

Hunting down a trademark troll

Everyone has heard of patent trolls. Well, Leo Stoller may just be the US's most notorious trademark troll. Google has decided to take him on

By **Brian E Banner** and **Anne M Sterba**

Some years ago the general patent counsel for BorgWarner, the engine and power train manufacturer, received a cease-and-desist letter from attorney Smith. Smith's letter claimed that BorgWarner was infringing his client's valuable trademark XYZ for auto parts. His letter went on to demand that this unauthorised misuse of the same trademark by BorgWarner immediately cease or legal steps would be instituted to bring about that result. BorgWarner's counsel researched his company's date of first use of the trademark in question and determined that it had priority by many years over the date of first use of the allegedly infringed mark. An appropriate response was sent to Smith, who a few days later called and began the conversation by saying: "Hello, this is Mr Smith, the attorney for the former user of the mark XYZ."

This exchange illustrates a common problem in US trademark law. Many cease-and-desist letters are sent without determining priority beforehand. In the example above, this what Smith had done. His charge that BorgWarner's mark was likely to cause confusion in fact sparked BorgWarner into carrying out its own investigation, which proved decisive in persuading Smith that his own client's use of XYZ infringed BorgWarner's prior rights (see *Ultra Electronics Inc v Workman Electronic Products Inc*, 192 USPQ 497 (TTAB 1976)). Policing one's valuable trademark rights from misuse by third parties is required to prevent the mark from becoming generic. Our free enterprise system relies on rational consumers making

informed purchasing decisions (using trademarks to locate services and products they like) free from deception and confusion. That is the purpose of trademark law.

But sometimes people misuse the trademark registration and enforcement systems for their own commercial advantage. This often occurs when a big and sophisticated entity asserts rights in a mark beyond its legal scope of protection against a smaller, less sophisticated opponent. If the target cannot afford an attorney or litigation, it must capitulate to the stronger entity and accept or negotiate settlement terms. Aggressive brand enforcement is allowed under US law, but legally baseless and vexatious enforcement beyond one's legal rights is not.

Baseless and vexatious enforcement

The latter course of conduct appears to be the *modus operandi* of the infamous Leo Stoller, well known to many active US trademark attorneys and their clients. As a citizen and not a licensed attorney, Stoller is beyond rebuke and sanctions from the organised bar. On occasion, he employs different licensed attorneys to prepare and file papers in federal district courts on his behalf. As principal, he controls a number of corporations (eg, Central Mfg Inc) and over two dozen proprietorships, some with names close to that of a corporate entity (eg, Central Mfg Co and Central Mfg Co Inc). He also uses aliases or assumed names in inconsistent ways and ever-changing alleged relationships with the corporate entities. For example, he has claimed personal proprietorship of Rentamark and claimed it as an assumed name for at least two corporate entities.

Threats and extortion in Illinois

Google attacks

On 19th January 2007, Google Inc commenced a civil action in the US District Court for the Northern District of Illinois against several of Stoller's companies, requesting the following:

- Injunctive relief against false advertising, further acts of racketeering activity and further acts of unfair competition.
- Entry of an order requiring the dissolution and/or reorganisation of the enterprise and the divestment of any interest therein.
- Three times plaintiff's damages and defendants' profits.
- Plaintiff's reasonable attorneys' fees and costs.
- Pre-judgment interest.
- Punitive damages in an amount sufficient to punish the defendants and deter such future misconduct arising out of the "fraudulent scheme" of the defendants and "their alleged principal ... Stoller".

According to the complaint, the defendants' scheme has been designed to deceive the public and Google, and involves "falsely claiming trademark rights for the purpose of harassing and attempting to extort money out of legitimate commercial actors, both large and small". The complaint alleges that the various defendants, all controlled by Stoller, have falsely represented that:

- They own a federal registration for the Google mark.
- They are owners of common law rights in the Google mark.
- They have the right to license the Google mark to third parties.

The complaint further alleges that after Google refused the defendants' demands for money, the defendants not only persisted in their spurious demands for a pay-off, but also threatened to publicise their allegations, which, they claimed, would bring about "the total destruction" of Google as a business. One can understand Google's vexation and need for action.

Serial harassment

As of 1st January 2007 Stoller had been involved in over 55 other federal district court trademark litigations involving his various alleged marks. Although he has been rebuked in many of the published decisions, he has continued his actions. While there are others who engage in similar practices, Stoller has been described by one

Leo Stoller has brought the following cases to the Northern District of Illinois through his holding companies:

- *S Industries Inc v Centra 2000 Inc*, 249 F3d 625 (7th Cir 2001): the court affirmed award of attorneys' fees against the plaintiff, noting a pattern of abusive and improper litigation, specifically with Stoller.
- *S Industries Inc v Ecolab Inc*, 96-4140, 1999 US Dist LEXIS 3484 at 26-27 (ND Ill, 12th March 1999): the court held that "Stoller presented remarkably little admissible evidence, most of it highly suspect ... and he did not have a shred of admissible evidence to prove [the plaintiff's] provision of pest extermination services under the mark". The court concluded that "requiring Ecolab to spend time and money defending itself against such baseless claims was 'oppressive'", and therefore concluded that Ecolab was entitled to recover the reasonable attorneys' fees and costs incurred in its defence.
- *S Industries Inc v Stone Age Equipment Inc*, 12 F Supp 2d 796, 819 (ND Ill 1998): the court awarded attorneys' fees and costs for oppressive suit where the plaintiff offered "highly questionable (and perhaps fabricated) documents" and testimony from its principal that was held to be "inconsistent, uncorroborated, and in some cases, demonstrably false".
- *S Industries Inc v Diamond Multimedia Systems Inc*, 991 F Supp 1012, 1023 (ND Ill 1998): the court found that the plaintiff's "claim of actual infringement of its registered marks ... crosses the border of legal frivolousness, as its §1114 claim utterly lacks merit on its face".
- *S Industries Inc v JL Audio Inc*, 29 F Supp 2d 878, 881 (ND Ill 1998): the court held that "the plaintiff's actions in this case and in the several other cases filed throughout this district raise doubts as to the good faith of [the] plaintiff and its counsel".
- *S Industries Inc v Hobbico Inc*, 940 F Supp 210, 211 (ND Ill 1996): the court noted that the plaintiff "appears to have entered into a new industry – that of instituting federal litigation ... [A]nd this court has had occasion to note a proliferation of other actions brought by [the plaintiff]".
- *S Industries Inc v Kimberly-Clark Corp*, 96-3916, 1996 US Dist Lexis 9567 (ND Ill, 1st July 1996): based on its review of newly filed complaints, the court noted that the plaintiff's "claim of actual infringement of its registered marks therefore appears to be nothing short of frivolous, for its marks simply do not apply to the challenged use ... At least at the threshold, this action looks to have the hallmark of a lawyer-inspired lawsuit of dubious merit".

court as being known for "running an industry that produces often spurious, vexatious and harassing federal litigation ... [N]o court has ever found infringement of any trademark allegedly held by Stoller or his related companies in any reported opinion. In fact, courts in this [Northern District of Illinois] have ordered Stoller or his corporate entities to pay defendants' attorneys' fees and costs in at least six reported cases." (*Central Mfg Co v Brett*, 04-3049, 2005 US Dist LEXIS 23379, at 2-3 (ND Ill, 30th September 2005).

Typically, Stoller – a self-proclaimed trademark licensing expert – threatens to file trademark infringement actions in cease-and-desist letters when he identifies a third party that begins to market a product bearing some version of the name Stealth, Halley's, Sentra, The Terminator, Emerson or any other name in which his companies or assumed name entities may claim some common law right for any goods or services. He sends letters even if the third party

merely describes a stealth-like quality in its product. If the alleged infringer refuses to agree to Stoller's licence demands or to cease using the term stealth, Stoller will often file a trademark infringement action.

For example, one of the entities of which Stoller is president, Stealth Industries Inc, is the owner of a US registration for the mark Stealth featuring a bull's-eye design for pool cues, pool tables, darts, billiard balls, cue cases, cue racks and billiard gloves. It claims a date of first use of 17th November 1986.

Target Brands Inc is the owner of a number of federally registered service marks and trademarks for a bull's-eye design mark, covered in US registrations 972,082 and 2,473,434 for various retail store services, 2,702,411 for online retail store services featuring a wide variety of consumer goods and 1,386,318 for the Target word mark and the bull's-eye design for various retail store services, including athletic sporting goods sales services. It also filed intent-to-use US application 78/508,108 for the bull's-eye design for use in connection with various consumer goods in 16 classes of the Nice Classification, including bean bags in Class 28.

Although the US Patent and Trademark Office examining attorney found no similar registered or pending marks which would bar registration under Section 2(d) of the Trademark Act when the application was published, Central Mfg Co contacted Target Brands and threatened to oppose that application based on its US registration 1,867,087 unless certain terms could be negotiated. Target Brands subsequently filed a cancellation action against Central Mfg Co's registration pursuant to 15 USC Section 1064 because its rights in the bull's-eye design trademark date back to at least 1968, which long pre-dates the 17th November 1986 date of first use alleged in registration 1,867,087. Negotiations commenced, the cancellation was withdrawn and Target Brands received a notice of allowance for its application.

IP ambulance chasing

In one trademark infringement action, Lewis Altman, the former professor of Trademarks and Unfair Competition at the John Marshall Law School and an expert witness on behalf of the defendant, summarised Stoller's activities as follows: "Stoller's proclivity for trademark infringement accusations implies that whenever his companies own a trademark, contrary to settled trademark law,

they own it in every market, including markets in which the mark has not been actually used by them or their affiliates. Or at least it implies that ... Stoller believes that repeatedly suing people in unrelated markets, with relatively little success, is in itself a legitimate mode of doing business ... To me, this method of doing business is a form of [IP] ambulance chasing, and it has the look of an extortion scheme ... I note that the great majority of these cases were settled. That fact would indicate either that ... Stoller was spectacularly successful in persuading dozens of defendants of the merits of these cases or that these cases were mostly brought for nuisance value, to extort a quick pay-out without having to wrestle with the merits at all."

In addition, Stoller, a non-attorney, has made his mark at the USPTO Trademark Trial and Appeal Board (TTAB) by representing himself and his corporate entities, as provided by Chapter 37(10)(14)(b) and 37(2)(17)(b) of the Code of Federal Regulations. The board held that Stoller's *pro se* "litigation strategy of delay, harassment and falsifying documents in [TTAB] cases is well documented" (see *S Industries Inc v Casablanca Industries Inc*, 24,330, 2002 TTAB LEXIS 644, 46 (TTAB, 3rd October 2002)). Specifically, as of 1st January 2007, Stoller had filed over 230 unsuccessful proceedings in the TTAB to protect a variety of his alleged marks.

These numbers and examples do not include the numerous cease-and-desist letters sent by Stoller in which an action before the TTAB or a federal district court action was not pursued or the numerous extensions of time to oppose an application filed by Stoller which did not result in an opposition proceeding before the TTAB. For unknown reasons, Stoller filed over 1,400 requests for extension of time to oppose third-party applications in a five-month period. Recall that these extension requests are free of a filing fee and are initially granted by the USPTO. This unprecedented abuse of the US trademark prosecution system triggered sanctions against Stoller in July 2006. The USPTO sanctions included:

- Vacating each of the extension requests and, to the extent an opposition was filed during the extension period, terminating the opposition as untimely.
- Barring Stoller from filing any extension of time to oppose for two years.
- After two years, prohibiting Stoller from filing any extension request without having a lawyer representative.

Threats and extortion in the TTAB

Serious burden

When legitimate businesses have to face the risk of defending their brand from an unsustainable allegation of brand infringement or enter into a coerced settlement to avoid the expense and inconvenience of trademark litigation, this represents a serious burden to fair commerce. In the past, Stoller has successfully carried out a programme of extracting settlements from large and small entities and individuals who would rather switch than fight. In our opinion, this kind of activity amounts to misuse of the common law and registration systems, and retards the objectives of our trademark laws. One can only hope that the Google litigation will be successful and send a strong message to all who would attempt to follow the trail Stoller has paved.

In the meantime James F Holderman, the chief judge of the US District Court for the Northern District of Illinois, Eastern Division, signed and issued on 8th March 2007 an executive committee order enjoining Stoller or anyone acting on his behalf from filing any new civil action or proceeding without first obtaining leave by way of submitting a complaint accompanied by a motion seeking leave to file at the discretion of the Executive Committee. Failure to follow the order will result in Stoller being held in contempt of court and punished accordingly.

The order notes in part that Stoller has filed at least 49 lawsuits in that district court. Of these, at least 47 purport to involve trademark infringement and no court has ever found infringement of any trademark allegedly held by Stoller or his related companies in any reported opinion.

In addition, in 2006 and 2007 Stoller filed five appeals to the district court in connection with orders entered by the Bankruptcy Court and three appeals to the Seventh Circuit Court of Appeals in connection with one of his district court trademark infringement cases. The order notes that reasonable and necessary restraints must be imposed upon Stoller's ability to file new civil cases in that district *pro se*.

Galatians 6:7 says it all: "Whatsoever a man soweth, that shall he also reap".

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Leo Stoller and his companies were involved in the following actions before the TTAB:

- *Central Mfg Co v Medtronic Sofamor Danek Inc*, Oppositions 91154585 and 91154617 slip op at 20-21 n15 (19th February 2004): the TTAB held that "while [it] is entering sanctions against [the opponent] here based on [the latter's] behaviour in this case, the board is cognizant of [its] experiences in other cases involving the conduct of ... Stoller, Central Mfg and other related entities, as well as the experience of the Seventh Circuit and the Northern District of Illinois. Said experience may be considered as a history in this type of litigation".
- *Central Mfg Co v Premium Prods Co*, Serial 91159950 (29th September 2004): the TTAB sanctioned the opponent for omitting the postmark from filings with the TTAB, in apparent violation of postal service regulations. The TTAB stated that it was "hard pressed to think of a more egregious act of bad faith than flouting the US postal service regulations".
- *S Industries Inc v JL Audio Inc*, Opposition 91110672 slip op at 6 (13th May 2003): the TTAB observed that "[the opponents'] most recent proliferation of filings follows a pattern of voluminous and piece-meal motion practice against which [they] were warned". The TTAB found "compelling evidence that, in essence, ... Stoller and his companies have perpetuated their misdeeds in this case".
- *Central Mfg Inc v Third Millennium Technology Inc*, 61 USPQ2d 1210 (TTAB 2001): the TTAB sanctioned Stoller, individually, for making material misrepresentations to the board regarding an applicant's alleged consent to extensions of time.
- *S Industries Inc v S&W Sign Co*, Opposition 91102907 (16th December 1999): the TTAB noted that "the lack of credibility of ... Stoller is a matter of public record" and the TTAB ordered him to copy by hand Rule 11 of the Federal Rules of Civil Procedure and portions of the Trademark Rules of Practice, and to file a signed copy thereof with the board.
- *S Industries Inc v Lamb-Westin Inc*, 45 USPQ2d 1293 (TTAB 1997): the board found the petitioner's certificate of mailing to be fraudulent upon a motion to extend.