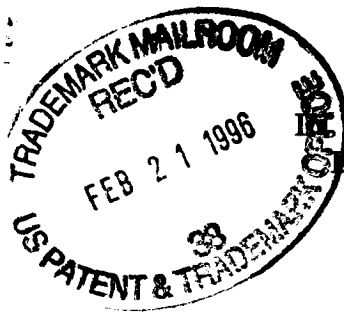




TTAB

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

Cancellation No. 24,108

#9

GALLEON S.A.,
BACARDI-MARTINI U.S.A., INC.
and BACARDI & COMPANY LIMITED,

Petitioners,

-against-

HAVANA CLUB HOLDING, S.A. and
HAVANA RUM & LIQUORS, S.A.
d/b/a H.R.L., S.A.

Respondents.

Registration No. 1,031,651

MEMORANDUM OF LAW IN OPPOSITION TO RESPONDENTS'
MOTION TO DISMISS THE PETITION

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**GALLEON S.A., BACARDI-MARTINI U.S.A.,
INC., and BACARDI & COMPANY LIMITED,**

Petitioners,

**HAVANA CLUB HOLDINGS, S.A. and
HAVANA RUM & LIQUORS, S.A. d/b/a
H.R.L., S.A.,**

Respondents.

I.

Galleon S.A., BACARDI-MARTINI U.S.A., Inc., and Bacardi & Company Ltd. (hereinafter collectively “petitioners,” and individually, “Galleon,” “BACARDI-MARTINI” and “BACO,”), petitioners in this cancellation proceeding, submit this memorandum of law in opposition to respondents’ motion pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure to dismiss the Petition for failure to state a claim upon which relief can be granted. This motion should be denied in its entirety, or, in the less preferred alternative, petitioners should be granted leave to amend the petition.

II.

PRIOR PROCEEDINGS AND NATURE OF RESPONDENTS' RULE 12(b)(6) MOTION

Petitioners seek to cancel registration No. 1,031,651 of the trademark HAVANA CLUB and DESIGN for rum. The standing of petitioners to do so is unchallenged. No answer has been filed, and no discovery has been taken in connection with this proceeding.

In a brash but bootless gambit, respondents Havana Club Holding, S.A. and Havana Rum & Liquors, S.A. d/b/a H.R.L., S.A. (collectively: "HRL") have at the outset of the proceeding moved to dismiss the instant petition for cancellation. HRL rests its main hopes on the Board's decision on cross-motions for summary judgment brought after the close of discovery in another cancellation proceeding styled *Rodrigo v. Havana Rum & Liquors S.A.*, Cancellation No. 22,881 (T.T.A.B. Oct. 19, 1995) (hereinafter "*Rodrigo*").

Besides the crucial difference in the procedural posture of the respective proceedings, two critical flaws undermine HRL's attempt to use the *Rodrigo* holding to deprive petitioners here of their day in court.¹ First, HRL supported its summary judgment motion in *Rodrigo* with lengthy declarations and documentary exhibits² not offered in

¹ Respondents, without citing any authority, apparently believe that the *Rodrigo* decision somehow has a res judicata or collateral estoppel effect. It is well established that "in the case of both res judicata and collateral estoppel, a judgment is conclusive only *against* a party to the action in which it was rendered." 1B Moore's Federal Practice, ¶ 0.411[1] (1995). Thus, even assuming, *arguendo*, that the abandonment claims raised here are identical to those discussed in *Rodrigo*, which they plainly are not, there can be no res judicata or estoppel flowing from *Rodrigo* because petitioners were not parties to that proceeding. *Monsanto Co. v. Dawson Chemical Co.*, 443 F.2d 1035, 170 U.S.P.Q. 199 (5th Cir. 1971); *U.S. v. Drebin*, 557 F.2d 1316, 195 U.S.P.Q. 619 (9th Cir. 1977).

² Declarations were submitted by HRL in the *Rodrigo* proceeding from the following witnesses:

1. Maria del Carmen Abarrategui Goicolea
2. Luis Francisco Perdona Hernandez

(continued...)

evidence here and, second, the sole substantive allegation in the one-page petition for cancellation in *Rodrigo* was that "the owner of record Registration No. 1,031,651 has long abandoned the registered mark in the United States." (¶ 3, *Rodrigo* Cancellation Petition). HRL's record here, in stark contrast to *Rodrigo*, is a blank page. Furthermore, the legal issues and the factual allegations asserted by the present petitioners in their detailed Petition for Cancellation differ dramatically from, and are far more inclusive than, those before the Board in *Rodrigo*. As HRL emphasized in its summary judgment papers in the latter proceeding, the only evidence produced in opposition to HRL's cross motion for summary judgment was one short affidavit that did not address the abandonment question raised by the pleadings. In that post-discovery stage, the Board found that HRL's evidentiary showing, contained in uncontested declarations, had rebutted the statutory presumption of abandonment arising from two-year's non-use of the mark. Here there is no such record, and thus, HRL's motion must be denied.

HRL's efforts to beguile the Board into considering facts found in *Rodrigo* on this motion are plainly improper.³ Under the standard governing motions to dismiss set

²(...continued)

3. Vidal Manuel Prieto Espona
4. Miguel Antonio Pria Groso
5. Marta E. Sosa Brizuela

Supplemental declarations were thereafter filed from Ms. Abarrategui-Goicolea and Messrs. Perdon-Hernandez and Pria Groso. HRL also submitted further "supplemental" declarations from three new witnesses, including:

6. Caroline Rule
7. Sandra Levinson
8. Manuel Azcuy Quesada

³ To the extent HRL requires the Board to look outside the four corners of the cancellation petition, HRL's motion is transformed into one for summary judgment. Plainly a summary judgment motion prior to the start of discovery is premature under Fed.R.Civ.P. 56(f).

forth below, the facts alleged in the Petition and the inferences drawn from those facts must be construed most favorably to petitioners, and these factual averments clearly make out good claims, warranting cancellation of the HAVANA CLUB and DESIGN mark.

What is behind HRL's ill-founded motion? Plainly, HRL is desperate to cut off discovery and is fearful of the rights afforded to petitioners by due process.

III.

INTRODUCTION TO ARGUMENT

A. **The Standard Governing HRL's Motion To Dismiss For Failure To State A Claim.**

The rigorous standard governing a Rule 12(b)(6) motion is well defined. *See 2A Moore's Federal Practice* § 12.07 (1995). The factual averments set out in the Petition are taken as true, indulging every reasonable inference helpful to petitioners' cause.

Ambiguities in the Petition must also be construed in petitioners' favor. Then, as Justice Black stated in *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957), in appraising the sufficiency of a petition in this manner, "a [petition] should not be dismissed for failure to state a claim unless it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief."

Alluding to the pettifogging approach to pleading HRL would have the Board adopt, Justice Black went on to point out:

The Federal Rules reject the approach that pleading is a game of skill in which one misstep by counsel may be decisive to the outcome and accept the principle that the purpose of pleading is to facilitate a proper decision on the merits. *Id.*

Accordingly, dismissals under Fed. R. Civ. P. 12(b)(6), are generally disfavored by the courts. The necessarily limited role of a court in passing on the sufficiency of a complaint before receiving evidence, either by affidavits or admissions, is not to determine whether plaintiff will ultimately prevail or to weigh the sufficiency of the evidence. *Cf. Scheur v. Rhodes*, 416 U.S. 232, 40 L.Ed 2d 90 (1974). Rather, the Board

must allow the case to proceed to the merits unless it appears beyond a doubt that the petitioners can prove no set of claims which would entitle them to relief. *See Stanspec Co. v. American Chain & Cable Co., Inc.*, 531 F.2d 562, 566 (C.C. P.A. 1976); *M. Polaner, Inc. v. J.M. Smucker Co.*, 24 U.S.P.Q.2d 1059 (T.T.A.B. 1992).

B. The Well-Pled "Facts" Of The Petition That Must Be Taken As True For Purposes Of This Motion.

To survive the present motion to dismiss for failure to state a claim upon which relief can be granted, petitioners need only have alleged such facts as would, if proven, show that a statutory ground exists for canceling the registration. *Western World Enterprises Group, Inc. v. Qinqdao Brewery*, 17 U.S.P.Q.2d 1137 (T.T.A.B. 1990). In determining this motion under Rule 12(b)(6), the Board may not properly consider any materials other than the Petition itself. The relevant factual averments in the Petition are set forth below.⁴

The HAVANA CLUB and DESIGN Mark. The HAVANA CLUB and DESIGN mark was registered in the United States Patent & Trademark Office (the "PTO") under No. 1,031,651 on January 27, 1976, based on a purported Cuban Registration No. 110,353, dated February 12, 1974, pursuant to Section 44 of the Lanham Act, 15 U.S.C. § 1126 (¶ 17). The registrant was allegedly a Cuban corporation called Empressa Cubana Exportadora de Alimentos y Productos Varios, which translates in English to the Cuban Export Enterprise of Food and Various Products d/b/a Cubaexport (hereinafter "Cubaexport") (¶ 18). The HAVANA CLUB and DESIGN mark registered by Cuba Export prominently displays the Spanish legend "Fundado en 1878" and the depiction of a figure in a circle holding a cross or sword (¶ 19). Cuba Export was not founded in 1878 as the statement on the HAVANA CLUB and DESIGN mark falsely asserts (¶ 21).

⁴ References are to the numbered paragraphs of the Petition for Cancellation herein ("¶__").

Fraudulent Registration of the HAVANA CLUB and DESIGN Mark. When it filed its application for registration, Cubaexport had no intent to use the mark HAVANA CLUB in the United States (§ 27). Instead, Cubaexport's application was made in bad faith, for defensive purposes, with the intent of foreclosing others from rightfully using the mark HAVANA CLUB (§ 27). Cubaexport was well aware at the time it filed its original application that it was not the owner of the mark HAVANA CLUB and DESIGN in the United States (§§ 23, 30). Rather, Cubaexport knew that the HAVANA CLUB and DESIGN mark which it applied for in the United States was associated with Jose Arechabala S.A., the original Cuban company which had previously sold HAVANA CLUB rum in the United States (§ 24).

Jose Arechabala, S.A. had first used the mark HAVANA CLUB in commerce in the United States as early as June 3, 1950 (§ 20). On August 11, 1953, Jose Arechabala S.A. was issued two registrations of label design marks incorporating the words "HAVANA CLUB" on the Supplemental Register under Nos. 578,679 and 578,680, respectively. The registration of the mark HAVANA CLUB for rum on the principal register that was owned by Jose Arechabala S.A. was obtained under § 2(f) of the Lanham Act, which indicates that the mark HAVANA CLUB had obtained secondary meaning in the United States (§ 21).

Fraudulent Maintenance of the HAVANA CLUB and DESIGN Mark. On or about January 12, 1982, a Section 8 Declaration was filed in the PTO in connection with Registration No. 1,031,651 of the mark HAVANA CLUB and DESIGN (§ 29). That declaration, purportedly signed by Fausto Alfonso Man, wilfully and falsely stated that the mark [HAVANA CLUB and DESIGN] "is still in use on goods and services in each class as evidenced by the attached specimen for each class showing the mark as currently used" (§ 29). The Declaration further falsely averred that Cubaexport was the owner of said mark and registration (§ 30). Cubaexport, at all relevant times, knew the mark HAVANA CLUB and DESIGN was not owned by Cubaexport in the United States (§ 30). The label specimen

submitted by Cubaexport was never the subject of a lawful label approval issued by the BATF and contained misleading and false statements that precluded approval by BATF (§ 31). Consequently, the HAVANA CLUB and DESIGN mark claimed by registrant Cubaexport was, and still is, a vehicle for fraud and such purported mark is being used to misrepresent the nature, quality, and source of the rum sold under that mark (§ 41).

Misrepresentations. The formula used to make ersatz HAVANA CLUB rum by Cubaexport was materially different from the formula used by the original producers of HAVANA CLUB Rum (§ 24). This formula was changed surreptitiously in a manner calculated to deceive purchasers of HAVANA CLUB rum as to the changed nature of the product (§ 24). Moreover, Cubaexport knew at the time it filed for registration of the HAVANA CLUB and DESIGN mark at issue that it was not the owner of the trademark HAVANA CLUB in the United States (§ 24), and knew, instead that the HAVANA CLUB and DESIGN mark Cubaexport applied for was, in fact, associated with Jose Arechabala S.A. (§ 24). Indeed, the HAVANA CLUB and DESIGN mark states in Spanish, that it was founded in 1878 (the date of origin of Jose Arechabala S.A.) (§ 19). Cubaexport, an instrumentality of the Castro government was not founded in 1878 (§ 22). The aforesaid misrepresentations were intended to mislead prospective purchasers as to the quality and source of origin of respondents' ersatz rum.

Abandonment Based on Non-Use. The HAVANA CLUB and DESIGN mark, registered on January 27, 1976 (§ 17), has never been used in commerce by the original registrant or its purported predecessors-in-interest (§ 45).

Naked Assignments. In 1993, Cubaexport purportedly transferred the "HAVANA CLUB" rum business to another Cuban company called Havana Rum & Liquors, S.A. (§ 34). Nearly a year later, on January 10, 1994, Cubaexport executed an assignment of the mark HAVANA CLUB and DESIGN and the U.S. Registration No. 1,031,651 to Havana Rum & Liquors, S.A., which assignment was recorded in the PTO on February 10,

1994 (¶ 34). No goodwill or related assets were conveyed with the purported trademark, so this assignment in gross destroyed any possible rights of the purported assignee in, or to, the mark HAVANA CLUB in the United States (¶ 34). On June 22, 1994, Havana Rum & Liquors, S.A. executed yet another assignment of the U.S. Registration of the HAVANA CLUB and DESIGN mark to Havana Club Holding, S.A., a Luxembourg company in which Havana Rum & Liquors S.A. is a shareholder (¶ 35). No goodwill or related assets were conveyed with the purported trademark, so this assignment in gross destroyed any possible rights of the purported assignee in or to the mark HAVANA CLUB in the United States (¶ 35). The latter purported assignment was recorded in the PTO on September 13, 1994, at Reel 1219, Frame 0428 (¶ 36).

As a U.S. based asset of a Cuban company, the purported barter and sale of the HAVANA CLUB and DESIGN mark and the federal registration thereof, for an undetermined sum of money to Havana Club Holdings, S.A., a Luxembourg company, was in violation of the Cuban Asset Control Regulations (¶ 37). This assignment and the earlier purported assignment of said registration were not recorded in the United States PTO within three months, as required by the Cuban Asset Control Regulations, in order to conceal the violation by registrants of said regulations.

IV.

ARGUMENT

**A. Petitioners' Allegations More Than
Satisfy The Particularity Requirements
Of Federal Rule 9(b).**

Petitioners have pled fraud with sufficient particularity to meet the requirements of Rule 9(b). When the charge is fraudulent procurement of a trademark registration, allegations of false statements made by the applicant with knowledge of the falsity are sufficient under Rule 9(b) to satisfy the requisite pleading requirements. *Texaco, Inc. v. Allied Chemical Corp.*, 193 U.S.P.Q. 716 (S.D.N.Y. 1975). In *Texaco, Inc. v.*

Allied Chemical Corp., 193 U.S.P.Q. 716 (S.D.N.Y. 1975), the court refused to strike allegations of fraudulent procurement of a mark, reasoning

[t]he challenged clause presents a statement made to the Patent and Trademark Office, an allegation that the statement was false, and an allegation that the applicant knew of the falsity. The essential elements of fraud have been alleged. Plaintiff's paragraph 23 gives defendant fair notice of the transaction charged and is thus sufficient under the liberal pleading policy of the Federal Rules.

Texaco, Inc. v. Allied Chemical Corp., 193 U.S.P.Q. 716 (S.D.N.Y. 1975).⁵

The Petition for Cancellation in the instant matter similarly alleges that material false statements were made to the Patent and Trademark Office by the applicant, Cubaexport, with knowledge of their falsity (scienter). These false statements were made for the purpose of inducing the PTO to grant the registration at issue and to maintain that registration. Accordingly, "fraud" has been pled with sufficient particularity to satisfy Rule 9(b).

⁵ As a reading of the summary of the Petition at pages 5-7, *infra*, confirms, petitioners have met the standard enunciated in *San Juan Products, Inc. v. San Juan Pools of Kansas, Inc.*, 849 F.2d 468, 473, 7 U.S.P.Q.2d 1230 (10th Cir. 1988), a case relied upon in Respondent's Memo at 6:

petitioner must plead . . . (1) the false representation regarding a material fact; (2) the registrant's knowledge or belief that the representation is false (scienter); (3) the intention to induce action or refraining from action in reliance on the misrepresentation; (4) reasonable reliance on the misrepresentation; and (5) damages proximately resulting from such reliance.

B. Looking Only To The Petition And Taking The Well-Pled Allegations As True, As The Board Must On A Rule 12(b)(6) Motion, There Can Be No Dispute That Petitioners Have Made Out Good Claims For Cancellation Of The Registration Of The HAVANA CLUB And DESIGN Mark.

1) A Good Claim Is Stated That HRL's Purported Predecessor, Cubaexport, Fraudulently Obtained Its Registration Of The Mark HAVANA CLUB And DESIGN.

HRL's assault on petitioners' fraud claims is stillborn, because HRL, realizing it cannot prevail against the full facts as pled, truncates and piecemeals the allegations in order to set up straw men to knock down. For example, HRL raises a red herring by arguing that to make out a claim of fraud, "petitioners must allege that Cubaexport knew that the Cuban trademark authority's issuance to it of a registration of the HAVANA CLUB mark was invalid under Cuban law." (Res. Br. at 16). The argument is specious, not only because it presumes facts not before the Board -- i.e., that the Cuban trademark authority issued a registration of the HAVANA CLUB trademark to Cubaexport (the dispositive allegation here is that Cubaexport falsely asserted ownership of the Cuban registration) -- but more importantly, because the argument fails to address the actual allegations in the Petition pertaining to the fraudulent procurement of the U.S. registration at issue. Those allegations, which must be taken as true, are:

- at the time Cubaexport filed its original application it was well aware "that it was not the *owner* of the mark HAVANA CLUB for rum *in the United States*" (§ 23) (emphasis added);
- Cubaexport knew that the HAVANA CLUB and DESIGN mark which it applied for in the United States was associated with Jose Arechabala S.A. which had previously imported and sold HAVANA CLUB rum in the United States (§ 24);
- Cubaexport filed its application "*falsely asserting ownership of the Cuban registration* and submitting a label specimen showing use when no lawful label approval had been obtained" (§ 25) (emphasis added);

- Registration No. 1,031,651 of the Havana Club mark was fraudulently obtained by fraudulent statements and acts, including but not limited to the statement that the HAVANA CLUB and Design mark was owned by Cubaexport at the time of the original application (§§ 38, 39);

- these statements were wilfully false and fraudulent when made and were done with the intent of fraudulently obtaining the registration of the mark HAVANA CLUB and DESIGN.

Thus, petitioners, in support of their fraud claims may prove both: (a) that Cubaexport falsely claimed ownership of the Cuban registration of the mark HAVANA CLUB and DESIGN on which it based its Section 44 application, and (b) that Cubaexport knowing full well that someone else owned the HAVANA CLUB mark in the United States, lied in its application to the PTO, with full knowledge of the falsity, by claiming ownership of the mark HAVANA CLUB and DESIGN for rum in the United States. There can be no question that either false statement -- the lie about owning the Cuban registration or the lie about its ownership rights to the mark in the United States -- supports a valid fraud claim.

The Lanham Act imposes the obligation on an applicant not to knowingly make inaccurate or misleading statements in the verified declaration forming a part of the application for registration. *Schwartz International Textiles, Ltd. v. The Federal Trade Commission*, 289 F.2d 665, 669, 129 U.S.P.Q. 258, 48 C.C.P.A. 933, 937 (C.C.P.A. 1961). A registration may be cancelled when fraudulent misrepresentations are contained in the registrant's sworn declaration as to its ownership of the mark and as to the rights of others to use the mark. *Hank Thorp, Inc. v. Minilite, Inc.*, 474 F. Supp. 228, 205 U.S.P.Q. 598 (D.C. Del. 1979) (registration canceled for fraud where U.S. distributor of foreign product knew that his company did not own the mark at the time of the application); *Schwartz International Textiles, Ltd. v. The Federal Trade Commission*, 289 F.2d 665, 129 U.S.P.Q. 258 (C.C.P.A. 1961). Furthermore, a Section 44 applicant must own the foreign registration on which its application is based, -- it is not enough to prove that someone

registered the mark in the country of origin. Mairie Clair Album S.A. v. Kruger GmbH, 29 U.S.P.Q.2d 1792, 1794 (T.T.A.B. 1993)

In *Schwartz International Textiles, Ltd. v. The Federal Trade Commission*, 289 F.2d 665, 129 U.S.P.Q. 258, 48 C.C.P.A. 933 (C.C.P.A. 1961), the court held that the registration was obtained fraudulently within the meaning of Section 14(c) of the Lanham Act because the registrant misrepresented his knowledge as to the rights of others to use the word "fiocco." The court found that the registrant's "statement in the declaration is a misrepresentation of fact as distinguished from the mere expression of an opinion." *Schwartz International Textiles, Ltd. v. The Federal Trade Commission*, 289 F.2d 665, 669, 129 U.S.P.Q. 258, 48 C.C.P.A. 933, 937 (C.C.P.A. 1961).

Cubaexport, like Schwartz, is charged in the Petition, with actual knowledge of the fact that the HAVANA CLUB and DESIGN mark was not owned by Cubaexport in the United States when it filed its application to register that mark. *Cf. Robi v. Five Platters, Inc.*, 918 F.2d 1439, 16 U.S.P.Q.2d 2015 (9th Cir. 1990) (registration cancelled on the basis of fraudulent procurement where registrant's president signed a § 15 affidavit knowing that there was a California Superior Court decision denying registrant the exclusive right to the mark).

Petitioners have alleged the bad faith of the original registrant, Cubaexport, as well as *scienter*: "These statements were willfully false and fraudulent when made and were done with the intention of fraudulently obtaining and maintaining the registration of the HAVANA CLUB and DESIGN mark on the Principal Register of the PTO." (Pet. ¶ 39.) Thus the relevant allegations, indisputable at the 12(b)(6) stage, are that Cubaexport *knew* it did *not* own the HAVANA CLUB and DESIGN mark in the United States and wilfully lied about it to the Patent and Trademark Office. This is fraud.

HRL dissembles by urging that HRL may have had a subjective, good faith belief that it had the right to use the mark HAVANA CLUB and DESIGN in the United

States. That is a matter of proof for HRL to adduce at trial. It would be plain error for the Board at this early pleading stage to accept as fact the "good faith" of Cubaexport when Cubaexport's "good faith" is directly contravened in the Petition. The United States Supreme Court in *Scheur v. Rhodes*, 416 U.S. 232 (1974), reversed the dismissal of complaints filed in civil rights suits brought by the estates of students killed at Kent State by the Ohio National Guard, on the ground that the district court and court of appeals erroneously accepted as a fact the good faith of the Governor of Ohio and erroneously took judicial notice that mob rule existed at Kent State University. There simply had been no evidence before those courts, as there is none now before the Board, from which a finding of good faith could be made on a motion to dismiss for failure to state a claim.

Nor can the Board condone HRL's tortuous twisting of the allegations of the Petition, in order to have the Board anticipate and pass on defenses HRL may wish to assert against the Petition on the merits. For instance, HRL argues that since the Petition is silent as to whether the HAVANA CLUB and DESIGN mark associated with Jose Arechabala, S.A. was still in use in 1976, the Board can somehow extrapolate findings from this silence that the mark was not used and that Cubaexport knew of the non-use. The Board, HRL contends, can then leap to the ultimate factual conclusion that Cubaexport had "a good faith belief" that the HAVANA CLUB mark had been abandoned which vitiates fraud. (Br., p.12). This is poppycock. Cubaexport, in accordance with the Petition, must be attributed with willful falsity -- that is, bad faith.

The lengthy digression concerning the application of the act of state doctrine to facts hypothesized by respondents is similarly irrelevant. In effect, HRL's position appears to be that "under the 'act of state doctrine', the Board is bound to accept the validity of that nationalization as to Jose Arechabala S.A.'s assets -- including any Cuban trademarks --

located within the territory of Cuba at the time of the nationalization, and must recognize title to those assets traced through nationalization." (Resp. Br. at 18.)⁶

What HRL entirely ignores is that the Castro government's version of the confiscation is not in the record. The only factual averment in the Petition pertaining to the subject, is the allegation that Cubaexport was *not* "the successor to Jose Arechabala S.A., the Cuban company which first used the HAVANA CLUB name and mark which company was unlawfully nationalized." (§ 22).

HRL, nonetheless, in extensive footnotes, *sub silentio*, asks the Board to glean and consider "facts" from various extrarecord law journals and purported Cuban legal decrees that demonstrate that "Cubaexport . . . is a Cuban state trading enterprise established by the Ministry of Foreign Commerce to carry out all exports of food products" (Resp. Br. at 18, n. 10) and "Foreign trade was declared a state monopoly under the control of the Ministry of Foreign Trade" (Resp. Br. at 18, n. 10). And that "Jose Arechabala, S.A., was nationalized by Law No. 890 of October 13, 1960" (Resp. Br. at 18, n. 10). This line of argument, which involves the application of foreign law to facts not of record -- indeed, HRL would have the Board accept a version of the facts that is often contradicted directly by the allegations of the Petition -- concludes with the amazing assertion that "[i]t follows that the Cuban expropriation is effective with respect to any trademarks registered in Cuba or otherwise owned in that country by Jose Arechabala, S.A., just as they are with respect to any other of Jose Arechabala S.A.'s assets located there." (Res. Br. at 20). HRL ultimately shows its true colors by arguing that contrary to the petitioners' allegations, "Cubaexport is the successor to Jose Arechabala, S.A." (Res. Br. at 29). What is lacking are "facts" in the record that support the transfer of any assets from Jose Arechabala S.A. to Cuba export.

⁶ On this motion, there are no "facts" before the Board as to whether Jose Arechabala S.A. had any assets or trademarks in Cuba; let alone any basis to conclude those assets somehow found their way to Cubaexport.

Construing the record allegations in petitioners' favor, as the Board is obliged to do, no such transfer took place.

The fly in the ointment from HRL's perspective is that the facts which petitioners may prove dictate an entirely different legal conclusion. The act of state doctrine, at most, prohibits a court from questioning the validity of acts of seizure by the Cuban government of tangible physical property located in Cuba, where just compensation has been provided. *F. Palicio y Compania v. Brush*, 256 F.Supp. 481, 487, 150 U.S.P.Q. 607 (S.D.N.Y. 1966), *aff'd*, 375 F.2d 1011, 154 U.S.P.Q. 75 (2d Cir. 1967). U.S. courts need not recognize title to assets traced through nationalization that do *not* have a situs *within* Cuba. "[O]ur courts will not give 'extraterritorial effect' to a confiscatory decree of a foreign state, even where directed against its own nationals." *Id.* (citations omitted). *See also Zwack v. Kraus Bros. & Co.*, 237 F.2d 686 (2d Cir. 1970). "Accordingly, foreign confiscatory decrees purporting to divest nationals and corporations of the foreign sovereign of property located in the United States have been denied effect in our courts." *Id.*; *Compania Ron Bacardi, S.A., v. Bank of Nova Scotia*, 193 F. Supp. 814, 815 (S.D.N.Y. 1961) ("[s]ince the assets involved in this litigation are in America, the issue of plaintiff's capacity to seek adjudication on the merits in this court is to be determined by our national policy").

The courts have held expressly that trademarks registered in this country such as Jose Arechabala S.A.'s HAVANA CLUB mark are generally deemed to have a local identity and--situs--apart from the foreign manufacturer." *See, e.g., Maltina Corp. v. Carry Bottling Co., Inc.*, 462 F.2d 1021, 1025, 174 U.S.P.Q. 74 (5th Cir. 1972) (Cuban confiscations cannot extend to property of Cuban nationals located in the United States, including U.S. trademarks); *F. Palicio y Compania, S.A. v. Brush*, 256 F. Supp. 481, 150 U.S.P.Q. 607, 617 n.13 (S.D.N.Y. 1966), *aff'd*, 375 F.2d 1011, 154 U.S.P.Q. 75 (2d Cir. 1967) ("Cuban interventions did not deprive the former owners of good-will property rights

embodied in the trademarks registered in the United States)." *Cf. Zwack v. Kraus Bros. & Co.*, 237 F.2d 686 (2d Cir. 1970) (permitting members of a confiscated Hungarian partnership to sue for damages and injunctive relief for infringement of trade names registered in the United States).

In *F. Palicio y Compania v. Brush*, 256 F.Supp. 481, 488, 150 U.S.P.Q. 607 (S.D.N.Y. 1966), *aff'd*, 375 F.2d 1011, 154 U.S.P.Q. 75 (2d Cir. 1967), relied upon by respondents, (Res. Br. at 19-21), the court expressly held:

'where firm assets existing in the forum are concerned, technical considerations as to the manner in which the foreign state seeks to expropriate them are not controlling * * *. It is clear that the (foreign) government could not directly seize the assets which have a situs in the state of the forum. To allow it to do so indirectly through confiscation of firm ownership would be to give its decree extraterritorial effect and thereby emasculate the public policy of the forum against confiscation.'

Id. Consequently, the act of state doctrine cannot serve to bar petitioner's right to reach the merits of their fraud claims. The allegation that Cubaexport knew that it did not own the mark HAVANA CLUB and DESIGN in the United States is untouched even if HRL's dubious reading of the act of state doctrine is credited.

2) A Good Claim Is Stated That HRL And Its Purported Predecessors Maintained The Registration Of The HAVANA CLUB And DESIGN Mark By Fraud.

The Petition alleges that Cubaexport never intended to use the mark HAVANA CLUB and DESIGN in commerce in the United States and falsely stated in a Section 8 affidavit filed in connection with its registration that the mark was "still in use on goods and services." (¶¶ 29, 34.) It is uncontested that respondents' mark has never been used in U.S. commerce so that statement was false as to use in interstate commerce. (Resp. Br. at 22.)

However, respondents contend that Section 8 did not require use in commerce prior to the effective date of the 1982 Amendments to the Lanham Act (Resp. Br. at 22), and

that the requirements of Section 8 could be fulfilled instead by "an allegation that the mark was in use anywhere in the world, not necessarily within the United States." (Resp. Br. at 22.)⁷ Nonetheless, that statement was fraudulent since Cubaexport withheld from the PTO

⁷ The legislative history to the 1982 Amendment, however, establishes that the "use in commerce" requirement of § 8 was in effect even prior to the 1982 Amendment, notwithstanding the confusion of some courts:

Section 8(a) of the Trademark Act is amended *to clarify that the continued use required to be shown in the sixth year be use "in commerce"*. Although it is believed by some that omission of the words "in commerce" may have been inadvertent in the 1946 Act, this section has been interpreted so that use in a foreign country, or use in intrastate commerce, is sufficient. *Such interpretation is fundamentally in conflict with other requirements of the Act.*

Section 8(b) of the Act is also amended *to clarify that the continued use required to be shown in the sixth year be use "in commerce"*. Although it is believed by some that omission of the words "in commerce" may have been inadvertent in the 1946 Act, this section has been interpreted so that use in a foreign country, or use in intrastate commerce, is sufficient. *Such interpretation is fundamentally in conflict with other requirements of the Act.*

Section 8(b) of the Act is also amended to clarify that the continued use required to be shown in the sixth year be use "in commerce" for registrations published under section 12(c) of the Act. (This pertains to registrations issued under the Act of March 3, 1881 and the Act of February 20, 1905).

The word "still" has been deleted from section 8(a) and 8(b). Thus, the owner of a registration issued on the basis of a foreign registration under the provisions of section 44(e) of the Act will have to submit an affidavit to the effect that the mark is in use in commerce. Since the mark need not be used in commerce when it is registered, the requirement cannot be required to state that it is "still" in such use.

H.R. Rep. No. 542, 97th Cong., 2d Sess. at 10, *reprinted in 1982 U.S. Code Cong. & Admin. News 765, 774 (emphasis added).*

the fact that it had no intention of using the mark in United States commerce, but wanted the registration solely for defensive purposes.

3) **A Good Claim Has Been Stated That Respondents Have Used The Mark HAVANA CLUB And DESIGN So As To Misrepresent The Source Of The Goods.**

Petitioners have set forth a valid claim for cancellation under Section 14(c) of the Lanham Act. Under that section a mark is subject to cancellation "at any time . . . if the registered mark is being used by . . . the registrant so as to misrepresent the source of the goods . . . in connection with which the mark is used." 15 U.S.C.A. § 1064(c).

Respondents contend that "[a] petitioner claiming misrepresentation of source must set forth allegations not only that the respondent is using a mark that the public recognizes as petitioner's mark, but that the respondent has deliberately misused a mark so as to trade on the petitioner's goodwill and to deceive the public." (Resp. Br. at 26). This argument flies in the face of the clear language of the statute which defines the wrong as using the mark at issue so as "to misrepresent the source of the goods." Therefore, any misuse of a registered mark that misrepresents the source of the goods gives rise to a claim. This is consonant with the legislative history as one abuse the provision was meant to cure was uncontrolled licensing. Consequently, Section 14(c) is violated whenever a registered mark is used as part of a deliberate scheme to pass off goods as originating from a party other than the trademark owner.

At the time Cubaexport filed its application to register the HAVANA CLUB and DESIGN mark in the United States, petitioners have alleged that the mark HAVANA CLUB, to Cuba export's knowledge, was associated in the United States with Jose Arechabala S.A. (Pet. ¶¶ 21, 24.) Respondents' registration of the identical label mark previously used by Jose Arechabala S.A. was clearly calculated to poach upon the latter's goodwill. *See The E.E. Dickinson Co. v. The T.N. Dickinson Co.*, 221 U.S.P.Q. 713 (T.T.A.B. 1984) (denying motion to dismiss cancellation petition). The formula respondents

use to make their ersatz rum was alleged to be materially different from the formula used by the original producer of HAVANA CLUB rum, Jose Arechabala S.A. and the change was surreptitiously made to deceive the public. Furthermore, as respondents rightly note, on their face the words 'founded in 1878' refer to the historical origin of the company which produces HAVANA CLUB rum (Resp. Br. at 30). But Cubaexport was not formed in 1878 (§ 22), so the only rationale for use of such a false statement as part of its registered trademark was to pass off its ersatz HAVANA CLUB rum as that of Jose Arechabala S.A. Indeed, respondents tacitly concede that they seek to profit from this presumed connection, purporting falsely, that they are the legitimate successor to Jose Arechabala, S.A. (Resp. Br. at 29.). Consequently, these allegations, coupled with the allegation that as a result of the aforesaid acts of respondents, the HAVANA CLUB and Design mark is a vehicle for fraud which is being used to misrepresent the source of the rum sold under the mark (§ 41), state a good claim of misuse of a registered mark under Section 14(c) upon which relief can be granted.

Respondents' reliance on *McDonnell Douglas Corp. v. National Data Corp.*, 228 U.S.P.Q. 45, 47 (T.T.A.B. 1985), Res. Br. at 26-27, is inapposite. The Board dismissed petitioners' Section 14(c) claim because McDonnell Douglas relied solely on the alleged confusing facial similarity of the two marks as the basis for its 14(c) claim. In short, it masqueraded a standard § 2(a) likelihood of confusion claim as a § 14(c) claim for misrepresentation. The Board in McDonnell Douglas distinguished the facts before it from those found in the landmark Section 14(c) case, *Cuban Cigar Brands, N.V. v. Upmann International, Inc.*, 457 F. Supp. 1091, 199 U.S.P.Q. (S.D.N.Y. 1978), which "rested on the defendant's deliberate efforts to confuse the public and to encourage the public to recognize its products for those of the plaintiff." *McDonnell Douglas*, 228 U.S.P.Q., 45, 47 (T.T.A.B. 1985) (rejecting defendant's argument that the marks were incontestable and

cancelling them pursuant to Section 14(a)). Here, just such a deliberate attempt to confuse the public is pled.

HRL argues that misrepresentation of source cannot occur where the prior user of the mark is not currently selling the product in question. (Res. Br. at 26.) To the contrary, the court in *Cuban Cigar Brands, N.V.*, held that the fact that the Cuban government prevented plaintiff from exporting cigars to the United States did not constitute abandonment of the mark, and therefore, did not presumptively negate a claim of misrepresentation of source.⁸

The precedents respondents rely on do not suggest otherwise. In *Osterreichischer Molkerei-und Kaisereiverband Registrierte Genossenschaft mit Beschränkter Haftung v. Marks and Spencer, Ltd.*, 203 U.S.P.Q. 793, 794 (T.T.A.B. 1979), the Board merely held that Section 14(c) did not allow for a claim of misrepresentation of source to be based on a mark's alleged geographical misdescriptiveness.

Respondents' reliance on dictum found in a footnote contained in *Global Maschinen GmbH v. Global Banking Systems, Inc.*, 227 U.S.P.Q. 862 (T.T.A.B. 1985), is likewise misplaced. The Board expressly stated that the "Section 14(c) claim is not discussed in petitioner's brief and hence, [the claim] is deemed abandoned." *Global Maschinen GmbH v. Global Banking Systems, Inc.*, 227 U.S.P.Q. 862, 863 (T.T.A.B. 1985). Thus, the Board never reached the issue whether the allegations stated a claim.

⁸ The contention that petitioners' own allegations impliedly concede that Jose Arechabala has not produced or sold HAVANA CLUB rum since the nationalization of its property in Cuba in 1960 is fallacious. Nowhere is the 1960 date alleged in the petition and numerous Cuban companies like Bacardi survived Castro and have prospered. Moreover, even assuming, *arguendo*, that there was a discontinuation of the use of the HAVANA CLUB and DESIGN mark by Jose Arechabala, S.A., such an interruption would not entitle respondents to use the identical mark for rum as long as trademark recognition of the Arechabala HAVANA CLUB mark persisted in the United States.

**4) Good Claims For Abandonment Of The Mark
HAVANA CLUB And DESIGN Have Been
Stated.**

**(a) Abandonment Has Been Properly
Alleged Based On Respondents'
Non-Use.**

Petitioners have alleged that respondent's mark was registered in 1976 and never used in commerce in the United States (§ 45). This makes out a *prima facie* case that the HAVANA CLUB mark has been abandoned due to non-use. 15 U.S.C. § 1127(a).

These allegations alone are sufficient to withstand a 12(b)(6) motion to dismiss. *Merchant & Evans, Inc. v. Roosevelt Bldg. Products Co., Inc.*, No. 90-7973, 1992 U.S. Dist. LEXIS 9086 at *5-6 (E.D. Pa. 1992) (allegation that trademark owner failed to use the mark as required by § 1127(a) is sufficient to withstand 12(b)(6) motion).

Respondent's rebuttal argument pertaining to excusable nonuse are factual in nature and are not properly considered on a motion to dismiss which looks only to the complaint, "where all allegations are considered and construed in a light most favorable to the plaintiff." *Id.* See also *Holman v. Cook*, 879 F. Supp. 113 (D.D.C. 1995) (at motion-to-dismiss stage of the proceedings, plaintiffs have a "relatively light" burden, they need only establish a *prima facie* case by alleging the appropriate recitations); *Cf. Imperial Tobacco Ltd. v. Philip Morris, Inc.*, 899 F.2d 1575, 1580, 14 U.S.P.Q.2d 1390 (implying that excusable nonuse must be addressed at fact-finding level, stating "registrant must put forth evidence with respect to what activities it engaged in during the nonuse period or what outside events occurred from which an intent to resume use during the nonuse period may reasonably be inferred"); *Cf. Western Worldwide Enterprises Group, Inc. v. Quinqudao Brewery*, 17 U.S.P.Q.2d 1137 n.5 (T.T.A.B. 1990) (exhibits and affidavits submitted in support of "motion to dismiss" are given no consideration in determining the sufficiency of the allegations set forth in the petition for cancellation).

In the *Rodrigo* proceeding where the only issue was abandonment by non-use, Respondents resorted to numerous declarants to prove a good faith intent to sell HAVANA CLUB and DESIGN rum in the United States and excusable non-use.⁹ Petitioners intend to probe the truth of those averments. In any event, the present intent of officers of HRL, a Luxembourg company, after the collapse of the Soviet Union and the end of its subsidies to Cuba, are not relevant to petitioners' claim here, which is that the mark had long before been abandoned by Castro's functionaries, in the 1970's and early 1980's, at a time when ideology was more important than foreign capital. Indeed, an intent to use the mark in the United States is the *sine qua non* of a § 44 Lanham Act trademark application, and petitioners here have alleged that Cubaexport never intended to use the mark in the United States but instead sought the registration for defensive purposes. This finding entails an abandonment. See *La Societe Anonyme des Parfums Le Galion v. Jean Patou, Inc.*, 492 F.2d 1265 (2d Cir. 1974) (trademarks are not registrable and once registered cannot be maintained unless supported by an effort at good faith use).

**(b) Abandonment Has Been Properly
Alleged Based On Assignments In Gross.**

Petitioners have set forth a valid claim of abandonment based on the allegation that invalid assignments-in-gross of the mark HAVANA CLUB and DESIGN were made; first, by Cubaexport, to Havana Rum & Liquors, S.A. on June 22, 1994, and then by Havana Rum & Liquors, S.A. to HRL. Both assignments were allegedly made without transferring the accompanying goodwill or related assets (§§ 34, 35, 46), so as a matter of law these were assignments-in-gross resulting in an abandonment of trademark rights.

Cubaexport never used the mark in United States commerce, so the transfer of the HAVANA CLUB and DESIGN mark to Havana Rum & Liquors, S.A. and the

⁹ Either for tactical reasons or want of funds, the petitioner in *Rodrigo* took no discovery. Petitioners here intend and are entitled to take the depositions of all the declarants.

subsequent bare transfer to HRL, were invalid assignments-in-gross. Ownership rights in a trademark did not arise, unless, and until, the mark was used on, or in connection with, the sale or distribution of goods in U.S. commerce:

We take it as settled that ownership rights in a trademark in the United States, in the case of private persons, exist only as an appurtenance to a manufacturing or marketing business conducted in the United States in which the mark is used.

Rogers v. Ercona Camera Corp., 277 F.2d 94, 97 (2d Cir. 1960) (citations omitted). "A trademark has no independent significance apart from the goodwill it symbolizes. . . . If there is no business and no good will, a trademark symbolizes nothing. For these reasons, a trademark cannot be sold or assigned apart from the good will it symbolizes." *McCarthy on Trademarks and Unfair Competition* § 18.01[2] (1995) (citations omitted). *See also Marshak v. Green*, 746 F.2d 927, 223 U.S.P.Q. 1099 (2d Cir. 1984) (holding that a trademark may not be auctioned apart from its goodwill). A valid assignment of the HAVANA CLUB and DESIGN mark could not have occurred at a time when it was (and is) unlawful to carry on the appurtenant business in the United States. *Rogers v. Ercona Camera Corp.*, 277 F.2d 94, 97 (2d Cir. 1960) (citations omitted).¹⁰ Here, no business in the United States has

¹⁰ The law on the assignment of a mark prior to establishing a business suggests nothing to the contrary:

Transfer of a trademark will not be deemed a transfer in gross if it appears it was transferred for use in a business, not yet established, but for use in a business to be established, and if that business was in fact established. However, this does not mean that the assignor never had any established business. If that was so, there was never any usage of the mark and hence no legal mark at all.

It has been held that a company with an established business can transfer rights in a related potential business. However, this rule does not apply if, at the time, because of legal restraints, it was *not possible* to establish the potential business in which the mark could be used and in fact none was

(continued...)

been, or could be established relating to the importation of Cuban rum under the HAVANA CLUB and DESIGN mark, given that such importation is unlawful. Accordingly, Cubaexport's assignment of the HAVANA CLUB and DESIGN mark was an invalid assignment-in-gross.

Even assuming for argument's sake that Cubaexport could, in some circumstances, transfer rights in a trademark it never used to a third party that could not use it, at the very least Cubaexport would have had to transfer with the mark the formula for making HAVANA CLUB rum. It has long been settled that a unique formula or production method must be transferred with a trademark in order to avoid an assignment in gross. In *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 43 F.2d 937, 939 (2d Cir. 1930), for example, the Second Circuit held that an assignment in gross took place when a mark for perfume was assigned without assigning the rights to the recipe for the underlying product, "4711" cologne, which had achieved international fame. The majority decided that "assignment of the recipe is essential to give the assignee the exclusive right of a mark which denotes a product manufactured thereunder."

Similarly, in *Pere Alfredo Luis Baglin v. Cusenier Co.*, 221 U.S. 580 (1911), the Supreme Court held that the French liquidator of the properties of Carthusian monks of the Monastery of La Grande Chartreuse, or those claiming under him, may not use the word "Chartreuse," the monks' trademark for a liqueur made and sold by them pursuant to a secret formula, in connection with the sale in the United States of a liqueur not made by the monks.

In the instant matter, Cubaexport is alleged to have materially changed the original formula for HAVANA CLUB Rum in a surreptitious manner calculated to deceive

¹⁰(...continued)
established.

McCarthy on Trademarks and Unfair Competition § 18.01[6] at 18-9 (1995) (citations omitted).

purchasers as to the changed nature of the product (§ 24). Thereafter, the mark then purported to change hands twice without transfer of the goodwill or related business assets, including the formula for making the rum. Thus, the successive purported assignments of the HAVANA CLUB and DESIGN mark were invalid.¹¹ Cf. *Pepsico, Inc. v. Grapette Co.*, 416 F.2d 285, 289-90 (8th Cir. 1969) (finding that differences in formula between assignor's cola-flavored syrup and assignee's pepper-flavored syrup were sufficiently different to prevent a transfer of goodwill, and therefore invalidated the assignment); *Green River Bottling Co. v. Green River Corp.*, 997 F.2d 359, 362 (7th Cir. 1993) (holding that Green River Corp. had no right to affix "Green River" name to soft drink manufactured under a different formula, reasoning "[t]he point is not that the product to which a trademark is affixed can never change. . . . But in these cases the consumer always knew whose product he was getting. The prohibition of sales in gross protects his expectations. But the consumer who buys 'Green River' soft drink under a [different] formula . . . is . . . being sold a different product, made by a different producer, from the product and producer that the trademark had been meant to identify."); *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 988 F.2d 414, 418 (3d Cir. 1993) (breach of contract action wherein court observed that Coca-Cola Co. brought back old formula of Coke under the name "Coca-Cola Classic" in response to consumer demand after formula had been changed). A trademark is not only an identification of source, but also an emblem of quality. Such an undisclosed, material change in a product destroys the trademark significance of the mark it bears.

¹¹ The case here is a far simpler one than that found in *Mulhens & Kropf*, in which the wartime transfer of the United States business and trademark was deemed valid. Here, Cubaexport cannot succeed to ownership of Arechabala's mark in the United States, and cannot be deemed to have succeeded to Arechabala's business in the United States. See, e.g., *Maltina Corp. v. Cawy Bottling Co., Inc.*, 462 F.2d 1021, 174 U.S.P.Q. 74 (5th Cir. 1972) (Cuban confiscations cannot extend to property of Cuban nationals located in the United States, including U.S. trademarks); *F. Palicio y Compania, S.A. v. Brush*, 256 F. Supp. 481, 150 U.S.P.Q. 607, 617 n.13 (S.D.N.Y. 1966), *aff'd*, 375 F.2d 1011, 154 U.S.P.Q. 75 (2d Cir. 1967) ("Cuban interventions did not deprive the former owners of good-will property rights embodied in the trademarks registered in the United States)."

Abandonment results from an assignment in gross and constitutes grounds for cancellation of the registration of the invalidly assigned mark. *Liquod Glass Enterprises, Inc. v. Liquod Glass Industries of Canada, Ltd.*, ___ F. Supp. ___, 14 U.S.P.Q.2d 1976 (E.D. Mich. 1989). *See also Otis Elevator Co. v. Echlin Mfg.*, 187 U.S.P.Q. 310 (T.T.A.B. 1975) (canceling as abandoned, registration owned by assignee after assignment in gross); *cf. Johanna Farms, Inc. v. Citrus Bowl, Inc.*, 468 F. Supp. 866, 199 U.S.P.Q. 16 (E.D.N.Y. 1978) (observing that if assignor transfers mark without goodwill "his good intentions will not breathe life back into the devitalized mark" and abandonment results). A good claim for such abandonment has been stated.

**(c) Abandonment Has Been Properly
Alleged Based On The Loss Of The
Mark's Trademark Significance As A
Result Of Respondents' Deceptive Use
Of The Mark And Unclean Hands.**

The Petition alleges that respondents have used the HAVANA CLUB and DESIGN mark: "[as] a vehicle for fraud, and said purported mark is being used to misrepresent the nature, quality, and source of the rum said under that mark." (¶ 41).¹²

A mark is deceptively misdescriptive when the mark misdescribes either the character, quality, function, composition or use of the goods with which it is used. *See In re Budge Mfg. Co., Inc.*, 857 F.2d 773, 8 U.S.P.Q.2d 1259, 1260 (Fed. Cir. 1988). As respondents themselves state: "deception is found when an essential and material element is misrepresented, is distinctly false, and is the very element upon which the customer relies in purchasing one product over another." (Res. Br. at 28) (quoting *Gold Seal Co. v. Weeks*, 105 U.S.P.Q. 407, 129 F. Supp. 928, 934 (D.D.C. 1955), *aff'd sub. nom. S.C. Johnson & Son, Inc. v. Gold Seal Co.*, 180 U.S.P.Q. 400, 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956)). Here, respondents must be deemed to have changed the quality, formula,

¹² The Petition alleged separate claims for cancellation based on use of the mark to misrepresent the quality of the goods and unclean hands. These legal theories fit under the rubric of abandonment through loss of trademark significance.

and method of making HAVANA CLUB rum from that used by Jose Arechabala, S.A. for the purpose of deceiving potential customers. (§ 24, 41). These material elements of the trademarked product are the very criteria upon which a prospective customer should rely in purchasing one rum over another.

Respondents' reliance on *Gold Seal Co. v. Weeks*, 105 U.S.P.Q. 407, 129 F. Supp. 928, 934 (D.D.C. 1955), *aff'd sub. nom. S.C. Johnson & Son, Inc. v. Gold Seal Co.*, 180 U.S.P.Q. 400, 230 F.2d 832 (D.C. Cir.), *cert. denied*, 352 U.S. 829 (1956), is unavailing. The designation "Glass-Wax" on the record evidence developed in the case was held not to deceive the public into believing the product (a liquid cleanser) contained "wax."

For purposes of this motion, however, the facts are that HRL's formula for its rum was materially different from the original formula for HAVANA CLUB rum in the United States and that this formula was surreptitiously changed to deceive purchasers as to the changed nature of the product. Such an undisclosed, material formula change is tantamount to a fraud on the public. A trademark is not only an identification of source but also an emblem of quality. Such an undisclosed material change in a product destroys the trademark significance of the mark it bears.

The doctrine of "unclean hands" is a broad one and is premised on "prevent[ing] a wrongdoer from enjoying the fruits of his transgression . . . [and] avert[ing] injury to the public." *Precision Instrument Mfg. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806 (1945) (patent case). Furthermore, the doctrine of unclean hands is applicable to all Lanham Act proceedings. *Lever Bros. Co. v. Shaklee Corp.*, 214 U.S.P.Q. 654, 659-660 (T.T.A.B. 1982) (precluding a registrant from relying on a registration which has been secured or maintained on the basis of a false statement is in accordance with the equitable doctrine of "unclean hands"). See *Duffy-Mott Co. v. Cumberland Packing Co.*, 424 F.2d 1095, 165 U.S.P.Q. 422 (C.C. P.A. 1970) (fraud in § 15 affidavit is "unclean hands," but cancellation not in issue).

Respondents contend that the doctrine of "unclean hands" does not act as a basis for cancellation of a trademark. (Resp. Br. at 48). Respondents, however, fail to set forth any controlling authority in support of this proposition. Instead, respondents' heavily rely on some passing dictum found in *Garri Publication Assoc. v. Dabora, Inc.*, 10 U.S.P.Q.2d 1694 n.5 (T.T.A.B. 1988). The petitioner in that case had not pled "unclean hands" as a basis for cancellation, and accordingly, the Board expressly refused to consider the question. *Id.*

Respondents also rely on *E & J Gallo Winery v. Gallo Cattle Co.*, 21 U.S.P.Q.2d 1824, 1834, 955 F.2d 1327, 1341 (9th Cir. 1992), an opinion that does not even mention the doctrine of "unclean hands." Instead, the Ninth Circuit merely held that laches and estoppel were defenses to the plaintiff-winery's claim of trademark infringement and could not constitute counter-claims that challenged the Winery's ownership rights in the Gallo Mark.

Respondents reliance on *Burroughs Wellcome Co. v. Warner-Lambert Co.*, 203 U.S.P.Q 201, 208 n.7 (T.T.A.B. 1979), is similarly misplaced. In that case, which was an opposition proceeding, the Board merely observed that inequitable conduct that falls short of fraud does not constitute a ground for refusal of a registration. *Id.* Here, petitioners have alleged conduct on the part of respondents that rises to the level of fraud on the public and so should serve as an independent basis for cancellation.

**C. The Lanham Act Must Be Construed So As To
 Avoid A Clash With The Constitutionally
 Mandated Requirements That Trademark
 Rights Arise Only From Actual Use Of A Mark
 In Interstate Commerce**

To acquire ownership rights in a trademark in the United States, a person must actually use that trademark in connection with the sale of goods or services in commerce that may be regulated by Congress. The power of the federal government to regulate trademarks

arises under the Commerce Clause. U.S. Const. Art. 1 § 8 cl.3. *See also Trade-Mark Cases*, 100 U.S. 82, 25 L.Ed. 550 (1879).

The drafters of the Lanham Act have carefully heeded the constitutional requirement of actual use. For instance, the term "trademark" was originally defined in Section 45 as a "word, symbol or devise adopted and *used* by a manufacturer or merchant." 15 U.S.C. § 1127. Before, the 1988 Amendments to the Lanham Act, the only exception to the actual use requirement for registration was found in Section 44(e) which provides that a mark duly registered in the country of origin of the foreign applicant may be registered on the Principal Register, if otherwise eligible. But in all other respects, a section 44(e) registrant was (and still is) obliged to comply with U.S. trademark law. As the Court of Appeals for the Federal Circuit has stated:

We see no justification to adopt a different or more liberal interpretation of the statute in connection with a mark of a section 44(e) registrant which has *never* been used in this country. Such registrant has no right to maintain a registration except in accordance with this statute, and nothing in the statute suggests that a never-used mark can be maintained indefinitely simply because the registrant does not have an affirmative duty to relinquish the mark. A section 44(e) registrant is merely granted a dispensation from actual use prior to registration, but after registration, there is no dispensation of use requirements.

Imperial Tobacco Ltd. v. Philip Morris, Inc., 14 U.S.P.Q.2d 1390, 1395 (D.C. Cir. 1990) (finding that the presumption of abandonment may be invoked against a section 44 registrant as against any other where section 44 registrant fails to make use of the registered mark for two years). Likewise, the court in *P.A.B. Produits Et Appareils de Beaute v. Santinine Societa in Nome Collettivo di S.A.e.M. Ussellini*, 570 F.2d 328, 330 (C.C.P.A. 1978), has expressly stated:

The board noted that the registration here sought to be cancelled was based on ownership of a foreign registration as provided in Section 44(e) of the Lanham Act, 15 U.S.C. § 1126(e). Section 44(f) of the Act, 15 U.S.C. § 1126(f), provides that a registration so obtained "shall be independent of the registration in the country of origin and the duration, validity, or transfer in the United States of such registration shall be governed by the

provisions of this Act." Thus, said the board, while a foreign applicant has a procedural advantage in obtaining a registration in this country, there being no requirement to allege use "in commerce," the maintenance of such a registration is placed on equal footing with a domestic registration which issues on the basis of such use. Having obtained a registration, the foreign registrant is subject to our national law; it is subject to the same treatment and conditions which prevail in connection with domestic registrations based on use in the United States, including the possibility of cancellation on the ground of abandonment. *See Sinclair v. Deb Chemical Proprietaries Ltd.*, 137 U.S.P.Q. 161 (TTAB 1963) and cases cited therein.

Id. (footnotes omitted).

The Paris Convention simply requires that a signatory nation grant foreign citizens the same trademark rights as those afforded to its own citizens. Therefore, foreign citizens may have the same trademark rights as U.S. citizens, no more.

Even before the 1988 amendments to the Lanham Act, Section 44 applications implied a good faith intent to use the mark sought in the United States, and since those amendments took effect, an applicant under Section 44(e) is explicitly required to state the applicant's bona fide intention to use the mark in commerce. The same requirement was imposed upon domestic applicants who filed intent-to-use applications. It is submitted that these requirements of a good faith intent to actually use a mark in commerce is constitutionally mandated.

Respondents have never used the mark HAVANA CLUB and DESIGN in commerce that may be regulated by Congress. On this motion, it further must be presumed that Cubaexport never had an intention to do so, but sought the registration solely to prevent others from using the mark in the United States. Petitioners submit that any interpretation of the Lanham Act which would accord trademark rights to a party which demonstrably never intended to use the mark in commerce in the United States would be unconstitutional. Petitioners further submit that any interpretation of the Lanham Act which would recognize the transfer of purported trademark rights by a Section 44(e) registrant, which had never

used that mark in commerce in the United States to a third party in a different foreign country that did not own the original home registration is also unconstitutional.

The Board, regardless of its power to pass on constitutional issues, should make every effort to interpret the Lanham Act so as to avoid a clash with the U.S. Constitution. It is particularly important, at this early stage, not to dismiss this Petition and thus create a constitutional question on appeal, which might well be avoided were the record to be fully developed in this proceeding.

V.

CONCLUSION

For the foregoing reasons, the Respondents' Motion to Dismiss the Petition for Cancellation for Failure to State a Claim Upon Which Relief Can Be Granted pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure should be denied in its entirety, or in the less preferred alternative, petitioners should be granted leave to amend.

Dated: February 20, 1996
New York, New York

Respectfully submitted,

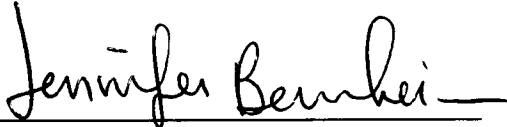
KELLEY DRYE & WARREN

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Galleon, S.A.,
BACARDI-MARTINI U.S.A., Inc., and
Bacardi & Company Ltd.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing PETITIONERS' MEMORANDUM OF LAW IN OPPOSITION TO RESPONDENTS' MOTION TO DISMISS THE PETITION has been served upon respondents' attorney, Michael Krinsky, Caroline Rule, Laurence R. Helfer, Debra Evenson of Krinsky & Lieberman, P.C., Fifth Floor, 740 Broadway, New York, New York 10003, the address designated by said attorney for that purpose by depositing a true copy thereof with the United States Postal Service as first-class mail on February 20, 1996.

Dated: February 20, 1996

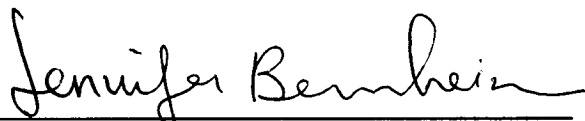

Jennifer Bernheim

CERTIFICATE OF MAILING

Express Mail, Mailing No. EG179585370US

Date of Deposit February 20, 1996

The undersigned hereby certifies that this paper or fee is being deposited with the United States Postal Service "Express Mail Post Office to Addressee" service under 37 CFR 1.10 on the date indicated above and is addressed to the Box TTAB NO FEE, Assistant Commissioner for Trademarks, 2900 Crystal Drive, Arlington, Virginia 22202-3513.



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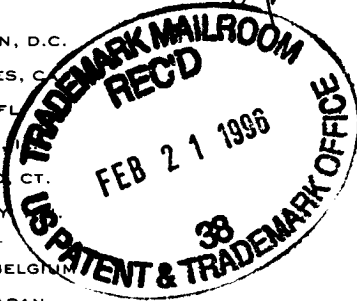
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WILLIAM R. GOLDEN, JR.

DIRECT LINE (212) 808-7992

February 20, 1996

VIA EXPRESS MAIL

Box TTAB NO FEE
Assistant Commissioner
for Trademarks
2900 Crystal Drive
Arlington, Virginia 22202-3513

Re: Galleon S.A., BACARDI-MARTINI U.S.A., INC., and BACARDI &
COMPANY LIMITED, Petitioners
- against -
HAVANA CLUB HOLDINGS, S.A. and HAVANA RUM &
LIQUORS, S.A. d/b/a H.R.L., S.A., Respondents.
Cancellation No.: 24,108

Dear Sir:

In connection with the above-referenced cancellation proceeding, we enclose
Petitioner's Memorandum of Law in Opposition to Respondents' Motion to Dismiss the
Petition.

Please acknowledge receipt of the foregoing on the enclosed postcard.

Very truly yours,

William R. Golden, Jr.