- Purchasing the marks is more certain than litigating their validity.
- Purchasing the marks would protect the City's investment in its new marks.
- Purchasing the marks would bring closure to the entire trademark controversy.

The City may not be interested in purchasing the marks based on an opinion that the marks are not worth the price. Another reason not to purchase the marks is that to do so would reignite a controversy that some considered closed.

BUDGET IMPACT

The cost of purchasing the intellectual property is \$90,000. The cost of challenging the validity of the marks before the USPTO is unknown but would be based on the hourly rate of the Gordon Rees law firm. Currently the hourly rate of our Gordon Rees lawyer, Susan Mayer, is \$300 per hour.

RECOMMENDATION

Staff recommends that the City purchase the SMRI marks, as well as those marks in which FIB has abandoned its security interest. The marks in which FIB abandoned its security include “Sturgis Motorcycle Rally” and “Sturgis Rally & Races”. Because those marks have been abandoned, the City may be able to purchase them for as little as \$500.

Dated November __, 2021.

City Manager Approval: _____