

EDVA Judge Trims Down Claims in Trademark Dispute Arising From Business Sale

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A pending EDVA case shows how the failure to address intellectual property rights in an asset sale can mushroom into multinational litigation, including a dispute over trademark rights in the United States.

Background

[Zhejiang Hailiang Co. Ltd. v. KME German GMBH](#), Case No. 1:23CV1606 (LMB/LRV), involves an agreement for a Chinese metal manufacturer, Hailiang, to purchase several European companies owned by KME, a German company that is one of the world's largest manufacturers of copper and copper alloy products. The four companies Hailiang agreed to purchase were based in France, Germany, Italy, and Spain and all of the companies included "KME" in their name. As part of the purchase, the parties apparently agreed that Hailiang could rename the companies by simply replacing "KME" with "HME" in the business names.

The similarities between the names of the four new "HME" businesses and KME did not appear to concern the parties at the time of the purchase. The parties signed contracts for future business relationships between the new "HME" companies and KME, and Hailiang alleged that one of KME's executives was closely involved in selecting and developing the HME name and logo.

European Trademark Application and Opposition

Shortly after the transaction closed, Hailiang filed a trademark application with the European Union Intellectual Property Office (EUIPO), asserting rights in a design mark containing the letters "HME." KME then sent a letter to Hailiang objecting to the application and asserting that the marks "KME" and "HME" were confusingly similar but indicating that its objection might be remedied if Hailiang limited to the application to products not manufactured by KME. KME ultimately filed an opposition in the EUIPO challenging the registration and proposed a global co-existence agreement, but the parties were unable to resolve the dispute.

Hailiang's US Trademark Application

In 2020, the dispute moved to the U.S., when Hailiang filed an application with the U.S. Patent and Trademark Office (USPTO) to register the mark "HME" for several classes of goods. The trademark examiner approved Hailiang's application, but KME opposed registration of the application in the Trademark Trial and Appeal Board

(TTAB). The TTAB sided with KME, reversing the examiner's decision and sustaining KME's opposition to the registration.

Hailiang Appeals the TTAB Decision by Filing EDVA Litigation Against KME

Hailiang appealed the TTAB's decision by filing an action in the EDVA against KME pursuant to 15 U.S.C. § 1071(b), arguing that the TTAB decision was based on an incomplete and largely irrelevant record. KME answered Hailiang's original complaint and asserted a counterclaim for trademark infringement, alleging that Hailiang's "HME" marks infringed its pre-existing "KME" marks.

Hailiang then filed an **amended** complaint, adding four new counts directed at canceling several KME trademarks. Hailiang also answered KME's counterclaim, asserting affirmative defenses, many of which paralleled the claims in its amended complaint. KME responded by moving to dismiss the counts seeking to cancel its trademarks, as well as the affirmative defenses corresponding to those counts, as well as other claims relating to the appeal of the TTAB decision.

KME's Motion to Dismiss

Standing

KME moved to dismiss Hailiang's claim to cancel one of its trademark registrations for lack of standing because KME had not asserted that registration in its opposition before the TTAB. Hailiang responded that it was concerned that KME might assert the registration in the future, but the court held that an undefined fear of future litigation could not establish standing. Hailiang cited to Lanham Act provisions which allow any party "who believes that he would be damaged by the registration of a mark" to file an opposition or cancellation of the mark. The Lanham Act, the court responded, is irrelevant until Hailiang shows concrete harm to establish Article III standing.

Compulsory Counterclaims

KME asserted that Hailiang had waived the right to challenge one of KME's trademark registrations asserted in opposition to Hailiang's application by not challenging the registration during the TTAB proceeding. Under the trademark rules, a defense challenging the validity of a registration pled in an opposition is a compulsory counterclaim if the grounds for the counterclaim existed at the time the answer is filed.

The KME registration at issue, however, was only a pending application at the time KME asserted it in the TTAB proceeding. The registration was not approved until two months after the TTAB proceeding had been submitted for decision. Since the registration was merely pending when the case was submitted, Hailiang's challenge to the registration was not a compulsory counterclaim.

Failure to Plead Fraud With Particularity

As a second ground for dismissing Hailiang's challenge to the registration that was a pending application during the TTAB proceeding, KME argued that Hailiang failed to plead fraud in the procurement of that registration with

particularity, in violation of Fed. R. Civ. P. 9(b). In the case of trademark registrations, Rule 9(b) requires a plaintiff to allege a specific material misrepresentation made with actual knowledge of its falsity with an intent to deceive, as well as that the USPTO relied on the misrepresentation and that the party pleading fraud was injured.

Hailiang plausibly alleged that in its application for the registration, KME listed services that it did not provide in the U.S. and goods that were the part of lines of business that KME had sold to Hailiang. KME argued that there could be no inference of an intent to deceive because it is common that foreign registrants misunderstand registration applications. The court rejected this argument, noting that intent to deceive may be alleged generally at the pleading state, so long as the allegation is plausible and flows logically from the facts alleged.

Abandonment

Three counts of Hailiang's amended complaint (and two of its affirmative defenses) asserted that KME had abandoned some or all of three registrations. To prove abandonment, Hailiang must show that KME had ceased to use the mark in commerce and did not intend to resume that use in the reasonably foreseeable future. Hailiang rested its theories of abandonment on three events: (1) KME's sale of some of its businesses to Hailiang; (2) the decision by a KME component to rebrand its business with a different name; and (3) KME's submission of specimens to the USPTO to maintain its marks.

The court rejected all of Hailiang's abandonment claims. First, a claim of abandonment based on the sale of businesses to Hailiang should have been raised as a compulsory counterclaim in the TTAB. Second, a related company's abandonment of a mark does not constitute abandonment by the trademark owner. Thus, that a related KME company had rebranded to a different name did not support a claim that KME had abandoned its registrations. Finally, the rebranding of some of KME's specimen submissions did not constitute abandonment because a trademark owner is not required to submit a specimen for every good with which a mark is used. Hailiang failed to allege a basis for finding that the specimens submitted to the USPTO were the only way the registrations were used with the covered goods.

Laches

In its amended complaint and its affirmative defenses, Hailiang asserted that KME's two-year delay in asserting any rights as to the lines of business purchased from KME supported a laches defense. The court quickly rejected this claim, noting that the Fourth Circuit has repeatedly found that pursuing an opposition in the USPTO can excuse a delay in filing suit on a Lanham Act claim. Thus, KME could appropriately wait for the opposition proceeding to conclude before filing its counterclaim in district court.

Purchase Agreement Provisions

Hailiang also asserted affirmative defenses based on a contractual statute of limitations in the parties' agreement and on a German choice of law provision in the agreement. The court struck both of these affirmative defenses on the grounds that they applied only to claims relating to breach of provisions of the agreement.

Allegations Regarding Settlement Discussions and Estoppel by Acquiescence

KME moved to strike paragraphs of the amended complaint relating to the parties' settlement discussions under Fed. R. Evid. 408, which prohibits the admission of statements made during compromise negotiations. The court found, however, that Rule 408 did not prohibit all settlement-related communications, including communications supporting a claim of estoppel by acquiescence. The court cited to Second Circuit authority allowing use of statements in settlement discussions in which a party had consented to the use of a trademark but later sued the defendants for infringement of the mark. Fourth Circuit jurisprudence, the court found, was consistent with the Second Circuit's view.

Unclean Hands

Lastly, KME moved to strike Hailiang's defense of unclean hands on the grounds that the doctrine of unclean hands only applies to allegations that a party asserting a claim dirtied its hands in acquiring the rights it was asserting. The court agreed but found that KME's infringement counterclaim resulted from the TTAB's decision denying Hailiang's registration of the HME mark. As a result, KME was asserting rights arising from the TTAB's decision, and the court allowed the unclean hands defense to proceed.

Takeaways

In the end, the court dismissed most of Hailiang's claims to cancel KME's marks, but Hailiang's central appeal arguments remain. KME must also face allegations that it obtained one of its marks by fraud and will have to defend its statements during settlement discussions and fend off claims of unclean hands.

The court's decision highlights the importance of clearly addressing the rights of parties after the sale of a business. Hailiang clearly anticipated being able to continue operating the lines of business it purchased from KME under a similar name in order to retain the value of the goodwill and reputation the name signified. Hailiang failed, however, to ensure that the purchase agreement included the rights it thought it was receiving.

Finally, the case shows how quickly a dispute can spiral into major litigation. From the court's decision, it appears that the parties intended to continue doing business in the future and had opportunities to resolve this dispute at an early stage. Instead, they are now mired in costly and distracting litigation around the globe that has the potential to damage both parties.

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