

## Caution for Subsidiary Owners of Trademarks: Subsidiaries Cannot Benefit from Parents' Use of Trademarks

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### Client Advisory

June 20, 2016 by John M. Griem, Jr. and Rose Auslander

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The Trademark Trial and Appeal Board recently issued a precedential decision of interest to any group of affiliated companies where a parent corporation controls the nature and quality of goods and services rendered under a trademark owned by its U.S. subsidiary. The decision, *Noble House Home Furnishings, LLC v. Floorco Enterprises, LLC*, 118 U.S.P.Q.2d 1413 (T.T.A.B. 2016), holds that a parent's use of a mark that it controls does not inure to the benefit of the subsidiary that actually owns the mark. Therefore, a mark owned by a subsidiary can be abandoned even when the parent has been using the mark.

Under Section 45 of the Trademark Act, a mark shall be deemed abandoned "[w]hen its use has been discontinued with intent not to resume such use." 15 U.S.C. § 1127. "Use" means "the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in the mark." *Id.* Nonuse for 3 consecutive years is prima facie abandonment, and the owner of the mark has the burden of producing evidence that it has either used the mark or intended to resume use after a period of "excusable non-use" (e.g., lack of demand for the product). 118 U.S.P.Q.2d at 1417. Section 5 of the Act "permits an applicant or registrant to rely on use of the mark by related companies." *Id.* at 1421. A "related company" is "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used." 15 U.S.C. § 1127. Therefore, "when a mark is used by a related company, use of the mark inures to the benefit of the owner who controls the nature and quality of the goods or services." 118 U.S.P.Q.2d at 1421.

*Noble House* involved the NOBLE HOUSE trademark for furniture registered by Noble House Home Furnishings, LLC ("Noble House"), a limited liability company organized under the laws of Kentucky, which is a wholly-owned subsidiary of Furnco International Corporation ("Furnco"), a Hong Kong corporation. 118 U.S.P.Q.2d at 1420–21. A U.S.-based competitor, Floorco Enterprises, filed an action in the U.S. Trademark Office to cancel the mark on the basis that it had been abandoned by Noble House. *Id.* Noble House's governing documents show that Furnco is the sole manager of Noble House and is responsible for its control, management, and funding. 118 U.S.P.Q.2d at 1420–21. Additionally, the Operations Manager at Noble House testified that "all major decisions of Noble House are made with the consent and approval of [Furnco]," and that Furnco controls Noble House's operations. *Id.* at 1420. Furnco manufactures and distributes all of the furniture marketed by Noble House or under the NOBLE HOUSE mark. *Id.* at 1419 n.33.

The Trademark Trial and Appeal Board found that the last sale of furniture under the NOBLE HOUSE mark was on July 14, 2009, and that Noble House had not used the mark since it filed its Statement of Use on August 18, 2011. 118 U.S.P.Q.2d at 1417. However, Furnco continued to sporadically market furniture under the mark at least as late as 2015. Noble House employees identified themselves to potential customers as

employees of Furnco, which they described as “a China-based company . . . [with] a strong presence in the United States with service centers in North Carolina and Kentucky,” and sent correspondence and marketing proposals using the Furnco letterhead and logo. *Id.* at 1418–19.

*Noble House* presented the issue of whether the marketing by Furnco inured to the benefit of Noble House to demonstrate that Noble House intended to resume using the mark, even though Furnco controlled the nature and quality of the furniture. In most situations the parent owns the mark, and “the inherent nature of the parent’s overall control over the affairs of a subsidiary will be sufficient to presume that the parent is adequately exercising control over the nature and quality of goods and services sold by the subsidiary under a mark owned by the parent.” 118 U.S.P.Q.2d at 1421. In other words, the subsidiary will be considered a related company (*i.e.*, person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services), and its use of the mark will inure to the benefit of the parent under Section 5 of the Act.

In *Noble House*, however, the Board held that when the **subsidiary** is the registered owner of a mark but the parent controls the nature and quality of the goods or services rendered under the mark, the parent “does not meet the definition of a related company.” 118 U.S.P.Q.2d at 1422. Therefore, the parent’s use of the mark cannot inure to the benefit of the owner-subsidiary under Section 5 of the Act.

Although the Board acknowledged that one could argue that Furnco International owned the mark all along, because it was the owner of Noble House, the Board concluded that “the existence of a separate and distinct legal entity [*i.e.*, the subsidiary] cannot be turned on or off at will to suit the occasion.” 118 U.S.P.Q.2d at 1421–22. Noble House filed the NOBLE HOUSE trademark application, and the Board would not ignore Noble Houses’s separate legal status from its parent.

Companies with wholly-owned subsidiaries that own trademarks would be well-advised to consider that their subsidiaries may not benefit from the parent’s use of the mark when the parent controls the nature and quality of the goods and services. The decision in *Noble House* makes it clear that those subsidiaries are at risk for claims that they have abandoned their marks.

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