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Wisconsin Supreme Court Ruling Underlines Importance of Having an IP Strategy When Selling Assets of a Business

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Hinshaw Alert

In *Ritter v. Farrow*, 2018 AP 1518 (WI S. Ct. 2/23/21), the Wisconsin Supreme Court addressed Wisconsin trademark law in the context of the sale of a resort management business. Applying the principle that trademarks and their associated good will pass with the sale of a business, the Court found that the defendant purchasers of the resort management business had in fact acquired the trademarks at issue. The facts and outcome of this case illustrate how important it is for business owners to understand what intellectual property they own, the steps they should take to protect those rights, and in the event of a sale of assets associated with the business, how important attention to detail is to ensure the intent of the parties is actually accomplished.

Background on the Case

In 1986, the Ritters purchased lakeshore resort property in St. Germain, Wisconsin. The property consisted of 11 rental units, a permanent residence, and a bar, which the Ritters began managing. They also created a logo for their business consisting of a pair of red bib overalls with a handkerchief hanging out of a back pocket and adopted the names "Bibs Resort" and "Bibs" for use in the business.

Some years later, in 1998, the Ritters converted the resort to a condominium form of ownership; the condominium also used the "Bibs Resort" trademark. The Ritters continued to manage the individual units or cottages at the resort through contracts with the condominium.

Subsequently, the Ritters sold a few units to third parties who were given the right to use the trademarks with their units. In 2006, the Farrows purchased a unit and the resort management business. The Farrows' offer to purchase identified "good will," "intangible property," and "trade names" among the assets they were offering to purchase. The Ritters accepted the Farrows' offer.

After the sale, disputes arose and the unit owners stopped using the Farrows for management services. The Ritters resumed managing the other units and used the trademarks. Lawsuits were filed and the Farrows asserted claims against the Ritters for trademark infringement. After multiple proceedings and appeals, the case was accepted for review by the Wisconsin Supreme Court. The key issues before the Court were who owned the trademarks and who had

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the right to use the trademarks.

The four justice majority concluded that the trademarks at issue were associated with the resort management services business that was established by the Ritters and then sold to the Farrows. Relying on the principle that a trademark cannot be sold unless the associated good will is also sold—and that when a business is sold, the trademarks and associated good will pass with sale of a business—the majority found the Farrows had purchased the trademarks. The case was remanded back to the trial court for consideration of the Farrows motion for summary judgment on the Farrows' claim for trademark infringement.

The three justice dissent reached the opposite result, concluding that the Ritters did not have exclusive rights to the trademarks at the time of the sale of assets to the Farrows because the Ritters had previously granted rights to use the trademarks to third parties, including some of the unit owners and the condominium. The dissent concluded the Ritters did not transfer the exclusive rights to the trademarks to the Farrows and therefore, the Farrows could not sue for trademark infringement.

According to the dissent, the majority of the Court erroneously applied the Lanham Act (15 U.S.C. § 1051 et. seq.) in its analysis by relying on federal cases where trademarks protected by U.S. Trademark Registrations were at issue. Under the Lanham Act, the federal registration of a trademark is *prima facie* evidence of the registrant's exclusive right to use the registered trademark. In contrast, since the trademarks at issue in this case were not protected by federal registrations the Ritters did not have the benefit of this rebuttable presumption. Wisconsin law applied to the trademarks and the Ritters had to demonstrate possession of the right to exclusive use of the trademarks, which they could not do because they had granted rights to use the trademarks to third parties.

Key Takeaways

- Business owners who create and use logos and other trademarks in their business should protect their rights in those marks through state and, if available, U.S. Trademark Registrations.
- Business owners who wish to grant limited rights of use of their trademarks to third parties should enter into written Trademark Licenses with those third parties and then police use of the trademarks by the third parties.
- Business owners should identify the intellectual property assets owned and/or used in the business, including trade secrets, trademarks, copyrights and patents, include those intellectual property assets in their inventory of assets and assess the value of their intellectual property assets.
- Business owners should verify whether their intellectual property rights are controlled by federal or state law and be sure to understand the impact and the requirements of the controlling law.
- When select assets of a business are sold, care should be used in drafting the sales documents to assure that only the assets the seller intends to convey are sold.