The real zombies exist solely on the books

Brands that are not used but kept alive in company books are not dead – they are wasted money-making opportunities

By **David Ruder**

While the patent world continues to wrestle with how to best respond to and combat non-practising entities (often called patent trolls), trademark commentators are expressing concern about the emergence of so-called zombie brands and trademarks. The general fear is that when a brand is retired and then revived, it becomes a zombie. In other words, although the brand may look like its former self after revival, it is in reality just a false replication of the original – not really dead, but not really alive either.

In particular, trademark commentators are concerned about how brand revival can confuse consumers that once trusted a brand from one source and now buy revived products from an entirely different source. Consider the recent commentary from pre-eminent trademark treatise authors Jerome Gilson and Anne Gilson LaLonde in their article "The Zombie Trademark: A Windfall and A Pitfall," published in the *Trademark Reporter* in 2008: "Beware trademark owners! Protect yourselves from the attack of the undead brands! .... Yes, zombie businesses roam the countryside, trafficking in trademarks, and thriving by feeding, not on human flesh, but on residual goodwill. Beware"!

The Gilsons believe that a particular brand revival strategy – acquiring trademark rights abandoned by previous trademark owners and building businesses around them – is inherently deceptive to consumers and harmful to business, and should be stopped. They contend: "Unless the newcomer duplicates the original branded product, and its quality, and notifies the public that it is not connected with the original trademark owner, the use of the mark is almost certain to deceive and confuse the public. "The belief is that the trademark community should rise up and stop companies from creating new businesses around abandoned brands in the name of protecting the consumer.

Unfortunately for the Gilsons, their argument is (un)dead on arrival because neither the law nor current industry practices support their contentions. Moreover, anyone trying to cast aspersions against revived brands by labelling them zombies is really missing a major point: brand revival is a healthy and growing industry practice that creates consumer choice and generates economic activity with no more confusion than similar trademark practices considered commonplace among trademark practitioners.

Companies big and small revive brands – even around trademarks abandoned by their competitors (see Chart A). Revitalising brands, no matter what their previous status as alive, abandoned or dormant, is absolutely a good thing for society. Whereas zombies are undead, revived brands are very much alive on the goods and services that consumers want to buy. The real zombies in the trademark world are not products that consumers can buy, but expiring trademarks on the books and records of companies that have left their discontinued brands to die.

Brand revival activity thrives despite potential source confusion

There are now dozens of prominent examples where dormant brand and trademark rights have been transferred from one company to another either through a direct sale transaction, acquisition through

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Prominent brand revivals
These brands were once discontinued (or nearly discontinued), only to come back strong (even if just for a little while)

White Cloud	Puma	Sharper Image
Polaroid	Mossimo	Coleco
Volkswagen Beetle	Pabst Blue Ribbon	Nuprin
Indian Motorcycle	Ovaltine	Breck Shampoo

bankruptcy or acquisition of a trademark previously abandoned by another user. In no instances have these transactions been threatened or blocked in the name of protecting the consumer. That is because brand revivals generate new economic activity and provide consumer choice, and the companies promoting brand revivals are investing into their products and seeking profits – hardly the stuff of zombies.

AT&T Wireless

Consider the famous case of the AT&T Wireless trademark, which was in existence, then went away, and then was reintroduced by a fundamentally different company with different owners and undoubtedly created confusion among consumers as to source. Here is a bit of history as summarised by Wikipedia:

- 1994 – AT&T Corp launches its AT&T Wireless division through the US$11.5 billion acquisition of McCaw Cellular.
- 2000 – AT&T Corp performs a spinoff of AT&T Wireless Services Inc, which becomes an independent publicly traded company;
- 2004 – AT&T Wireless Services is acquired by Cingular Wireless, which itself is owned by SBC Communications (60%) and BellSouth (40%), and the AT&T Wireless name is retired in favour of the Cingular brand in 2005.
- 2005 – SBC Corporation acquires AT&T Corp (not the wireless division) and renames the merged businesses AT&T Corporation (the SBC brand is retired).
- 2006 – The new AT&T (which was SBC) announces its acquisition of BellSouth (and its 40% interest in Cingular), so now the new AT&T owns 100% of Cingular Wireless.
- 2007 – Cingular Wireless is rebranded AT&T Wireless.

This history is confusing for both seasoned trademark and telecommunications professionals, so one can just imagine the confusion for a typical American consumer who is unfamiliar with this chain of events. There is no question that during these transactions at least some consumers would have some questions about what was happening to the AT&T Wireless trademark.

Part of the confusion was neatly summarised in a 2004 article published on ConsumerAffairs.com, entitled "AT&T Wireless to Rise from Ashes": "A little bit of telephone history seems to have escaped everyone's attention. When AT&T spun off AT&T Wireless to raise desperately needed cash a few years ago, it retained the right to take over the AT&T Wireless name if the business was sold to a new owner who retired the name. This has thrown the cell-phone industry into something of a dither. It virtually guarantees confusion among the 22 million AT&T Wireless customers who will be told later this year that they are now Cingular customers".

According to this article, there was an agreement in place whereby the AT&T brand could be pulled back no matter what consumer allegiances or understandings were in place, so that the brand could in theory have been placed on any competing wireless service. Given the strong likelihood that at least some consumers were confused about what was happening in the behind-the-scenes corporate mergers, should the new AT&T Corp (which was really SBC) have been able to execute its rebranding campaign with the AT&T brand? A champion of protecting the consumer in this case would argue against this rebranding effort unless extraordinary efforts were taken in consumer (re)education. However, it would be difficult to find any trademark practitioner who would argue that the brand revival should not occur.

Sharper Image

A more recent revival concerns the Sharper Image brand, which was purchased out of bankruptcy by a joint venture between Hilco Consumer Capital and Gordon Brothers. Normally, when a retail chain such Sharper Image goes into bankruptcy, all the stores are shuttered, inventory is liquidated and the retail brand fades into the history books.

But for the efforts of Hilco and Gordon Brothers, it is very possible that Sharper

Image would be a dead brand today. Consider the statement of the CEO of Hilco Consumer Capital when the transaction was completed: "We are delighted with this acquisition and we are proceeding immediately with our plans to partner with world-class licensees and retailers to introduce innovative high-quality products that will satisfy both the needs and enjoyment of Sharper Image customers. The Sharper Image brand will be extended internationally in existing and new categories that consumers want and need. The quality, excitement, innovation and fun that The Sharper Image is renowned for will soon be available worldwide".

In this case the brand was being retired from retail stores and refocused onto new products and new markets. Because of the bankruptcy transaction, the brand was not connected with the previous owner; some commentators may therefore see it as a zombie. However, given the innovation and marketing talent behind the branding efforts, and a big booth at the recent Consumer Electronics Show in Las Vegas, there is nothing zombie-like about Sharper Image.

Hummer

Finally, it would have been very interesting to see what would have happened had General Motors succeeded in its attempted sale of the Hummer brand of trucks. It was reported in 2009 that General Motors had reached a deal to sell the Hummer brand to Chinese carmaker Sichuan Tengzhong Heavy Industrial Machinery.

While the newly formed and newly named subsidiary Hummer LLC would have been headquartered in Michigan, it really would have been a new business owned by a relatively unknown (at least to American consumers) Chinese company. If new Hummer trucks were sold, would the average American car buyer really have known about the source of the Hummer trucks for sale? Would there have been explicit statements from the Chinese that Hummer LLC had no relationship to General Motors? Would trademark practitioners have objected to the sale because they were concerned about consumers being confused? Would consumers have been made privy to any trademark licensing or other agreements discussing a minimum threshold of quality required for Hummer trucks?

There would arguably be just as much confusion among consumers as to the source of products here as in the AT&T or Sharper Image cases, but again there was no real controversy about this transaction from a trademark standpoint. More importantly, because there are plenty of creative entrepreneurs and investors out there, it is more than likely that someone will try to come up with an interesting business around the Hummer brand, and that will generate economic activity and investment returns.

Businesses are often established by adopting an abandoned trademark

While the above examples involve transactions between parties (even if a bankruptcy is an involuntary transaction), for many trademark commentators it is the creation of a new product by a company using the abandoned trademark of another company that is particularly problematic. To them, the idea that a company can benefit from the years of marketing and advertising of another company seems unfair and absurd, and thus worthy of a monster moniker.

Of course, none of these critics point out the notion that in the US the Lanham Act (and statutes of other international jurisdictions) specifically contains an abandonment provision that courts have followed strictly; and that the abandonment provisions serve a very important public service of clearing out deadwood trademarks that get in the way of new entrants that want to create new goods and services for consumers. The critics cannot explain why a company that considers a brand to be valuable would allow the trademark rights to expire.

White Cloud

As the White Cloud case shows, consumers are no worse off when a company revives an abandoned brand than they are under the circumstances of any of the other trademark revivals described above.

White Cloud was a brand of toilet tissue originally introduced by Procter & Gamble in 1934. In an effort to focus resources on its larger trademark, Charmin, in 1992 P&G discontinued the White Cloud name. In 1993, an entrepreneurial firm later named Paper Partners LLC filed an intent-to-use application for the White Cloud trademark with the United States Patent and Trademark Office for "tissue paper, paper bathroom tissue". After the three-year period of non-use required for abandonment had elapsed, Paper Partners commenced litigation against Procter & Gamble for the rights to use White Cloud, and prevailed in 1996. Today, White Cloud has achieved great success as a trademark of toilet tissue and nappies (diapers) sold exclusively through Wal-Mart. Even though this was a former P&G trademark and P&G

An example of a real zombie

Consider the facts of this hypothetical situation. BigCo acquires all assets of SmallCo for US$50 million. On its balance sheet, SmallCo has US$5 million in tangible assets, leaving US$45 million in goodwill and intangible assets. In the United States, under FAS 141 and 142, BigCo needs to allocate the US$45 million across identifiable intangible assets. In this case, BigCo allocates US$20 million to the SmallCo trademark, Smallco, based on its awareness in its market. After this deal, a year goes by and BigCo decides it wants to use the Bigco brand on all of its products and decides to retire the Smallco name, and all products are immediately rebranded Bigco. The BigCo accountants then amortise the value of the Smallco brand down to US$0 over the next 18 months and take a US$20 million tax deduction.

Three years later, a new company called NewCo starts competing against BigCo using the Smallco brand on a new line of products, emphasising to the market that NewCo is unrelated to BigCo. BigCo is concerned about this and hires a law firm to stop NewCo from using the Smallco trademark. NewCo points out to BigCo that BigCo deliberately retired the Smallco trademark; amortised 100% of the value of the Smallco trademark on its balance sheet; and allowed its trademark rights to become abandoned under the law due to non-use. BigCo responds that while it has not used Smallco on any products or received any revenues for selling Smallco products for over three years, the Smallco name lives on in BigCo books and records, and there are Smallco references on its old website pages.

So, NewCo has a product that it is selling into the market that is very much alive – customers are paying money for products that they enjoy. Regardless of how successful it is with its lawyers, BigCo is trying to give life to something that is dead, but just cannot make it happen. Those who study monsters know that zombies are never alive. Neither are dead trademarks living on corporate books and records. Trademark lawyers create trademark zombies when they assert dead trademarks in court only to eat the brains of healthy revived brands.

products Charmin and Pampers were adversely affected, after abandoning the trademark there was nothing P&G could do from a trademark perspective to stop Paper Partners' licensing of White Cloud.

In essence, a brand that was created by Procter & Gamble was abandoned and then acquired by a new, unrelated party, Paper Partners. With the support of Wal-Mart and private investment, this left-for-dead brand generated sales of over US$600 million in 2008 alone, and is now a leading brand of private label nappies and baby wipes.

In this situation consumers are making purchases of products bearing a brand that was left for dead; and billions of dollars of sales have been made in the years since the brand was revived. Were consumers confused here? Probably yes. It is likely that some consumers that were loyal White Cloud buyers when it was owned by P&G were confused when White Cloud reappeared on shelves in Wal-Mart. However, there is no indication that any confusion is more or less than the examples of AT&T or sharper Image described above. Yet the billion dollar White Cloud brand revival fits the zombie definition offered by the Gilsons. Despite this, there is no indication that society has suffered by giving consumers new toilet tissue and nappy product options to purchase.

The real zombies are on corporate books and records

The Gilsons and other trademark commentators have identified the wrong targets to call zombies. To the extent that zombies exist in the trademark world, the best candidates for the epithet are the residues of discontinued brands that live within the murky walls of corporate America. Companies often shut down brands, yet for often-conflicting internal reasons these are not considered dead by internal and external lawyers, executives and accountants.

Although not used on any publicly available goods or services, these brands live on in corporate databases and on financial balance sheets. They are unmanaged and live on fleshy red tape just waiting to be impaired. They are not considered dead by the company for tax or other reasons, but clearly they are not alive – nobody can buy products or services under their name.

Many trademark practitioners advocate that companies should be able to warehouse or stockpile their old trademarks, just as they would patents. But the US and most legal regimes do not allow this practice. The Gilsons in their article want companies to be able to prevent new owners from using brands that have been discontinued by another, but this has not proven to be an effective or even feasible strategy. Shutting down brands and letting them sit on the books with no proactive management or monetisation efforts is very much in the spirit of the undead. Using dead brands to try to stop the introduction of new products and services by entrepreneurs and other companies does not display sound strategic judgement.

Proactive brand revival leads to profits

If brands were never revived by forward-thinking entrepreneurs, investors and corporations, consumers would not enjoy revived products such as Volkswagen Beetle automobiles, Indian motorcycles, Atari videogames, Ipana toothpaste and Puma shoes and apparel.

Instead of looking at discontinued brands as a problem, companies should look at them as opportunities to generate profits and manage relaunches in a way that supports or at least does not hurt other brands in their portfolios.

There are many entrepreneurs and investors out there looking for branded products and services to get behind, and many companies could find themselves in a nice position to profit through sales and licences of discontinued brands. Strategic brand owners will inventory and categorise their brand assets, as well as establish processes to manage how a brand is discontinued and what steps are taken to ensure that all company strategic objectives are achieved – including objectives around potential monetisation. Discontinuing a brand and hoping for a tax write-off should be the last move that a company contemplates, not the only move. *iam*

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