

UNITED STATES BANKRUPTCY COURT
NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

_____| |
IN RE: CASE NO. 05-85627
Reliable Air, Inc.,
CHAPTER 11
Debtor. JUDGE MASSEY
_____| |

Reliable Air, Inc.,
Plaintiff,
v. ADVERSARY NO. 07-6352
Daniel L. Jape and Kimberly E. Ruse,
Defendants.
_____| |

ORDER GRANTING IN PART AND DENYING IN PART
PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

Reliable Air, Inc., which is the debtor in possession in case no. 05-85627, brought this adversary proceeding seeking injunctive relief and damages from Defendants Daniel L. Jape and Kimberly E. Ruse (Defendant Ruse's last name is now "Prater") arising out of the operation of a competing business in the installation and maintenance of residential and small business air conditioning and heating equipment. This matter is before the Court on Plaintiff's motion for a preliminary injunction seeking to enjoin Defendants from using the trade name "Reliable Heating and Air" and a related service mark in connection with their business.

At the center of current dispute is the ownership of and right to use the trade name "Reliable Heating and Air" and a related service mark registered in Georgia. Each side asserts complete ownership and control of the trade name. Defendant Dan Jape bases his claim to the

trade name on the fact that he formed a proprietorship in 1978 that began in the mid-1980's to use the name "Reliable Heating and Air" and that he continued to own the name thereafter. As evidence of his ownership, he points to his filing of a registration statement with the Clerk of the Superior Court of Cherokee County in September 1999 and contends that he granted an oral license to use the trade name to Reliable Air, Inc. Plaintiff bases its claim to the trade name on its exclusive use of the name "Reliable Heating and Air" since its incorporation in July 1999 until Mr. Jape began to use the name in late 2006, that all of the assets previously used by a proprietorship in which Mr. Jape had an interest were turned over to Reliable Air, Inc., that Mr. Jape ceased to operate personally a business under the name "Reliable Heating and Air" as of the incorporation of Reliable Air, Inc. and that Mr. Jape never had a license agreement with Reliable Air, Inc.

I. Jurisdiction

In the underlying complaint, Plaintiff alleges that Defendants' use of the trade name "Reliable Heating and Air," related service mark, and phone number constitute the exercise of control over property of Debtor's bankruptcy estate in violation of the automatic stay (11 U.S.C. § 362(a)(3)) as well as unfair competition under the Lanham Act (15 U.S.C. § 1125(a)) and three Georgia statutes. Plaintiff's state law claims raise allegations of deceptive trade practices pursuant to Georgia's enactment of the Uniform Deceptive Trade Practices Act [UDTPA] (Ga. Code Ann. §§ 10-1-370 et. seq.), service mark infringement (Ga. Code Ann. § 10-1-451), and unfair competition (Ga. Code Ann. § 23-2-55).

The District Court has jurisdiction over this proceeding pursuant to 28 U.S.C. section 1334(b), which confers jurisdiction over "all civil proceedings arising under title 11, or arising in

or related to cases under title 11.” In the Eleventh Circuit, “the test for determining whether a civil proceeding is related to bankruptcy is whether the outcome of the proceeding could conceivably have an effect on the estate being administered in bankruptcy.” *In re Lemco Gypsum, Inc.*, 910 F.2d 784, 788 (11th Cir. 1990) (quoting *Pacor, Inc. v. Higgins*, 743 F.2d 984, 994 (3rd Cir. 1984)). Under this test, “[a]n action is related to bankruptcy if the outcome could alter the debtor’s rights, liabilities, options, or freedom of action . . . and which in any way impacts upon the handling and administration of the bankrupt estate.” *Id.* This proceeding constitutes state and federal law claims of unfair competition brought by a debtor in possession in a bankruptcy case. The outcome of this proceeding could conceivably affect Debtor’s ability to effectively reorganize in Chapter 11. Additionally, any recovery of damages in this proceeding will flow to the estate. Thus, this proceeding has an effect on the estate, giving the District Court “related to” jurisdiction.

In this district, bankruptcy cases are referred to bankruptcy judges pursuant to 28 U.S.C. § 157(a) and LR 83.7A. However, the bankruptcy court’s jurisdiction is limited in this case because this matter constitutes a non-core proceeding pursuant to 28 U.S.C. § 157(b)(1). Plaintiff’s claims are based on federal non-bankruptcy and state law, do not arise under the Bankruptcy Code (except for the contention that Defendants are violating the automatic stay) and seek damages as part of the relief. It is, therefore, a non-core proceeding. “If the proceeding does not invoke a substantive right created by the federal bankruptcy law and is one that could exist outside of bankruptcy it is not a core proceeding.” *In re Toledo*, 170 F.3d 1340, 1348 (11th Cir. 1999). That Plaintiff’s complaint asserts a violation of the automatic stay imposed under 11 U.S.C. § 362 does not render this a core proceeding. Hence, jurisdiction to enter a final order or

judgment rests with the District Court. 11 U.S.C. § 157(c). The bankruptcy court's jurisdiction is limited to hearing the proceeding and submitting proposed findings of fact and conclusions of law to the District Court. *See* 28 U.S.C. § 157(c)(1). In this adversary proceeding, Defendant has demanded a jury trial.

Although this proceeding is non-core, the bankruptcy court may issue an order on Plaintiff's motion for a preliminary injunction without submitting proposed findings of fact and conclusions of law to the District Court. *See In re Guy C. Long, Inc.*, 74 B.R. 939, 942 (Bankr. E.D.Pa. 1987) ("Since a preliminary injunction is an interlocutory order, not a final order, . . . [the bankruptcy court] may issue an order granting or denying the preliminary injunction."). Should the District Court disagree with this conclusion, this court respectfully submits these findings of fact and conclusions of law as a report and recommendation.

II. Factual Background

The Court conducted an evidentiary hearing on Plaintiff's motion for a preliminary injunction on August 9, 2007. The Court held a continued hearing for the purpose of clarifying ownership of the proprietorship in the 1990's on September 7, 2007.

In 1978, Dan Jape began operating a heating, ventilation, and air conditioning ("HVAC") installation and service business as a sole proprietorship. Barbara Jape started working in this business in 1982, and the Japes married in December 1984. Sometime in the mid-1980s, the sole proprietorship began doing business under the name "Reliable Heating and Air" and using a service mark that incorporated this name. Neither the trade name nor the service mark were registered at that time.

In July 1987, the Japes incorporated the business as Jape Air, Inc., with Mrs. Jape owning a majority interest. The Japes ran Jape Air, Inc. in the same manner as the sole proprietorship

and the company did business under the name “Reliable Heating & Air.” There is no evidence of a formal transfer of assets from the sole proprietorship to Jape Air, Inc.

The Japes dissolved that corporation in March 1990 when their plan to obtain contracts for what they held out to be a minority owned business did not pan out. Thereafter, they continued to operate as a proprietorship the same HVAC business under the name “Reliable Heating and Air” until Plaintiff Reliable Air, Inc. was formed in July 1999. There is no evidence of any formal transfer of assets from Jape Air, Inc. to a succeeding proprietorship. The evidence at the August 9 hearing led the Court to conclude that the HVAC business was operated as a proprietorship owned by one or both of the Japes from the time of the dissolution of Jape Air, Inc. until the formation of Plaintiff in July 1999.

The evidence at the August 9, 2007 evidentiary hearing included testimony that the Japes had filed bankruptcy in the 1990's. The Court retrieved the files for the two cases and observed that in the sworn declarations included with their joint Chapter 13 case filed on March 5, 1990, the Japes listed aliases “a/k/a/ Jape Air, Inc., a/k/a/ Reliable Heating & Air” and stated that Mr. Jape was an employee and the former owner/operator of a company named “Reliable Services” owned by Betty Jape, who is Mr. Japes’s mother. On April 15, 1994, the Japes commenced their second joint Chapter 13. Schedule I attached to that petition lists both Mr. and Mrs. Jape as employees of “Reliable Services Company.”

At the continued hearing held on September 7, 2007, counsel for the parties informed the Court that Betty Jape never had any interest in the HVAC business conducted by the Japes.

On or about July 26, 1999, the Japes formed Reliable Air, Inc., the Plaintiff in this adversary and the debtor in possession in this Chapter 11 case. Both Mr. and Mrs. Jape signed subscription agreements and each was issued one-half of the common stock in the company.

Although there was no formal transfer of assets of the proprietorship to the corporation, the corporation continued the business as it existed when the corporation was formed. The approximately 20 to 25 employees became employees of the corporation, and all business thereafter was done in the name of the corporation, which, like the proprietorship before, was conducted using the trade name “Reliable Heating and Air.” The corporation opened bank accounts, paid employees, and obtained a federal tax ID number. Mr. Jape became the president of the corporation, and he and Mrs. Jape were paid by the corporation. All business was conducted through the corporation shortly after it was formed in 1999, and Mr. Jape no longer conducted an HVAC business as a proprietor. Any business he generated and any work done with respect to that business was conducted through the corporation, Reliable Air, Inc.

Mr. Jape testified that the purpose of forming the corporation was to obtain “the protective corporate veil.” Tr. Afternoon of August 9, 2007, p. 66

Since its incorporation, Reliable Air, Inc. has operated under the trade name “Reliable Heating and Air.” In the absence of a written assignment or license agreement, Mr. Jape contends that he granted Reliable Air, Inc. an oral license to use the trade name for the duration of his tenure with the business. He testified that he granted an oral license to Jape Air, Inc. on the same terms. This court does not find his testimony concerning licensing to be credible.

On September 15, 1999, Mr. Jape filed a registration statement with respect to the trade name “Reliable Heating and Air” with the Clerk of the Superior Court of Cherokee County, Georgia. This represents the first time anyone connected with the business filed such a registration statement. In the registration statement, Mr. Jape stated under oath that he and Barbara Jape were the “persons, firms or partnership owning and carrying on” the business (Defendant’s Ex. # 3). This application for trade name registration does not mention Reliable

Air, Inc. The statement made was not accurate because the business in question was being conducted by Reliable Air, Inc.

Reliable Air, Inc. has also used the service mark at issue since its incorporation. This service mark consists of a capital “R” inside a blue and red circle that is followed by the trade name, which is in blue and red text. Reliable Air, Inc. registered this service mark with the Georgia Secretary of State on September 11, 2006 (Plaintiff’s Ex. # 2). There is no evidence that any party registered this or any other service mark related to the HVAC business prior to this date. The service mark is not federally registered.

The trade name and service mark appear on company trucks, letterhead, invoices, and employee uniforms. Additionally, the company has advertised using the trade name and service mark in various print media, including direct mailings, newspapers, and the Roswell-Alpharetta yellow pages. It has also advertised using the trade name on the radio. Mrs. Jape estimates that Reliable Air, Inc. has spent between \$1.5 million and \$2.0 million advertising under the trade name since 1999.

Mr. Jape testified: “I invested millions of dollars in that name. I clearly understand the value of that name. I know that name is sellable on the open market. I know there’s companies that specialize in taking that name and phone number and disposing of them to earn money. I know that with that name anyone that’s competent in this business can earn millions of dollars every year.” Tr. Afternoon of August 9, 2007, p. 65. Although this court finds that Mr. Jape’s estimate of the value of the use of the name to be somewhat exaggerated given the fact that the business has had ups and downs over the years, it is clear that Plaintiff is very unlikely to survive if it cannot prevent the use of the trade name by Defendant Jape. This would leave the creditors

of Plaintiff without any recourse to the value they added to the name by providing goods and services to Plaintiff while Mr. Jape kept his alleged license agreement a secret.

In September 2001, Reliable Air, Inc., and not Dan Jape, employed attorney Cary Ichter, to protect its trade name and service mark. Mr. Ichter's letter to Darrin Williams, who was operating a business under the name "Reliable Duct Cleaning" (Plaintiff's Ex. #7), stated that he represented "Reliable Air, Inc. d/b/a Reliable Heating and Air" and asserted that Williams was using "its [Reliable's] name and mark . . . in a manner that deceives the public."

On November 22, 2005, Debtor's Chapter 11 case was filed following a bitter breakup of the Japes' marriage. The divorce case involving the Japes was apparently filed in 2003 and still has not come to trial. Prior to the bankruptcy petition, Mr. Jape was fired as president of Reliable Air, Inc. at a November 2005 board meeting (a meeting Mr. Jape contests) and Mrs. Jape was installed as president. This Chapter 11 case continues their domestic fight with the difference that this case involves the rights of creditors of the Debtor, who, needless to say, are not parties in the divorce action.

In the latter part of 2006, the Defendants began the process of launching a competing HVAC business in Cherokee County, Georgia. On August 14, 2006 Defendant Ruse registered the trade name "Reliable Air Conditioning + Heating" in Cherokee County in connection with this business (Plaintiff's Ex. #8). Mr. Jape registered the trade name "Reliable Heating + Air Conditioning" in Cherokee County on September 6, 2006. Mr. Jape testified that he did not register "Reliable Heating and Air" at this time because of his contention that he owned the trade name. In a letter dated December 21, 2006, attorney Louis McBryan, representing Mr. Jape, notified Debtor's counsel of Mr. Jape's revocation of his permission for Debtor to use the trade name "Reliable Heating & Air" (Defendant's Ex. # 6).

The business was initially operated under the name “Reliable Heating & Air Conditioning.” (Plaintiff’s Ex. #11). In a direct mailing advertisement to consumers in early 2007, the logo used for the business consisted of a white ellipse with a blue border surrounding the name “Reliable Heating & Air Conditioning” (Plaintiff’s Ex. # 11). This trade name appeared in blue and red text. The phone number for the business appearing on this advertisement was 770-924-3777.

By June 2007, Defendant Jape was operating the business under the trade name “Reliable Heating & Air.” The company used this name in its logo, which was otherwise similar to the previous logo it used. The trade name and logo appeared on company trucks, advertising, and employee uniforms. Additionally, sometime in mid-2007, Defendant Jape’s company changed the phone number appearing in its advertising and on the marquee outside its office to 770-594-9096. This number is one digit off from the number that Reliable Air, Inc. has used since its incorporation, 770-594-9066. Mr. Jape testified that he obtained the number randomly in a block of 10 numbers that he obtained from BellSouth. The Court is unable to rely on his testimony for the truth of that assertion, but the court does not determine that he falsely testified.

Both Dan Jape and Barbara Jape testified that on a regular basis in recent months customers of one business mistakenly called the other business, leading to confusion about which business the customers thought they were dealing with and resulting in confusion about whether service calls had been scheduled.

Defendants called as a witness Phil Hogseb. Defendants’ counsel asked him who he worked for and he answered, “Reliable Heating and Air,” meaning the company operated by Dan Jape, and that he began work for that company in April 2007. When asked who he worked prior to April 1 of this year, he stated, “Reliable Heating and Air.” Tr. Afternoon of August 9, 2007,

p. 50. On cross examination, he conceded that customers had been confused by the names and stated that he “told them who we were.” Tr. Afternoon of August 9, 2007, p. 52-53.

The evidence shows that Plaintiff and the business operated by Defendant Jape advertise in the same kinds of media and operate in the same geographic areas, which includes much of greater Atlanta.

There is no evidence that shows that Defendant Ruse has any control over the use of the trade name “Reliable Heating and Air” and the related service mark, although she apparently works at the business operated by Mr. Jape.

On July 19, 2007, Debtor filed the complaint initiating this adversary proceeding along with this motion for a preliminary injunction. Debtor seeks to enjoin Defendants and their employees from: (1) transacting business under the trade name “Reliable Heating & Air,” or any combination of these words, in the Atlanta area, (2) using a service mark consisting of a capital “R” followed by the name “Reliable Heating & Air,” and (3) using the telephone number (770) 594-9096. Additionally, the motion asks the Court to direct Defendants to cooperate with Plaintiff in re-routing the telephone number 770-594-9096 to Plaintiff’s business and to direct Defendants to destroy any signs, stationary, or promotional materials displaying the business name and logo at issue.

III. Preliminary Injunction Analysis

A party seeking a preliminary injunction must clearly establish the following four elements: (1) a substantial likelihood of success on the merits; (2) that it will suffer irreparable harm unless the injunction issues; (3) that the potential injury outweighs possible harm to the opposing party; and, (4) that the injunction would not be adverse to the public interest. *Frio Ice, S.A. v. Sunfruit, Inc.*, 918 F.2d 154, 159 (11th Cir. 1990).

A. Likelihood of success on the merits

Plaintiff seeks a preliminary injunction pursuant to the Lanham Act (11 U.S.C. § 1125(a)), Georgia's service mark infringement statute (Ga. Code Ann. § 10-1-451(a)), and UDTPA (Ga. Code Ann. § 10-1-373). It is unnecessary to address the individual nuances of these statutes, as each falls under the rubric of unfair competition and involves the same dispositive questions. *See New West Corp. v. NYM Co. of Cal., Inc.*, 595 F.2d 1194, 1201 (9th Cir. 1979) ("The courts have uniformly held that common law and statutory trade-mark infringements are merely specific aspects of unfair competition."); *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1193 n. 4 (11th Cir. 2001) ("Courts may use an analysis of federal infringement claims as a "measuring stick" in evaluating the merits of state law claims of unfair competition."); *Corbitt Mfg. Co., Inc. v. GSO Am., Inc.*, 197 F.Supp.2d 1368, 1374 (S.D.Ga. 2002) ("Georgia law and federal law share the same standard for trademark infringement."); *Ackerman Security Sys., Inc. v. Design Security Sys., Inc.*, 201 Ga. App. 805, 806 (Ga. 1991) (applying federal standard to claim brought under Georgia's enactment of UDTPA).

To establish a prima facie case for unfair competition under the Lanham Act and Georgia law, a plaintiff must demonstrate: (1) that it holds enforceable rights in the mark, and (2) that the defendant's mark is likely to cause consumer confusion. *SunAmerica Corp. v. Sun Life Assur. Co. of Can.*, 77 F.3d 1325, 1334 (11th Cir. 1996); *Lone Star Steakhouse & Saloon, Inc. v. Longhorn Steaks, Inc.*, 122 F.3d 1379, 1382 (11th Cir. 1997).

1. Right to use the mark

Property rights in trade names and service marks are governed by the same general principles. *See* J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, § 9:1

(4th ed. 2007) [hereinafter *McCarthy*] (“Protection against the confusing use of commercial and corporate names is afforded upon the same basic principles as apply to trademarks in general.”). Under the common law, “[a] person, by long and exclusive use, may acquire a trade-name.” *Womble v. Parker*, 208 Ga. 378, 379 (Ga.1951). The failure to register does not defeat the rights to a mark developed by a prior user. *See Pearl Optical, Inc. v. Pearle Optical of Ga., Inc.*, 218 Ga. 701, 704 (Ga.1963) (*quoting Womble v. Parker*, 208 Ga. 378) (“[T]he provisions as to registration are ‘permissive and not mandatory, and a compliance by one with the provisions thereof could not operate to deprive another of the use of a trade-name or trade-mark previously acquired, although not thus registered.’”).

In this case, it is undisputed that Mr. Jape first acquired rights to the trade name and service mark through using them in connection with his sole proprietorship. *See Pearl Optical*, 218 Ga. at 704. It is of no consequence that he did not register the trade name or service mark while operating as a sole proprietor. *Id.*

Mr. Jape ceased using the trade name and service mark in his individual capacity twice: once when he and Barbara Jape formed Jape Air, Inc. and a second time when he and Mrs. Jape incorporated Reliable Air, Inc. and continued the business under the corporate umbrella. In each instance, the business of the proprietorship was transferred to the corporation. Although there was no written agreement, each of the corporations used the good will by operating exclusively under the trade name “Reliable Heating and Air” with the service mark. Nor was there any written agreement transferring the business back to the Japes when Jape Air, Inc. was dissolved in March 1990.¹

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What is apparent is that in their personal bankruptcy filings, the Japes misstated who owned the business, which may be interpreted as an effort to keep the goodwill out of the hands of creditors.

There was not written agreement transferring assets of the proprietorship in 1999 to Reliable Air, Inc. It is clear, however, that all of the assets, including the trade name and service mark, were used in the operation of Reliable Air's business. Thus, despite the fact that no formal transfer of assets from Mr. Jape or the proprietorship occurred, the evidence strongly suggests that the assets of the proprietorship became assets of the corporation.

Under these facts, Plaintiff has a substantial likelihood of proving that the entire business, including the trade name and service mark, became property of Reliable Air, Inc. “[W]hen an unincorporated business operating under a trade name is later incorporated under that name, the name becomes the property of the corporation.” Louis Altman and Malla Pollack, *Callmann on Unfair Competition, Trademarks and Monopolies*, § 20:63 (4th ed. 2007) [hereinafter *Callmann*]. “The law presumes that when a business is conveyed, its trade name and good will are also conveyed.” *Am. Sleek Craft, Inc. v. Nescher*, 131 B.R. 991, 996 (D. Ariz. 1991). However, this presumption typically only arises when the transfer of all of the assets of the business is documented. *See Callmann*, § 20:63. Indeed, “courts must be cautious in scenarios that do not involve clear written documents of assignment.” *Doebler's Penn. Hybrids, Inc. v. Doebler*, 442 F.3d 812, 822 (3rd Cir. 2006). But, in this case, there is little doubt that the entire business was transferred to Reliable Air, Inc., including its good will, particularly because Mr. Jape did not continue to operate a proprietorship using the name “Reliable Heating and Air.” There is no evidence that Mr. Jape retained ownership of any asset of the proprietorship after its incorporation (other than his claim that he licensed the trade name). In 2001, Reliable Air, Inc., not Mr. Jape, hired an attorney to protect its interest in the trade name against infringement by a competing business using the name “Reliable.” After the incorporation of Reliable Air, Inc., Mr.

Jape did not invest in or protect any rights to the trade name. Everything was done through the corporation.

The facts in this case are similar to the facts in *Am. Sleek Craft, Inc. v. Nescher*, 131 B.R. 991 (D. Ariz. 1991). In *Nescher*, Mr. Nescher developed the trade names “Sleek Craft” and “Sleek Craft by Neshcer” in his operation of a sole proprietorship that manufactured boats. 131 B.R. at 993. Mr. Nescher later incorporated the sole proprietorship, and the corporation continued the business of the sole proprietorship. *Id.* He leased his equipment, tools, and boat molds to the corporation and transferred some unfinished boats and materials to it outright. *Id.* Mr. Nescher, the sole shareholder, chairman, and president of the corporation, ceased doing business in his individual capacity at the time. *Id.* The corporation sold boats under both trade names developed by the sole proprietorship despite the absence of an express agreement concerning the transfer of these names. *Id.* After a decade in operation, the corporation filed for Chapter 11, which was later converted to Chapter 7, and Mr. Nescher eventually resigned from the company. *Id.* American Sleek Craft, Inc., a third party, purchased the trade names and other assets in the bankruptcy and began selling boats under the trade names. *Id.* at 995-96. At some point, Mr. Nescher formed a corporation that began selling boats under the two trade names, prompting American Sleek Craft to sue for unfair competition under the Lanham Act and common law. *Id.* at 996.

In granting a permanent injunction preventing Mr. Nescher from using the two trade names, the district court held that, in the absence of an agreement to the contrary, the corporation acquired the trade names at issue when it acquired the sole proprietorship. *Id.* at 1001-02. The court reached its conclusion in the absence of a sale of the business and in spite of evidence that some assets of the sole proprietorship were leased to the corporation and other assets transferred

outright. *Id.* at 993, 997. The court rejected Mr. Necher's contentions that he orally licensed the trade names to the corporation and that it should find an implied license. *Id.* at 998.

Mr. Jape's position is analogous to that of the defendant in *Nescher*. After incorporating his proprietorship, he conducted all of his business through the corporation without either a formal sale of the business or an express transfer of its trade name and service mark. As in *Nescher*, Reliable Air, Inc. succeeded to the business of Mr. Jape's proprietorship, including the trade name and service mark, upon its incorporation.

Mr. Jape testified that he orally licensed the right to use the trade name and service mark to Reliable Air, Inc. so long as he could maintain quality control over the company's work as an employee of the company. This testimony lacks credibility. It was directly contradicted by Mrs. Jape's testimony that, to her knowledge, Mr. Jape never entered into a license agreement with the corporation regarding the trade name. Indeed, Mrs. Jape testified that the corporation just started using the name. This testimony is corroborated by testimony from Donald Rolader, the attorney who assisted with the incorporation of Reliable Air, Inc., who confirmed that he did not discuss licensing of the trade name with Mr. Jape. Defendants have produced no evidence of an oral license other than Mr. Jape's self-serving testimony.

Moreover, Mr. Jape's contention that he granted the corporation an oral license to use the trade name seems improbable considering that he did not formalize the transfer of any asset from his sole proprietorship to the corporation. It is unlikely that he thought to grant the corporation an oral license to use the goodwill of his business. It is much more likely that he simply did nothing with respect to the trade name and service mark, giving rise to a presumption that these assets were assigned to the corporation.

In *Ferrellgas Partners, L.P. v. Barrow*, 143 Fed. Appx. 180 (11th Cir. 2005), the Court of Appeals reversed a denial of a preliminary injunction concerning the use of a trade name in very similar circumstances to those here. In that case, Homer Barrow was the sole shareholder in Barrow Propane Gas, Inc. and operated the company under the name Barrow Propane Gas. After his company built up a very substantial business using the name “Barrow Propane Gas,” Mr. Barrow sold the capital stock of Barrow Propane Gas, Inc. to Pro Am Southeast, Inc. The stock sale agreement did not mention the trade name or mark and contained no restrictions on the use of the trade name and mark. Pro Am continued the business using the trade name “Barrow Propane Gas.” In 1999, Ferrellgas acquired the stock of Pro Am Southeast, Inc. and merged the company into Ferrellgas. It continued to do business in the same area using the trade name “Barrow Propane Gas.” In 2003, a former associate of Mr. Barrow formed a company called “Barrow Energies, Inc.” and competed with Ferrellgas’s business under the name of “Barrow Energies.” Ferrellgas sued to enjoin the use of the name of Barrow Energies on the ground that it was causing confusion with its trade name of Barrow Propane Gas.

The district court had concluded that the Plaintiffs had not established a substantial likelihood of success on the merits. In reversing, the Court of Appeals held that “[w]here the entire stock of a business is purchased and the business continued under its original name, it must be presumed that the purchaser acquired the goodwill of the business together with the commercial symbols of that goodwill, the business' trademarks and trade names.” *Id.* at 187.

The Court further observed:

Even if the contract could be construed as effecting a transfer of the mark to Mr. Barrow, sub silentio, such a transfer would be an invalid transfer “in gross.” “[I]t is well-settled law that ‘the transfer of a trademark or trade name without the attendant good-will of the business which it represents is, in general, an invalid, ‘in gross’ transfer of rights.’” *Int’l Cosmetics Exchange, Inc. v. Gapardis Health & Beauty, Inc.*, 303 F.3d 1242, 1246 (11th Cir.2002) (quoting *Berni v. Int’l Gourmet Rest. of Am.*, 838 F.2d 642, 646 (2d Cir.1988)).

After selling all of his stock in Barrow Propane Gas, Inc., Mr. Barrow exited the propane business with the understanding that Pro Am would carry on his work. Without the appurtenant goodwill, Mr. Barrow could not legally hold the mark for later exploitation. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97, 39 S.Ct. 48, 50, 63 L.Ed. 141 (1918) (“There is no such thing as property in a trademark except as a right appurtenant to an established business or trade in connection with which the mark is employed.”); *Planetary Motion, Inc. v. Techsplosion, Inc.*, 261 F.3d 1188, 1193 n. 5 (11th Cir.2001) (stating that rights to a mark depend on bona fide use in commerce that “was not made merely to reserve a mark for later exploitation.” (quotations omitted)); *Holly Hill*, 75 F.2d at 15 (“[Trademarks] are incidents and appurtenances to businesses and trades. They have no independent existence; they may not be sold in gross. They attach to and pass with the good will of a business....”).

Id. at 189 Fn 9.

The facts here are remarkably close to those in the *Ferrellgas* case. When Reliable Air, Inc. began doing business, it continued the business formerly conducted by the proprietorship, paid the debts of the proprietorship and used all of the assets of the proprietorship. Mr. Jape did this because he wanted the “protective corporate veil.” It was in effect a sale of the business to the corporation. Both the businesses were operated under the name “Reliable Heating and Air.” Mr. Jape ceased doing any HVAC business individually in the summer of 1999. Under these circumstances, where the entire business was transferred to the Reliable Air, Inc., which did business under the same name as the proprietorship, and the proprietor ceased to operate a similar business, a presumption arises that the assets transferred included the trade name and service mark. Defendants have not rebutted that presumption.

The fact that Mr. Jape filed a registration statement referencing the trade name with the Clerk of Cherokee County, Georgia in September 1999 when he was not conducting a business personally under that name at that time does not prove that he owns the name. The statute that requires registration, Ga. Code Ann. § 10-1-490 is an exercise of police power and not a statute establishing a procedure for asserting ownership of a trade name.

The Court concludes that Plaintiff has demonstrated a substantial likelihood of proving that it has a right to use the trade name and service mark.

2. Likelihood of consumer confusion

In the Eleventh Circuit, courts must consider the following seven factors in determining the likelihood of consumer confusion: “(1) type of mark; (2) similarity of mark; (3) similarity of the products the marks represent; (4) similarity of the parties’ retail outlets (trade channels) and customers; (5) similarity of advertising media; (6) defendant’s intent; and (7) actual confusion.” *Planetary Motion*, 261 F.3d at 1201; *see also Lone Star Steakhouse & Saloon*, 122 F.3d at 1382.

“Of these factors, the type of mark and the evidence of actual confusion are the most important in this circuit.” *Dieter v. B & H Indus. of Sw. Fla., Inc.*, 880 F.2d 322, 326 (11th Cir. 1989).

Type of mark: This factor refers to the strength, or distinctiveness, of the mark, with stronger marks more likely to receive protection. *See Original Appalachian Artworks, Inc. v. Topps Chewing Gum, Inc.*, 642 F.Supp. 1031, 1037 (N.D.Ga. 1986).

Strength or weakness is primarily a question of assessment of a mark’s distinctiveness or popularity. Where the public has been educated to recognize and accept a particular mark as the hallmark for a particular source of that product, or the mark itself is inherently unique or has been the subject of wide advertisement, it is a strong trademark.

E. I. DuPont de Nemours & Co. v. Yoshida Int’l, Inc., 393 F.Supp. 502, 512 (E.D.N.Y. 1975).

Courts measure a mark’s strength with a two part test. *See McCarthy*, § 11:83. The first prong of this test places the mark within one of four categories “based on the relationship between the name and the service or good it describes.” *Frehling Enters., Inc. v. Int’l Select Group, Inc.*, 192 F.3d 1330, 1335 (11th Cir. 1999). The four categories are: generic, descriptive, suggestive, and arbitrary. *Id.*

Generic marks are the weakest and not entitled to protection—they refer to a class of which an individual service is a member (e.g., “liquor store” used in connection with the sale of liquor). Descriptive marks describe a characteristic or quality of an article or service (e.g.,

“vision center” denoting a place where glasses are sold). Suggestive terms suggest characteristics of the goods and services and require an effort of the imagination by the consumer in order to be understood as descriptive. For instance, “penguin” would be suggestive of refrigerators. An arbitrary mark is a word or phrase that bears no relationship to the product (e.g., “Sun Bank” is arbitrary when applied to banking services). Arbitrary marks are the strongest of the four categories.

Id. at 1335-36 (internal citations and quotation marks omitted). The second prong looks at the commercial strength and marketplace recognition of the mark. See *McCarthy*, § 11:83; *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 975 (11th Cir. 1983).

The trade name and service mark at issue fall somewhere between descriptive (much of the name is simply “heating & air,” a description of the type of services provided) and suggestive (the term “reliable” suggests a desirable level of service). Although the Court did not hear much evidence showing the marketplace recognition of the mark, Mr. Jape testified as to the value of the name “Reliable Heating and Air” on the open market, suggesting strong marketplace recognition. The confusion caused by the nearly identical telephone numbers also reflects the market recognition of the name and mark.

Similarity of marks: The two companies are operating under the same trade names. The two service marks incorporate the trade name, use the same colors, and are substantially similar. The use of the same trade name and a substantially similar service mark produces a high likelihood of consumer confusion.

Similarity of the services: The two companies operate in the same industry and provide substantially similar, if not identical services, which increases the likelihood of consumer confusion.

Similarity of the parties’ retail outlets and customers: The businesses operate in the same geographical market, with offices within miles of each other on the same highway, and cater to a

substantially homogenous customer base. These two facts indicate a high likelihood of consumer confusion.

Similarity of advertising media: The parties advertise in similar media, increasing the likelihood of consumer confusion.

Defendants' intent: Defendant Jape's contention that he owns the trade name and service mark indicates that he intends to capitalize on the good will created by these marks. That Defendants' business initially operated under a slightly different trade name, with a different logo and phone number but then changed these features to closely resemble those of Plaintiff's business strongly indicates intent. Additionally, in an email to his daughter, an employee of Reliable Air, Inc., Mr. Jape said "I am going to decimate your company. We have taken hundreds of customers just by being nice." (Plaintiff's Ex. #22). This language strongly indicates an intent to create consumer confusion in order to steal customers. The intent factor thus favors a higher likelihood of consumer confusion.

Actual confusion: Plaintiffs have produced some evidence of consumer confusion. Mrs. Jape testified to receiving phone calls from consumers attempting to reach the business operated by Mr. Jape and that customers have produced coupons from Defendant Jape's business to Reliable Air, Inc. employees. Additionally, Phil Hogseb, an employee of Defendant Jape's business, testified that he has on occasion clarified which business was which to customers. This evidence indicates that Plaintiff has a high likelihood of proving actual confusion.

In sum, Plaintiff has made a strong showing of the likelihood of consumer confusion. Based on the seven-factor likelihood of consumer confusion analysis, the Court concludes that Plaintiff is substantially likely to prove this element.

By demonstrating a high probability that it can prove the two elements of a right to use the marks at issue and the likelihood of consumer confusion, Plaintiff has clearly demonstrated a substantial likelihood of success on the merits of its claims.

B. Irreparable Harm

In trademark infringement cases, “if a prima facie case of infringement exists, for injunctive purposes, injury is normally presumed.” *Original Appalachian Artworks*, 642 F.Supp. at 1040. Moreover, a plaintiff in an infringement action may show irreparable harm through a sufficiently strong showing of the likelihood of consumer confusion. *See Ferrellgas Partners*, 143 Fed. Appx. at 191. Plaintiff relies on its showing of consumer confusion to clearly establish the threat of irreparable harm. Since it has made a sufficiently strong showing of the likelihood of consumer confusion, the Court finds that Plaintiff has clearly demonstrated that it will suffer irreparable harm.

C. Potential injury to Plaintiff balanced against possible harm to Defendants

Plaintiff has operated under the trade name “Reliable Heating and Air” since 1999 and invested between \$1.5 and \$2 million in advertisements developing the name and overall goodwill of the business. Additionally, as the debtor in possession in a Chapter 11 reorganization, the good will of the business is one of its most valuable assets. Diminishing the value of its goodwill by allowing Defendant Jape to compete under its name with a related service mark could disrupt Debtor’s reorganization efforts. In contrast, Defendant Jape has been in business for just over one year, suggesting limited investment in its good will relative to that of Plaintiff. Additionally, the Court notes that Defendants have filed a motion to withdraw the reference of this proceeding to the District Court. To the extent that Defendants could ultimately prevail on the merits of this action, any harm to Defendants cause by the issuance of this

injunction can be mitigated by an expedited trial in the District Court. Under the circumstances, this court concludes that the balance of hardships favors the granting of an injunction. *See Ferrellgas Partners*, 143 Fed. Appx. at 191.

D. Public interest

In this case, “the public interest will be served by the injunction by avoiding confusion in the marketplace.” *See Ferrellgas Partners*, 143 Fed. Appx. at 191.

In summary, Plaintiff has clearly demonstrated all four factors needed for a preliminary injunction as to Defendant Jape. There is no evidence to show that Defendant Ruse is using the trade name or service mark that Plaintiff claims.

This court need not address the contention that Defendant Jape’s use of the trade name and service mark constitute a violation of the automatic stay imposed by section 362(a) of the Bankruptcy Code. If there is a final determination that these assets belong to Plaintiff, it will follow that Mr. Jape and his company will have violated the automatic stay and vice versa.

For these reasons, it is

ORDERED that Plaintiff’s motion for a preliminary injunction is GRANTED as to Defendant Dan Jape and DENIED as to Defendant Kimberly Ruse.

Defendant Dan Jape and all persons or entities in active concert or participation with him, including any limited liability company or corporation owned in whole or in part by him, is enjoined from directly or indirectly (1) transacting business under the name “Reliable Heating & Air” or any combination of those words in connection with the sale and servicing of heating, air conditioning and ventilating equipment and systems in the greater Atlanta, Georgia metropolitan area, (2) from utilizing a service mark consisting of a capital letter “R” followed by the words “Reliable Heating & Air” or any combination of the letter “R” and those words or names in

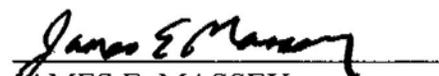
connection with the sale and servicing of heating, air conditioning and ventilating equipment and systems in the greater Atlanta, Georgia metropolitan area and (3) from using the telephone number (770) 594-9096 for any purpose.

Defendant Dan Jape is further ORDERED AND DIRECTED to cooperate with and assist Plaintiff to switch, if possible, the telephone number (770) 594-9096 from Defendant Jape to Plaintiff, so that persons dialing the telephone number (770) 594-9096 will be automatically routed or forwarded to the Plaintiff's telephone number (770) 594-9066.

Defendant Dan Jape is further ORDERED AND DIRECTED to remove, destroy or totally obliterate any and all street or building signs, signage on any vehicles, logos, stationery, business cards, flyers, leaflets or other printed advertisements or promotional materials in his possession or control containing the name or words "Reliable Heating & Air" or the logo with a capital letter "R" followed by the words "Reliable Heating & Air" or "Reliable" or any combination of those words and letters, and to take any and all actions reasonably necessary to insure that no such signs, logos, advertisements or other matters utilizing the name or words "Reliable Heating & Air" or any combination of those names or words are utilized in any way in connection with any business being conducted by Defendant Jape.

It is FURTHER ORDERED that this Order is stayed to and through September 26, 2007.

Dated: September 14, 2007.



JAMES E. MASSEY
U.S. BANKRUPTCY JUDGE