NOTES AND COMMENTS

QUALITY CONTROL AND THE ANTITRUST LAWS IN TRADEMARK LICENSING

AFTER Wyatt Earp galloped long and hard across television screens in millions of homes throughout the United States, that erstwhile sheriff's name began to appear on such diverse and unusual objects as children's playsuits and furniture.[1] This opportunity for extensive[2] mercantile exploitation of an impact-saturated trade symbol was provided by trademark licensing—a contractual arrangement that permits the use of a trademark by persons other than its owner. Since the consumer commonly relies upon trade names in purchasing,[3] trademark licensing, by expanding the scope and use of established marks, may significantly influence what is bought and from whom.

1. See Wyatt Earp Enterprises, Inc. v. Sackman, Inc., 157 F. Supp. 621 (S.D.N.Y. 1958).

2. Newspaper coverage indicates the technique is used by parties in almost every economic relationship. See, *e.g.*, Wall Street Journal, Dec. 5, 1961, p. 14; N.Y. Times, Oct. 15, 1961, § 3 (Financial), p. 1, col. 8. There is also a vast body of case law dealing with trademark licensing. See notes 8-12 *infra* and accompanying text. While specific data concerning the frequency and scope of the practice is unavailable, it is likely that the reported judicial illustrations only account for a minute proportion of existing licensing. Since, however, the Lanham Act provides for registration with the Patent Office of trademarks used "in commerce," 60 Stat. 427 (1946), 15 U.S.C. § 1051 (1958), federal trademark registration proceedings under the Lanham Act provide further indications of widespread licensing. See, *e.g.*, L. & C. Hardtmuth, Inc. v. Fabrique Suisse de Crayons Caron d'Ache S.A., 123 U.S.P.Q. 546 (Comm'n 1959). See also *Hearings Before the Subcommittee on Patents, Trade-marks and Copyrights of the Senate Judiciary Committee on S. 1396*, 87th Cong., 1st Sess. (1961), when witnesses testified that trademark licensing was extensive between manufacturers, *id.* at 13; inventors and manufacturers, *ibid.*; manufacturers and processors, *id.* at 20; manufacturers and wholesalers and retailers, *id.* at 6-7; and between parties providing services, *id.* at 17. Finally, the current favorable view of trademark licensing accorded by the law renders it likely that most licensing arrangements do not come before the courts. Present minimum control requirements have been held satisfied merely by specification of standards and intermittent inspection or testing of samples, *e.g.*, Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377, 378-79 (E.D. Pa. 1959); E.I. duPont de Nemours & Co. v. Celanese Corp., 167 F.2d 484, 487-88 (C.C.P.A. 1948). And many licensing arrangements which fail to fulfill these prerequisites may never be challenged because the law has been largely dependent upon private enforcement.

3. See Link, *The Social Significance of Trademarks*, 38 TRADEMARK REP. 622 (1948), which contains the results of a 16-year study involving purchasing habits of 10,000 housewives and 5,000 husbands regarding 500 trade-marked articles, and including the conclusion that from 70 to 95% of the American consuming public generally purchases by tradenames. Current studies, however, while concurring in the finding of brand loyalty, question the level of production at which faithfulness is directed. Cunningham, *Customer Loyalty to Store and Brand*, 39 HARV. BUS. REV. 127 (1961); N.Y. Times, Nov. 12, 1962, p. 45, col. 3; *but see* Stern, *Buyer Indifference and Secondary Meaning in Unfair Competition and Trademark Cases*, 32 CONN. B. J. 381 (1958).

Frequently, the license of a trademark accompanies the transfer of the licensor's goods to a further processor [4] or distributor [5] of his goods. However, it is also common for a trademark to be licensed where the licensee receives no product of the licensor and is unrelated to the licensor except through the licensee contract. Thus, licensing occurs in horizontal arrangements between independent manufacturers [6] and in situations where the only product is the sale

4. See, *e.g.*, Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 361 (2d Cir. 1959) (mix manufacturer to bakers); Goodall-Sanford, Inc. v. Landers Corp., 187 F.2d 639, 641 (C.C.P.A. 1951) (textiles to cloth manufacturer); Crown Fabrics Corp. v. American Viscose Corp., 145 F.2d 246 (C.C.P.A. 1944) (yarn to clothing manufacturer).

5. For cases involving licenses from manufacturers to wholesale distributors see, *e.g.*, A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Lalanne v. F. R. Arnold & Co., 39 F.2d 269 (C.C.P.A. 1930); Lawrence-Williams Co. v. Société Enfants Gombault et Cie, 22 F.2d 512 (6th Cir.), *cert. denied*, 276 U.S. 619 (1927).

For cases involving licenses from manufacturers to retailers see, *e.g.*, Rosen v. Furmbilt Stores, Inc., 103 F.2d 294 (10th Cir. 1939); Lichtenstein v. Goldsmith, 37 Fed. 359 (C.C. Mass. 1889).

Most trademark licensing has been by manufacturers to further processors, wholesalers, and retailers. This is not surprising in view of the fact that the earliest legal rationalization of a trademark was that it served as an indicator of the source and origin of the product bearing it. See Canal Co. v. Clark, 80 U.S. (13 Wall.) 311, 324 (1871); see also 3 CALLMANN, THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS 974-77 (2d ed. 1950) [hereinafter cited as CALLMANN]; Rogers, *The Lanham Act and the Social Function of Trademarks*, 14 LAW & CONTEMP. PROB. 173, 180 (1949); DERENBERG, TRADEMARK PROTECTION AND UNFAIR TRADING 28-29 (1936) [hereinafter cited as DERENBERG]. In other cases involving a trademark license ancillary to a transfer of the trademark owner's property interest, however, manufacturers were the licensees. Thus, manufacturers have licensed trademarks from patentees who have granted them the right to produce the patented article. See, *e.g.*, Smith v. Dental Prods. Co., 140 F.2d 140 (7th Cir. 1944); Gruelle v. Molly-'Es Doll Outfitters, Inc., 94 F.2d 172 (3d Cir. 1937); Mathy v. Republic Metalware Co., 35 App. D.C. 151 (1910). In addition, parties possessing a secret process have licensed their trademarks to manufacturers to whom they have disclosed their secrets. See Bacardi Corp. of Amer. v. Domenech, 311 U.S. 150 (1940); note 179 *infra*. And recent cases illustrate licensing to manufacturers by holders of a copyright, Lone Ranger, Inc. v. Currey, 79 F. Supp. 190 (M.D. Pa. 1948), and by parties who have developed a valuable idea akin to a copyright: see American Broadcasting Co. v. Wahl Co., 121 F.2d 412 (2d Cir. 1941); Wyatt Earp Enterprises, Inc. v. Sackman, Inc., 157 F. Supp. 621 (S.D.N.Y. 1958).

6. See, *e.g.*, E.I. duPont de Nemours & Co. v. Celanese Corp., 167 F.2d 484 (C.C.P.A. 1948) (dye manufacturers); Eiseman v. Schiffer, 157 Fed. 473 (C.C.S.D.N.Y. 1907) (silk products manufacturers); Broeg v. Duchaine, 319 Mass. 711, 67 N.E.2d 466 (1946) (baking mix manufacturers); Mahlstedt v. Fugit, 79 Cal. App. 2d 562, 180 P.2d 777 (1947) (heater manufacturers). In Varsity Sportswear, Inc. v. Princess Fabrics, Co., 174 Misc. 298, 19 N.Y.S.2d 723 (1940), coffee, beer, cigarette, cleanser, and automobile manufacturers licensed the use of their trade symbols to a dress manufacturer.

Sometimes the only connection between otherwise independent manufacturers has been that of joint stock ownership of the licensor and licensee companies. See United States Ozone Co. v. United States Ozone Co. of Amer., 62 F.2d 881 (7th Cir. 1932); Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co., 272 Fed. 478 (D. Vt. 1921); Keebler Weyl Baking Co. v. J. S. Ivins' Son, Inc., 7 F. Supp. 211 (E.D. Pa. 1934); *Ex parte* United States Steel Corp., 23 U.S.P.Q. 145 (Comm'n 1934).

of services to the public.[7] Increasingly, trademark licensing occurs where a manufacturer or producer who owns a valuable mark finances small retail outlets, granting exclusive rights to sell the licensor's product and use the licensor's mark in a given area.[8]

The fact that trademark licensing has become a widespread commercial practice indicates that long-held theories that such symbols were tolerable only when they represented strict emblems of source [9] have been largely abandoned. In their place a competing rationale has grown: that licensing between any two parties is permissible so long as the licensor controls the quality of the licensee's product in order that the public is not deceived.[10] This rationale has given rise to widespread use of trademark licensing as a flexible business device designed to maximize the value of the licensor's good will or notoriety. Although the two primary purposes of trademark protection are prevention of consumer deception and encouragement of innovation,[11] the possible detrimental effects of narrowly unrestricted trademark licensing on these two goals have not been adequately tested. Moreover, the possible anticompetitive effects of widespread trademark licensing have been generally overlooked by both courts and commentators. Thus, recent decisions [12] indicate that all licensing arrangements providing for quality control are allowable under the Lanham Act,[13] the federal law of trademarks, and thereby may enjoy a partial immunization from antitrust proscriptions, regardless of economic effects. This Comment will analyze the provisions and background of the Lanham Act to determine what types of trademark licensing transactions Congress intended to sanction, and also will examine

7. See Pike v. Ruby Foo's Den, Inc., 232 F.2d 683 (D.C. Cir. 1956) (restaurant); Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc., 3 F.2d 7 (8th Cir. 1924) (teaching agency); Doud v. Hodge, 146 F. Supp. 887 (N.D. Ill. 1956) (certified checking company); Arthur Murray, Inc. v. Horst, 110 F. Supp. 678 (D. Mass. 1953) (dancing school); Atlas Assur. Co. v. Atlas Ins. Co., 138 Iowa 228, 112 N.W. 232 (1907) (insurance companies).

8. See Medd v. Boyd Wagner, Inc., 132 F. Supp. 399 (N.D. Ohio 1955); Howard D. Johnson Co. v. Robbins Light, Inc., 91 U.S.P.Q. 276 (Mass. 1951); Associates Perfumers, Inc. v. Andelman, 316 Mass. 176, 55 N.E.2d 209 (1944). For a detailed discussion of this practice, see the Senate Hearings, note 2 *supra* at 6, 75, 95, 97, 113, 146-47. It has been estimated that between 50,000 and 100,000 small businessmen are involved in such franchises. *Id.* at 95-97.

9. See, *e.g.*, SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS 85-88 (1925).

10. See text at note 29 *infra*. It should be noted that considerations of quality control may be meaningless where the mark is of the Wyatt Earp ilk. Consumers probably purchase goods bearing such a mark for some psychic motive unrelated to reasonable quality expectations. Moreover, because of the variety of types of products licensed, and the conditions under which such marks are developed, it is practically impossible to ascertain standards to test quality-control complicity. For another area where quality control standards are fragile, see Venn v. Goedert, 206 F. Supp. 361 (D. Minn. 1962) (franchise of cookie trademark). Here the consumer is more concerned with the constancy of the licensee's product than with similarity to possible standards of some distant licensor.

11. See text at notes 136-50 *infra*.

12. See Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403 (5th Cir. 1962).

13. Lanham Act, 60 Stat. 427 (1946), 15 U.S.C. §§ 1051-1127 (1958).

the economic and social goals of trademark licensing to discover whether more satisfactory alternatives to widespread licensing are available. Finally, since anticompetitive repercussions may offer the most serious obstacles to adoption of expansive trademark licensing, the applicability and effectiveness of antitrust laws to licensing transactions will be explored.

THE FUNCTION OF TRADEMARKS

Originally, trademarks were thought to represent to the consumer the source or origin of the product or service to which they were affixed,[14] *i.e.*, the place and person from which or whom the goods or services emanated.[15] Underlying this view was a more basic conception of the trademark's role in the American competitive economy: by identifying source it enabled the consumer to distinguish between competing goods. Since unmarked goods of varying quality frequently bear an exterior resemblance, trademarks were necessary to empower the consumer to purchase intelligently on the basis of prior satisfactions. Because, moreover, the trademark armed the consumer with the power to make this rational choice, failure to satisfy him meant that he would not continue to purchase goods bearing the mark. Satisfaction, on the other hand, promoted good will which, because of the identifying mark, would result in future purchases.[16] This gave businessmen an incentive to maintain quality, to seek improvements, and to supply goods at better quality and lower price than their competitors. Thus, the trademark stimulated innovation and high quality competition.[17] This conception of the role of trade-marks did not imply that com-

14. See, *e.g.*, Canal Co. v. Clark, 80 U.S. (13 Wall.) 311, 324 (1871); Baglin v. Cusenier Co., 221 U.S. 580 (1911); see also 3 CALLMANN 986-87.

15. Generally, "source" meant the place and person manufacturing an article. Thus, the court in Bulte v. Igleheart Bros., 137 Fed. 492, 498 (7th Cir. 1905), stated:

> The function of a trade-mark is to distinguish the products of a manufacturer . . . to point out distinctively the origin or ownership of the article to which it is affixed . . . . It becomes of value only through use, and because by use it is an assurance to purchasers of the excellence of the article to which it is affixed as manufactured by the one [who owns it.] The fanciful or arbitrary trade-mark, by association with the name of the producer, becomes, therefore, valuable, because it is a sign and symbol to the purchaser, an assurance to him of the genuineness of the article and of its manufacture by the proprietor of the trade-mark or trade-name. Dissociated from such manufacturer, it is not an assurance of genuineness . . . . [and] its use works a fraud upon the purchaser.

See also cases cited note 103 *infra*. Courts soon recognize that "source" might also be interpreted to indicate the person processing an ingredient or selecting an article. See, *e.g.*, Menendez v. Holt, 128 U.S. 514, 520 (1888); E. F. Prichard Co. v. Consumers Brewing Co., 136 F.2d 512, 519 (6th Cir. 1943) ("one need not himself manufacture goods . . . . It is sufficient . . . that [they] are manufactured for [him] or . . . pass through his hands . . . .").

16. BORDEN, THE ECONOMIC EFFECTS OF ADVERTISING 631 (1942).

17. The best articulation of this view is by Rogers, *supra* note 5:

> The whole idea of free enterprise . . . is based on the importance of identity and personal responsibility of the producer for the goods he sells, which are evidenced by his trade-marks. . . . Trade-marks and brand names should be protected so that

petition between producers was impossible without them. But without the identification they made possible, it was argued that prior satisfactions could not be rewarded by future purchases, and the incentive would therefore be an incentive to produce cheap low quality goods, causing the competitive system to function poorly.[18]

A necessary concomitant to the theory that trademarks, by signifying source, stimulated improvement and quality competition was the doctrine that any use of a mark which confused its origin was deceptive and therefore unlawful.[19] Since intelligent consumer choice was the crux of the "source" theory, the buyer election process could not be permitted to be undermined by actions which resulted in confusion of source, for otherwise inferior goods could be foisted upon the public. Improvement and quality competition would therefore suffer because it would not be necessary for a businessman to develop his own mark through satisfactory performance. Instead he could use the established symbol of another on his own, possibly inferior, product. Thus, trademark licensing, since it generally involves the use of a mark established by another on goods or services emanating from a new and different source, was viewed unfavorably, and often condemned as constituting deception through confusion of source, without further examination of its actual effects on the economic system which the "source" theory was intended to benefit.[20]

In the past thirty years, the "source" theory of trademarks has been criticized, and many authorities have argued that it is an inadequate explanation of consumer behavior in a complex industrial society.[21] In large part, this dissatisfaction seems to have been sparked by two influential articles published around 1930. The first, by Schechter,[22] presented the argument that trade-marks no longer signified actual source to the consumer, who was indifferent to the real origin of his purchase.[23] Although Schechter asserted that the trademark was not a symbol of actual source, he acknowledged that it still frequently repre-

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> an incentive will be given to all manufacturers to produce the best goods. . . . You can't have [quality] competition unless you can distinguish between competing goods and choose between them. Trade-marks make this distinction and this choice possible.

Id. at 180.

18. *Id.* at 175.

19. See Caron Corp. v. Maison Jeurelle-Seventeen, Inc., 26 F. Supp. 560, 564 (S.D. N.Y. 1938); see also 3 CALLMANN 978-81, 1011; DERENBERG, 588; SCHECHTER, *op. cit. supra* note 9, at 5-6 (1925); Isaacs, *Traffic in Trade Symbols*, 44 HARV. L. REV. 1210, 1221 (1931); see S. REP. No. 1333, 79 Cong., 2d Sess. 1-4 (1946).

20. See, *e.g.*, Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 Fed. 468 (8th Cir. 1901).

21. *E.g.*, 3 CALLMANN 978-81; DERENBERG 573-88; Rogers, *Some Suggestions Regarding Assignability of Trade-marks*, TRADEMARK BULL. 231 (1930); Grismore, *The Assignment of Trade Marks and Trade Names*, 30 MICH. L. REV. 489, 499 (1932).

22. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

23. *Id.* at 815-16. See, *e.g.*, Coca-Cola Co. v. Koke Co. of Amer., 254 U.S. 143, 146 (1920); Walter Baker & Co. v. Slack, 130 Fed. 514, 518 (7th Cir. 1904).

sented an "anonymous" source to consumers. Thus, the purchaser might be wholly indifferent to the actual manufacturer, wholesaler, or retailer who combined to make the goods available, but the mark still indicated to him that:

> [T]he goods, in connection with which it was used, emanated from the same—possibly anonymous—source, or had reached the consumer through the same channels as certain other goods that had already given the consumer satisfaction and that bore the same trademark.[24]

Under Schechter's theory of anonymous source, most trademark licensing could still be viewed with disfavor as a deceptive confusion of source without the necessity of examining its effects on competition, since his theory recognized that "persons may be misled and mistake one class of goods for another, although they do not know the names of the makers of either."[25]

In 1931, however, outright assault on the "source" theory was commenced by Isaacs,[26] who argued that the theory was wholly without basis in fact. As proof, he relied upon judicial approval of the use by retailers of their own marks on products from divergent sources. By defining source narrowly to mean source of manufacture, he reasoned that retailer marks represented to the public the quality and not the source of the goods to which they were affixed.[27] Since marks often signified quality rather than origin to the consumer, the use of old marks on products emanating from new sources was not necessarily deceptive.[28]

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24. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 816 (1927). See also Schechter, *Fog and Fiction in Trade-mark Protection*, 36 COLUM. L. REV. 60, 64-65 (1936). And see, *e.g.*, Shredded Wheat Co. v. Humphrey Cornell Co., 250 Fed. 960, 963 (2d Cir. 1918); Saalfield Publishing Co. v. G. & C. Merriam Co., 238 Fed. 1, 8-9 (6th Cir. 1917).

25. *Ibid.*

26. Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210 (1931).

27. *Id.* at 1214, 1219-20.

28. If, in the course of business . . . a trade symbol has come to have a different meaning from the original one of source, the question whether a particular use of a [trade] symbol is fraudulent can hardly be decided on the basis of the older cases which started with the assumption that a trade-mark was a mark of origin.

Id. at 1214-15. According to Isaacs, a trademark might have "a changing set of meanings, differing from time to time, from place to place, from commodity to commodity." *Id.* at 1220. A catalogue of such meanings is contained at page 1220 of his article.

Two criticisms of Isaacs' argument seem warranted. His definition of source so as to exclude retailer marks is unnecessarily narrow, since manufacture is but one determinant of ultimate consumer satisfaction. There may be many others such as the skill of the patentee, or the discretion exercised by the retailer in choosing quality goods or providing efficient service. These elements are all part of the complex considered as source by the purchaser. Furthermore, Isaacs' main concern when evaluating the proper use of trademarks was the immunization of the public from deception as to quality. Such a result disregards what was an additional function of deception-avoidance under the source theory: the encouragement of innovation by insuring only to the trademark owner the fruits of his efforts. In addition, Isaacs' emphasis on licensor control over the licensee, even to the extent of retail price maintenance, introduced new anticompetitive possibilities into trademark theory. *Id.* at 1218-19.

The need, pointed out by Schechter and Isaacs, for a more realistic model of consumer reaction to well-known trade symbols led subsequent authorities [29] to argue that the consumer is only concerned with the quality of the goods he purchases, and therefore trademarks signify nothing more to him than an assurance of quality. This has come to be known as the "guaranty" theory of trademarks.[30]

The crystallization of the guaranty theory of trademarks has had far-reaching implications for trademark licensing. Under the older view that trademarks indicated the source of goods, permissible licensing occurred only where the licensor so actively participated in the preparation of the final product through the supply of an essential ingredient or service that consumer attribution of origin to the licensor was reasonably accurate. Thus, permissible trademark licensing was generally limited to such arrangements as manufacturer-further processor relationships where some major part of the finished product was supplied by the licensor.[31] The guaranty theory removed this burden of active participation, substituting for it the lesser obligation of licensor control over the quality of goods emanating from different sources. Thus, a manufacturer of shirts, having developed a brand name, could license his trade symbol to other shirt manufacturers so long as he exercised some control over the quality of the final product.[32] And as trademark licensing increased in volume, numerous methods of quality certification were approved and thus became part of the flexible structure within which a mark could be licensed: specification of standards,[33] testing of samples,[34] plant supervision,[35] inspection,[36] training of the licensee's employees,[37] approval of the licensee's advertising,[38] requiring the licensee to refund to dissatisfied purchasers,[39] and cancellation of license provisions.[40] None of these methods would be sufficient to satisfy the standards of

29. *E.g.*, 3 CALLMANN 980, 981; DERENBERG 28-39; Krayer, *Domestic Trade Mark Licensing*, 43 J. PAT. OFF. SOC'Y 574, 585 (1961); Note, 49 COLUM. L. REV. 575, 576-77 (1949); see C. G. Pecheur Lozenge Co. v. National Candy Co., 122 F.2d 318, 319 (3d Cir. 1941); Ralston Purina Co. v. Saniwax Paper Co., 26 F.2d 941, 944 (W.D. Mich. 1928).

30. See Coca-Cola Co. v. State, 225 S.W. 791 (Tex. Civ. App. 1920); 3 CALLMANN 980; Timberg, *Trade-marks, Monopoly and the Restraint of Competition*, 14 LAW & CONTEMP. PROB. 323, 353, 354 (1947).

31. See Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 Fed. 468 (8th Cir. 1901).

32. See Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959).

33. Coca-Cola Co. v. Butler & Sons, 229 Fed. 224 (D.C. Ark. 1916).

34. See Crown Fabrics Corp. v. American Viscose Corp., 32 C.C.P.A. (Patents) 701, 145 F.2d 246 (1944).

35. See Bacardi Corp. v. Domenech, 311 U.S. 150 (1940).

36. Dawn Donut Co. v. Harts Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).

37. Arthur Murray, Inc. v. Horst, 110 F. Supp. 678 (D. Mass. 1953).

38. Smith v. Dental Prods. Co., 140 F.2d 140 (7th Cir. 1940).

39. B. B. & R. Knight v. W. L. Milner & Co., 283 Fed. 816 (N.D. Ohio 1922).

40. E.I. duPont de Nemours & Co. v. Celanese Corp., 167 F.2d 484 (C.C.P.A. 1948); Woodward, *Some Observations on Legitimate Control on the Nature and Quality of the Goods*, 49 TRADEMARK REP. 609 (1959). See the excellent catalogue of control techniques in Schniderman, *Trade-Mark Licensing—A Saga of Fantasy and Fact*, 14 LAW & CONTEMP. PROB. 248, 264-68 (1949).

the source theory: there, the manufacturer of shirts wishing to license his mark to other manufacturers would be limited in his enterprise by his capacity to supply to his licensees some essential ingredient, as, for example, the shirting material, if the significance of the mark lay in the quality of such material.

THE LANHAM ACT

These competing theories of trademark significance and their implications for trademark licensing were fully developed when Congress, in 1946, enacted the major piece of federal legislation governing trademark usage—the Lanham Act.[41]

Although trademark law is part of the law of unfair competition, the passage of the Lanham Act has resulted in significant differences between the adjudication of trademark and non-trademark claims.[42] Federal registration affords the trademark owner such procedural advantages as immunity from the normal jurisdictional prerequisites for the availability of a federal court[43] and certain evidentiary benefits arising from the incontestability provisions of the Lanham Act.[44] Moreover, while unfair competition claims are generally considered determinable under state law in diversity cases,[45] actions involving a Lanham Act registered mark are adjudicated under federal law, even when actions concerning their use are brought in state forums.[46] The act is not, however, the exclusive remedy for a trademark owner. A common law infringement action or a suit for "passing off" sounding in unfair competition is available even in the absence of registration, though the statutory benefits outlined above do not

41. 60 Stat. 427 (1946), 15 U.S.C. §§ 1051-1127 (1958).

42. The issue of the registrant's ownership of the mark at the time of registration is always determined on state common law principles, but the standards to be applied when testing whether subsequent conduct constitutes an abandonment or invalidates the mark's registrability are derived from federal statutory and decisional sources. Brown & Bigelow v. Remembrance Adv. Prods., Inc., 279 App. Div. 410, 412 (N.Y. 1952). TOULMIN, TRADE-MARK HANDBOOK 365 (1957). Thus in a trademark infringement action, where the validity of the plaintiff's registered mark is challenged, federal law is applicable. See Landstrom v. Thorpe, 189 F.2d 46 (8th Cir.), *cert. denied*, 342 U.S. 819 (1951), even if the action involving a Lanham Act registered mark is brought in a state court. Brown & Bigelow v. Remembrance Advertising, Inc., *supra*. A count in unfair competition, however, even when joined with an action for trademark infringement, is decided by state law. Royal Lace Paper Works v. Pest-Guard Prods., 240 F.2d 814 (5th Cir. 1957). *Contra*, Stauffer v. Exley, 184 F.2d 962 (9th Cir. 1950). Since there is frequent joinder of these two causes of action, see 1 MOORE, FEDERAL PRACTICE ¶ 0.60[8.-7], at 658-59 (2d ed. 1960), a federal statutory law of unfair competition has often been recommended and has recently been proposed. See Diamond, *The Proposed Federal Unfair Commercial Activities Act*, 52 TRADEMARK REP. 104 (1962).

43. 60 Stat. 440 (1946), 15 U.S.C. § 1121 (1958). See Conde Nast Pub. v. Vogue School of Fashion Modelling, 105 F. Supp. 325 (S.D.N.Y. 1952).

44. 60 Stat. 433 (1946), 15 U.S.C. § 1065 (1958).

45. Where the unfair competition claim is closely linked with the claim involving the registered mark, federal courts have jurisdiction regardless of diversity or amount in controversy. 62 Stat. 931 (1948), 28 U.S.C. § 1338(b) (1958).

46. See note 42 *supra*.

accrue to the complainant.[47] And limited protection is available under state registration statutes.[48] Despite the fact that the Lanham Act has not obtained pre-emptive force, as registration becomes easier, and its benefits more apparent, trademark litigation will increasingly be governed by federal law.

Although the act does not deal extensively with trademark licensing, it has been generally assumed that it confers benefits upon not only those licenses that fulfill the prerequisites of the source theory, but also upon those that meet the less demanding standards of the guaranty theory. This assumption has generally been made by observers who favor widespread licensing regardless of the economic relationship of the parties.[49] But the question whether the Lanham Act permits licensing where the only restriction upon the licensor is quality control may be an open one, since neither the language of the act, nor its legislative history, nor the case law which it incorporates, conclusively indicates the intent of Congress concerning the scope of permissible licensing arrangements.

The prime source of congressionally established standards in regard to trademark licensing is section 5:

> Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, *provided* such mark is not used in such a manner as to deceive the public.[50]

Thus, though the statute does not expressly refer to trademark licensing, it contemplates legitimate use by related companies provided the mark is not used deceptively. The act's definition of related companies introduces into the congressional formula the concept of control. A related company is:

> [A]ny person who legitimately controls or is controlled . . . in respect to the nature and quality of the goods and services upon which the mark is used.[51]

These standards of (1) legitimate use, (2) no deceptive use, and (3) legitimate control are sufficiently flexible to have supported many varying interpretations of the scope of licensing permitted by the act. The act might have been interpreted to bar licensing altogether except between groups otherwise affiliated, as, for example, parent and subsidiary corporations. On the other hand, an equally satisfactory construction of the statute would warrant licensing between any parties who provide for control over the nature and quality of the trademarked product or service.

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47. See Diggins, *Federal and State Regulation of Trade-Marks*, 14 LAW & CONTEMP. PROB. 200, 201.

48. *Ibid.*

49. See note 29 *supra.*

50. 60 Stat. 429 (1946), 15 U.S.C. § 1055 (1958).

51. 60 Stat. 443 (1946), 15 U.S.C. § 1127 (1958). "Person," as used in the act, encompasses both natural and juristic persons. *Ibid.*

Other parts of the act, however, suggest that restrictions exist which limit the scope of permissible licensing under section 5. Section 45, which defines "abandonment," provides:

> [A] mark shall be deemed to be abandoned . . . when any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin.[52]

The statute also affords no protection to generic marks—those marks so familiar as to have become a "common descriptive name of an article or substance,"[53] as, for instance, aspirin. Abandoned and generic marks may not be registered.[54] If registered, they may be cancelled.[55] A sued infringer may counter-claim for cancellation, or may use abandonment and generic descriptiveness as defenses against actions for an injunction or damages.[56] Finally, any party injured because of "false designations of origin" may sue for damages.[57]

These latter provisions may pose several obstacles to the right to license freely. If federal protection of abandoned and generic marks is denied where it has lost "its significance as an indication of origin,"[58] arguably such protection should always be denied where a mark is licensed without the transfer of an essential ingredient, since public reliance on the licensor's mark is misplaced. Perhaps such confusion can be avoided only when licensing is vertical, and the right to use the mark is accompanied by supply of an important ingredient or property right of the licensor that the public continues to trace to him. It is also arguable that the policy of denying registration to generic marks may imply a limitation on the extent of permissible licensing, since the overuse of a mark by numerous producers may rob it of its special significance as a trademark, converting it to an ordinary generic term.[59]

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52. *Ibid.*

53. 60 Stat. 433 (1946), 15 U.S.C. § 1064(c) (1958); see Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938) (shredded wheat); DuPont Cellophane Co. v. Waxed Prods. Co., 85 F.2d 75 (2d Cir. 1936) (cellophane); Bayer Co. v. United Drug Co., 272 Fed. 505 (S.D.N.Y. 1921); *cf.* Eastern Wine Corp. v. Winslow-Warren, Ltd., 137 F.2d 955, 959 (2d Cir. 1943); see generally Martin, *The Meaning of Distinctiveness in Trade-Mark Law*, 45 ILL. L. REV. 535 (1950).

54. 60 Stat. 428 (1946), 15 U.S.C. § 1052 (1958).

55. 60 Stat. 433 (1946), 15 U.S.C. § 1064 (1958).

56. 60 Stat. 438-39 (1946), 15 U.S.C. §§ 1115-16 (1958).

57. 60 Stat. 441 (1946), 15 U.S.C. § 1125 (1958).

58. 60 Stat. 444 (1946), 15 U.S.C. § 1127 (1958).

59. *Cf.* American Chicle Co. v. Topps Chewing Gum, Inc., 208 F.2d 560 (2d Cir. 1953), where Judge Learned Hand shows how the goose may be killed by misuse of the golden egg. In *American Chicle*, the very success of plaintiff's promotion of "chiclets" eventually robbed that word of uniqueness. Judge Hand warned, "That is a peril to which all such advertising is subject; its very success may prove its failure." *Id.* at 562. However, the validity of a mark may be sustained if the mark retains a secondary meaning to competitors of the owner, *cf.* Application of Gramaphone Co., 27 R.P.C. 689 (1910), or to a section of the consuming public, Bayer Co. v. United Drug Co., 272 Fed. 505 (S.D.N.Y. 1921). In the *Bayer* case, the limit of its secondary significance defined the limits of its protection. For a recent example of this problem, see Judge Anderson's opinion in American Thermos Prods. v. Aladdin Indus., 207 F. Supp. 9 (D. Conn. 1962).

None of these positions, based on the control and abandonment sections of the act, does violence to the statutory language. Thus, the vague terminology of the Lanham Act left its interpreters considerable flexibility to determine, on the basis of public policy, what trademark licensing agreements should be protected and what conditions would be essential to these arrangements. To aid in such interpretations, some straws of construction can be gleaned from the act's legislative history.

The Legislative History

The legislative history of the Lanham Act encompasses an eight year period which began in 1938 and culminated with the passage of the statute in 1946. During this time, section 5 underwent extensive change. In 1939 and 1944, congressional hearings [60] relevant to the meaning of the section were held. The references to section 5 in these sessions support the conclusion that its major purpose was to enable to register those trademark owners who legitimately permitted others to use their marks under prior licensing law. Because of a restrictive interpretation of prior federal trademark legislation, the major dispute over precedents concerned the availability of registration to owners who legally permitted others to use their marks. In *Ex parte United States Steel Co.*,[61] the Patent Commissioner had held that under the Trade-Mark Act of 1905 [62]—which contained no licensing provision—use by the applicant on its own products was a prerequisite to registration;[63] use by wholly owned subsidiaries did not inure to the benefit of the parent company, and was therefore insufficient to permit registration of the parent's mark.[64] Nor could the subsidiaries register the mark since they did not own it.[65] The legislative history of the Lanham Act indicates that section 5 was primarily intended to alter this result.[66] Analysis of the verbal evolution of section 5, and the hearings, indicates some boundaries for speculation as to its meaning. Reference to use

60. *Hearings Before the House Committee on Patents on H.R. 4744*, 76th Cong., 1st Sess. (1939) [hereinafter cited as *House Hearings*]; *Hearings Before a Subcommittee on Trade-marks of the Senate Committee on Patents on H.R. 82*, 78th Cong., 2d Sess. (1944) [hereinafter cited as *Senate Hearings*].

61. 23 U.S.P.Q. 145 (Comm'n 1934).

62. 33 Stat. 724 (1905).

63. 23 U.S.P.Q. at 147.

64. *Ibid.*

65. See Taggart, *Trade-marks and Related Companies: A New Concept in Statutory Trade-mark Law*, 14 LAW & CONTEMP. PROB. 234, 237 (1949).

66. *House Hearings* 38-59; *Senate Hearings* 94-95, 147; see *Ex parte* C. B. Donald Co., 117 U.S.P.Q. 485, 487 (Comm'n 1958). Congress' intention that § 5 codify pre-existing trademark licensing law except for the *Steel* decision was reaffirmed during the hearings. In the 1939 House hearings, Congressman Lanham questioned proponents and opponents of the bill to ensure this result. Neither group expressed a desire to alter existing law. *House Hearings* 57-64. This interrogation was repeated during the Senate hearings five years later. *Senate Hearings* 93-96, 147-51. The Senate Committee asserted it did not intend to change the existing law on trademark licensing. *Id.* at 94, 150. As in 1939, discussion centered on the issue as to whether the proposed provision correctly reflected the prior law. *Id.* at 93-96, 147-51.

by "related companies" was first made in the 1938 bill [67] which contained the earliest draft of section 5; and an initial attempt at clarifying possible ambiguities in the phrase occurred the following year when a broad definition of "related companies" was added.[68] That definition may be viewed as writing the guaranty theory of trademark licensing into the act, since it placed all emphasis on quality control, finding a sufficient connection between the registrant of the mark and his transferee where any means of supervision of the transferee's use existed, including "stock ownership, contractual relationship or otherwise."[69]

The extreme permissiveness of the definition caused immediate concern [70] that section 5, by enabling controlled use of trademarks in such a way as to confuse the consumer as to source, conflicted with the bill's abandonment provision which specifically referred to origin. Representative Lanham agreed that an inconsistency existed and promised to correct it.[71] Subsequently, in 1940, section 5 was amended to meet the above objections by adding the present "no deception of the public" qualification.[72] Furthermore, the early definition of "related company" was shortened, at first by excising contractual relationship as a specified means of asserting control [73] and then by eliminating all reference to examples.[74] Arguably, these changes, by giving broad effect to the abandonment concept through limiting the recognized methods of control, reflected a desire to retain some element of the source theory in the Lanham Act.[75] This tension between the desire to encourage licensing, embodied in section 5, and the necessity of restricting it, embodied in section 45, has been reflected in judicial treatment of trademark licensing from the earliest confrontations to the present.[76]

THE COMMON LAW OF TRADEMARK LICENSING

With the exception of *Ex parte United States Steel,* it is fairly certain that Congress intended section 5 to adopt, not enlarge upon, pre-existing law regarding trademark licensing.[77] This intention, however, does not solve the am-

67. H.R. 9041, § 6, 75th Cong., 3d Sess. (1938):
> Where the trade-mark sought to be registered is used by subsidiary or related companies, the application shall so state, and such use shall be deemed exclusive; and use of registered trade-marks by companies subsidiary or related to the registrant shall not affect the validity of such trade-mark or of its registration.

68. H.R. 4744, § 5, 76th Cong., 1st Sess. (1939); quoted at *House Hearings* 57.

69. *Ibid.*

70. *House Hearings* 58.

71. *Ibid.*

72. 86 CONG. REC. 8990 (1940). See Schniderman, *Trade-mark Licensing—A Saga of Fantasy and Fact,* 14 LAW & CONTEMP. PROB. 248, 251 (1949).

73. *Senate Hearings* 95.

74. 88 CONG. REC. 7432, 7436 (1942).

75. In 1946, the licensing provisions of the Lanham Act received their final alternation. Section 5 and the related company definition were qualified by requiring "legitimate" use and "legitimate" control, in order to mollify the opponents of the bill who had previously argued that it permitted confusion of origin contrary to prior law and enabled antitrust violations. See *Senate Hearings* 63, 149. See Schniderman, *supra* note 72, at 252, n.25.

76. See text at notes 118-26 *infra.*

77. See note 66 *supra* and accompanying text.

biguities presented by the act, since both pre-existing law and the congressional interpretation of that law are unclear.

Initially trademark licensing, primarily governed by common law,[78] was narrowly restricted. *Macmahan Pharmacal Co. v. Denver Chemical Co.*,[79] invalidating a license that allowed use of a liquid dentifrice trademark, "Antiphilogestive" on toothpowder produced by a different manufacturer, established the rule that "a trademark cannot be . . . licensed, except as incidental to a transfer of the business or property in connection with which it has been used."[80] Such a rule was deemed necessary to safeguard what was then believed to be the primary function of a trademark: to indicate the source or origin of the goods or services bearing it.[81] *Macmahan* was subsequently applied to invalidate trademark licenses on several occasions, invalidating arrangements between a retailer and manufacturer,[82] manufacturers of similar products,[83] and parties providing the same service,[84] as "naked" licenses when not accompanied by a transfer of the licensor's business. Some courts, moreover, indicated that such attempted transfers of trademarks constituted an abandonment on the part of the licensor-owner, who thereby lost all his proprietary rights in the mark.[85] Recent authorities,[86] favoring licensing on as broad a scale as possible, have argued that the licenses in these cases were held invalid only because they lacked licensor control. But this interpretation appears mistaken, and a reading of these opinions indicates a general acceptance of the *Macmahan* doctrine.

The Pre-Lanham Act Period

Apparent exceptions to the *Macmahan* rule developed almost immediately. In 1903, a trademark license from a patentee to a manufacturer, permitting use of a mark upon a patented product, was upheld.[87] On three subsequent

78. The Federal Trade Mark Act of 1905, 33 Stat. 724 (1905), did not deal with the practice.

79. 113 Fed. 468 (8th Cir. 1901).

80. *Id.* at 474-75.

81. The essential value of a trademark is that it identifies to the trade the merchandise upon which it appears as of a certain origin, or as the property of a certain person. *Ibid.* The rule permits the transfer of a mark when an owner sold his business, but if the business was largely dependent on the personal skill of the seller, use of the mark by the new owner continues to represent the same "source" only in a purely technical manner. For a recent recognition of this problem see Waltham Watch Co., 3 TRADE REG. REP. ¶ 15,938, at 20,754 (June 15, 1962).

82. Lea v. New Home Sewing Mach. Co., 139 Fed. 732 (C.C.E.D.N.Y. 1905).

83. Independent Baking Powder Co. v. Boorman, 175 Fed. 448, 455 (C.C.N.J. 1910); Mayer F & J Co. v. Virginia-Car. Chem. Co., 35 App. D.C. 425, 426 (1910); Eiseman v. Schiffer, 157 Fed. 473 (C.C.S.D.N.Y. 1907).

84. Everett O. Fisk & Co. v. Fisk Teachers' Agency, 3 F.2d 7 (8th Cir. 1924). This narrow view of the power to license was consistent with what slight guidance the Supreme Court had previously provided in dicta. See Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916).

85. See E.I. duPont de Nemours & Co. v. Celanese Corp., 167 F.2d 484, 487-88 (C.C. P.A. 1948) (dictum).

86. See, *e.g.*, *id.* at 489.

87. See Adam v. Folger, 120 Fed. 260 (7th Cir. 1903).

occasions, similar licenses were found valid.[88] Within a decade, a state court indicated that a trademark license accompanying the disclosure of a secret process was legal.[89] And another state decision upheld a license from a jobber to a manufacturer where the jobber became an employee of the licensee.[90] In 1916, the first *Coca-Cola* opinion affirmed a trademark license by the syrup manufacturer to a bottler and diluter of its syrup.[91] By 1920, three other courts had passed favorably on Coca-Cola licenses.[92] In the nineteen-twenties and thirties trademark licensing by manufacturers to further processors using the licensor's ingredients received judicial approval in cases involving clothing,[93] paper,[94] and flour;[95] also, licenses to distributors for use in selling the manufacturer's product were upheld.[96] In 1921, furthermore, a trademark license from one manufacturing company to another was approved where the only relationship was the licensor's controlling stock interest in the licensee.[97] Other licenses between affiliated corporations were upheld in the early nineteen-thirties.[98]

Although these various licensing relationships were not considered in more than a few cases, the fact that so many types of licensing arrangements were held valid over a thirty-five year period raises the question whether these decisions were within the *Macmahan* rule or represented specific exceptions to it, thus indicating a trend towards approval of trademark licensing between any parties.

The opinions themselves do not seem to support unlimited acceptance of

88. Hoffman v. B. Kuppenheimer & Co., 183 Fed. 597 (N.D. Ill. 1910); Mathy v. Republic Metalware Co., 35 App. D.C. 151 (1910); Amiesite Asphalt Co. v. Interstate Amiesite Co., 72 F.2d 946 (3d Cir. 1934).

89. Waterproofing Co. v. Hydrolithic Cement Co., 153 App. Div. 47, 138 N.Y. Supp. 265 (1912); *cf.* Tuttle v. Blow, 176 Mo. 158, 75 S.W. 617 (1903).

90. Nelson v. J. H. Winchell & Co., 203 Mass. 75, 89 N.E. 180 (1909).

91. Coca-Cola Co. v. J. G. Butler & Sons, 229 Fed. 224 (E.D. Ark. 1916).

92. Coca-Cola Co. v. Bennett, 238 Fed. 513 (8th Cir. 1916); Coca-Cola Bottling Co. v. Coca-Cola Co., 269 Fed. 796 (D. Del. 1920); Coca-Cola Co. v. State, 225 S.W. 791 (Tex. Civ. App. 1920).

93. B. B. & R. Knight, Inc. v. W. L. Milner & Co., 283 Fed. 816 (N.D. Ohio 1922); H. Freeman & Son v. F. C. Huyck & Son, 7 F. Supp. 971 (N.D.N.Y. 1934).

94. Empire Paper Co. v. Carew Mfg. Co., 20 F.2d 281 (D.C. Cir. 1927).

95. Ralston Purina Co. v. Saniwax Paper Co., 26 F.2d 941 (W.D. Mich. 1928).

96. Scandinavia Belting Co. v. Asbestos & Rubber Works, Inc., 257 Fed. 937 (2d Cir. 1919); LaLanne v. F. R. Arnold & Co., 39 F.2d 269 (C.C.P.A. 1930); Lawrence-Williams Co. v. Société Enfants Gombault et Cie, 22 F.2d 512 (6th Cir.), *cert. denied*, 276 U.S. 619 (1927).

97. Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co., 272 Fed. 478 (D. Vt. 1921).

98. United States Ozone Co. v. United States Ozone Co. of Amer., 62 F.2d 881 (7th Cir. 1932); Keebler Weyl Baking Co. v. J. S. Ivins Sons, Inc., 7 F. Supp. 211 (E.D. Pa. 1934).

licensing by any parties;[99] rather, the principle to be derived from them seems to be that trademark licensing is permitted only when ancillary to transfer of either the product or some property right of the trademark owner upon which the licensee used the mark. Vertical licensing from manufacturers to further processors, wholesale distributors, and retailers of their products involve a transfer of the licensor's product and therefore fall within this rule. Similarly the patentee and secret process cases involve a transfer of the right to use a property interest, albeit an intangible one, of the licensor. Of course, it is arguable that every trademark license is ancillary to the transfer of a property right, since the owner is extending use of his good will to the licensee. But even if good will is recognized as property for some purposes,[100] it is distinguishable in degree if not in nature from a patent or secret process; in addition, the inextricability of a trademark from its good will seems to deny the possibility of ancillarity *Macmahan* requires. Finally, recognition of licensing by corporate affiliates may be considered within *Macmahan* since the license is not between separate parties, but rather between different units of a single business.[101]

This liberal interpretation of *Macmahan* can be justified on the ground that the licensing it permits will not confuse the origin or source of the product on which it is used because some significant portion of the final product still emanates from the licensor.[102] But however broad the *Macmahan* rule became, it stopped far short of acceptance of licensing by any parties as long as quality control is maintained.[103]

Thus, the common law at the commencement of the Lanham Act's legislative history in 1938 seems to have restricted trademark licensing by more than the requirement of licensor quality control; it conditioned use of the licensed mark upon the transfer of a property interest from the licensor to the licensee.

The Lanham Act, however, was debated and studied for eight years before its passage in 1946, during which time there were decided a number of trademark licensing cases which have been read as supporting controlled licensing by any parties regardless of their economic relationship. Since the stated intent

99. Thus, the same court which upheld an agreement by a patentee to a manufacturer, Mathy v. Republic Metalware Co., 35 App. D.C. 151 (1910), in the same year condemned an arrangement between manufacturers because there was no "incidental . . . transfer of the business or property of the licensor." Mayer Fertilizer & Junk Co. v. Virginia-Carolina Chem. Co., 35 App. D.C. 425, 426 (1910).

100. For eminent domain purposes, good-will is considered either too "intangible" an interest to be compensated, or simply not a property interest at all. See Comment, 67 YALE L.J. 61 (1957).

101. *Cf. House Hearings* at 59.

102. Where the licensee is a further processor, and there are several such licenses, the possibility of consumer confusion may be avoided by identifying the licensee on the final package.

103. *But see* California Fruit Growers Exch. v. Sunkist Drinks, Inc., 3 F. Supp. 496, 497 (S.D.N.Y. 1933); Atlas Assur. Co. v. Atlas Ins. Co., 138 Iowa 228, 234, 112 N.W. 232, 234 (1907) for pre-Lanham Act indications that the transfer of the trademark may be permissible even where there is no ancillarity. This indicates a departure from the strict source theory.

to codify pre-existing law was sustained throughout the period before passage, the 1938-1946 cases appear relevant in determining restraints Congress considered necessary before a licensed trademark could be protected by federal registration.

Upon analysis, many of the cases decided during this period fall within the older, familiar categories such as arrangements between corporate affiliates,[104] patentees and manufacturers,[105] secret process holders and manufacturers,[106] or manufacturers and further processors.[107] One new development can similarly be placed within the expanded *Macmahan* concept. In *Lone Ranger v. Currey*,[108] a trademark license accompanying the right to use the licensor's copyright was approved. This decision is consistent with the extended *Macmahan* rule because, like trademark licensing by patentees, the license is ancillary to transfer of the right to use a property interest.[109] However, the copyright decision was not accepted without conflict—one court suggested that such licensing was invalid.[110] On the other hand, several cases during this period indicate acceptance of controlled licensing between any parties regardless of whether the licensee uses the mark in connection with a product or property interest of his licensor. Thus, licenses by a retailer [111] and a distributor [112] to their manufacturers, by a party providing services,[113] and by a manufacturer to a distributor who used the mark on goods of other manufacturers [114] were found to be valid transfers. Thus one line of decisions, during the very period of congressional discussion of the Lanham Act, was toward emphasizing quality control, and minimizing consideration of public confusion as to specific source.

The Statute After Passage: Resolution and Construction

In the fifteen years that have elapsed since its adoption, the licensing provisions of the Lanham Act have never been interpreted by the Supreme Court.[115] However, lower federal courts have dealt with trademark licensing

104. See E. F. Prichard Co. v. Consumers Brewing Co., 136 F.2d 512, 521 (6th Cir. 1943).

105. Smith v. Dental Prods. Co., 140 F.2d 140 (7th Cir. 1944).

106. See Bacardi Corp. v. Domenech, 311 U.S. 150, 153 (1940); American Dirigold Corp. v. Dirigold Metals Corp., 125 F.2d 446, 449 (6th Cir. 1942).

107. See Crown Fabrics Corp. v. American Viscose Corp., 32 C.C.P.A. (Patents) 701, 145 F.2d 246 (1944).

108. 79 F. Supp. 190, 192 (M.D. Pa. 1948).

109. See note 127 *infra* and accompanying text.

110. See American Broadcasting Co. v. Wahl Co., 121 F.2d 412, 413 (2d Cir. 1941).

111. Corral, Wodiska Y Ca v. Anderson, Thorson & Co., 95 F.2d 11 (7th Cir. 1938).

112. Ph. Schneider Brewing Co. v. Century Distilling Co., 107 F.2d 699 (10th Cir. 1939).

113. Murray v. Roedel, 196 Misc. 233, 93 N.Y.S.2d 331 (Sup. Ct. 1949).

114. Purity Cheese Co. v. Frank Ryser Co., 153 F.2d 88 (7th Cir. 1946); criticized in Note, 34 CALIF. L. REV. 610 (1946).

115. Recently in Dairy Queen, Inc. v. Wood, 369 U.S. 469 (1962), the Court faced an appeal in a dispute over a trademark licensing arrangement, but only issues of federal procedure were involved.

under the act on several occasions, and their decisions support the premise that any parties may engage in trademark licensing under section 5 if they provide for licensor control of the nature and quality of the licensee's use sufficient to insure uniform quality in products bearing the mark.[116]

Although the courts have placed great emphasis on licensor control in scrutinizing licensing arrangements, the apparent limitations of the abandonment section [117] of the Lanham Act have rarely been invoked. The chore of harmonizing the abandonment restriction on licensing with section 5's apparent permissiveness has been expressly attempted only twice.

In *Alligator Co. v. Robert Bruce, Inc.*,[118] Alligator, the owner of registered trademarks developed in manufacturing clothing, sued Bruce for infringement of these marks. Alligator had previously licensed the marks to Crystal, a shirt manufacturer, and the licensing arrangement provided for quality control.[119] Bruce moved for summary judgment alleging that since Alligator had given Crystal the right to use its trademarks in connection with goods not manufactured by Alligator, the marks no longer identified the goods with the maker, had lost their significance as an indication of origin, and therefore were abandoned.[120] Although the court acknowledged the availability of a section 45 abandonment defense in an infringement action, it found that Alligator had in fact controlled the quality of its licensees, and therefore there was no misuse of the mark through licensing. The court stated that section 5 permitted all controlled licensing arrangements unless "an element of deceit" was involved;[121] moreover, "if goods sold under a trademark [are] in conformity with the trademark owner's standards of quality, there is no deception."[122] Thus, the opinion, by conclusively presuming that effective control precludes a finding of confusion of origin, severely restricted abandonment as a limitation upon licensing under section 5.

In *Dawn Donut Co. v. Hart's Food Stores, Inc.*,[123] the Second Circuit reached a similar conclusion. Plaintiff Dawn owned a registered mark used in connection with a baking mix which it manufactured and sold to bakeries. The bakeries were licensed to use the mark on products made from the mix. Dawn alleged that Hart was infringing the mark by using it on a different mix.[124] Hart counter-claimed for cancellation of Dawn's mark, alleging that since Dawn had no effective quality control over its licensees, its licensing worked an aban-

116. See, *e.g.*, Dawn Donut Co. v. Hart's Foods Stores, Inc., 267 F.2d 358 (2d Cir. 1959); Pike v. Ruby Foo's Den, Inc., 232 F.2d 683 (D.C. Cir. 1956); Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959); Manischewitz Food Products, Inc. v. Rosenberg, 80 U.S.P.Q. 427 (E.D. Pa. 1949).

117. 60 Stat. 444 (1946), 16 U.S.C. § 1127 (1958).

118. 176 F. Supp. 377 (E.D. Pa. 1959).

119. *Id.* at 378-79.

120. *Id.* at 378.

121. *Id.* at 379.

122. *Ibid.*

123. 267 F.2d 358 (2d Cir. 1959).

124. *Id.* at 360-61.

donment.[125] The court, however, found that there was adequate quality control, and, rejecting the argument that trademarks are principally an indicia of source stated that if the licensor complies with his affirmative duty to police his licensee's activities, the "controlled licensing does not work an abandonment" under the Lanham Act.[126]

These recent cases, with their reading of the Lanham Act to extend the scope of permissible licensing beyond the strictures of the source theory, recognize the irrelevance of actual source in an economy where the manufacturing complex is so intricate that the ultimate consumer has no means of knowing which subsidiary or subcontractor manufactured any given element of the final product.[127] In regard to such products, the assurance of uniform quality may be the only safeguard from confusion and deception the consumer can expect; consequently, quality control may be the only demand which can rationally be imposed on the licensor.[128] It is arguable, therefore, that Congress meant only to require the licensor to control the quality of the products of his licensees and thus rejected the source theory embodied in the *Macmahan* rule or its progeny.

By assuming that the consumer cannot be deceived in a controlled licensing arrangement since he seeks only an assurance of quality, however, it is possible that the guaranty theory oversimplifies purchaser response to different classes of products. Where such homogeneous products as Coca Cola syrup are involved, uniformity of quality in the licensees' finished goods is sufficient to avoid confusion. But some marks on particular goods, however few, may in fact primarily represent source to the consumer. Thus, for example, where con-

125. *Id.* at 367.

126. *Ibid.*

127. See generally Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210 (1931).

128. Enforcement of the control requirement may be difficult, however; even though the Patent Office can cancel registration because of misuse, or lack of control, an interference proceeding is a prerequisite to such action. 60 Stat. 434 (1946), 15 U.S.C. § 1068 (1958). Similarly, the Federal Trade Commission is empowered to institute cancellation proceedings on the same grounds, 60 Stat. 433 (1946), 15 U.S.C. § 1064 (1958). But it has been reluctant to use this power. See S. REP. No. 2266, 83d Cong., 2d Sess. 8 (1954); TOULMIN, TRADE-MARK HANDBOOK 78 (1957). Generally, the FTC employs § 5 of the Federal Trade Commission Act, 38 Stat. 719 (1914), 15 U.S.C. § 45(a)(1) (1958), to restrain public deception. See, *e.g.*, Bart Schwartz Int'l Textiles, Ltd. v. FTC, 289 F.2d 665 (C.C.P.A. 1961). The essential question, always one of fact, is whether the method employed assures that the licensor effectively controls the quality of the goods or services on which the mark is used. See Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367-68 (2d Cir. 1959); Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377, 379 (E.D. Pa. 1959). A mere contractual stipulation for control is insufficient; control must actually exist. Huber Baking Co. v. Stroehmann Bros., 110 U.S.P.Q. 349 (S.D.N.Y. 1956); *Ex parte* Pure Oil Co., 99 U.S.P.Q. 19 (Comm'n 1953); Morse-Starrett Prod. Co. v. Steccone, 86 F. Supp. 796 (N.D. Cal. 1949). And the burden of proving control—or lack of it—has varied with the proceeding involved. In registration proceedings the burden has been placed on the owner-applicant; in cancellation proceedings, however, or when lack of licensor vigilance is raised as a defense to infringement, the risk of non-persuasion on the issue of control *vel non* rests on the alleged infringer. See Krayer, *Domestic Trade-mark Licensing*, 43 J. PAT. OFF. SOC'Y 574, 579 (1961).

sumers buy believing that a mark assures that a product, such as Roquefort cheese, comes from one part of the world, while because of licensing, it originates in another,[129] a finding of consumer deception seems warranted. Furthermore, where the end product is complex, as for instance a refrigerator, similarity as to quality implies some average standard which results from a balancing of internal defects and advantages; consequently, the consumer may prefer to make his own evaluation of the respective quality of similar goods from different sources, rather than rely on a determination arrived at by an agent of the licensor.[130] Reliance on licensor adherence to quality control standards as a method of avoiding public deception may, moreover, be misplaced since recent Senate hearings [131] have indicated that evasion of control requirements is widespread.[132] Many licensors have not enforced control either because of their own indifference or because their licensees are uncooperative. The licensee may not have the licensor's vested interest in maintaining the prestige of the mark;[133] if it deteriorates he may seek another licensor, subject, of course, to the barrier imposed by fixed investment. And licensors may decide, rather than incur the cost of enforcing control, to reap royalties in the short run until the mark deteriorates.[134] Since enforcement of the control requirement has in fact been almost wholly dependent upon assertion of the abandonment defense in infringement actions, the disregard disclosed by the Senate hearings is not surprising.

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129. See Community of Roquefort v. William Faehndrich, Inc., 303 F.2d 494 (2d Cir. 1962).

130. Purchasers of such goods may want more than a product of equal quality—they may want "the genuine article." Menendez v. Holt, 128 U.S. 514, 520 (1888); *cf.* BORDEN, THE ECONOMIC EFFECTS OF ADVERTISING 629-30 (1942). In addition, deception may exist even in the presence of quality control where quality is not the sole or partial motivation for consumer reliance on the trade symbol. The purchaser may opt for a particular symbol because of regional or political ties it represents or because of a hiring policy or labor relations reputation the mark owner maintains.

131. *Hearings Before the Subcommittee on Patents, Trade-Marks and Copyrights of the Senate Judiciary Committee*, 87th Cong., 1st Sess. (1961) [hereinafter cited as 1961 HEARINGS].

132. [T]here is a considerable amount of trade-mark licensing taking place today where there is no semblance of quality control exercised by the licensor.

Id. at 6 (Statement of former Commissioner Leeds). This view, probably accurate, undermines a fundamental premise of the guaranty theory: that "as the owner has the exclusive right to [the mark], he will see that goods sold under it are of such character as will win and retain the confidence and patronage of the purchasing public." Coca-Cola Co. v. State, 225 S.W. 791, 794 (Tex. Civ. App. 1920).

133. The problem of licensee indifference, see Manischewitz Food Prod., Inc. v. Rosenberg, 80 U.S.P.Q. 427 (E.D. Pa. 1949), was raised during the legislative history of the Lanham Act. *House Hearings* at 59.

134. At the *House Hearings* on the Lanham Act it was stated:

It might be [the licensor] will say I will make my money out of licensing this trademark, make all I can, while this continues, and then I can go on and do something else.

House Hearings at 60. This possibility is heightened under the Lanham Act, since the licensor need not manufacture the product himself to save the mark from abandonment.

These latter considerations would seem to indicate that the guaranty theory as applied to licensing arrangements may not afford the public maximum protection from the possibility of deception. A return to the strictures of the source theory, however, does not appear to represent a satisfactory alternative, since most trademarks probably do not represent actual origin as that theory assumes. An examination in each case of the impact a particular trademark has on the public should provide adequate protection from consumer deception. But such a case by case examination in determining the validity of licensing arrangements would cast an extremely heavy burden on the courts; moreover, because of the necessarily speculative nature of the inquiry in each case, such an approach would render the validity of potential licensing arrangements extremely uncertain. In addition, the alleged ineffectiveness of the control requirement of the guaranty theory and the resultant likelihood of consumer deception is not an inherent weakness of that theory; rather, such ineffectiveness is a result of the lax enforcement of the control requirement.[135] Thus, from the vantage point of public deception, it seems that the act should be read to incorporate the guaranty theory which, though perhaps a slight oversimplification of consumer response, does not unduly restrict what may be potentially desirable licensing arrangements on the basis of highly uncertain speculations as to consumer impact.

But deception of the public should be only one factor in prescribing a rational licensing policy. Protection is afforded trademarks under the common law and presumably under the Lanham Act not only to shield the public from deception, but also to foster innovation and quality competition.[136] Therefore, a determination of the scope of permissible licensing under the Lanham Act should also rest upon an evaluation of the economic effects of unrestricted or widespread licensing arrangements and the ensuing widespread use of such licensing.

Unrestricted trademark licensing may inhibit high quality performance by discouraging innovation. It permits the trademark owner who has developed a mark worth licensing to reap potentially great royalty benefits without any further activity on his part other than controlling licensees. Arguably, a firm that would otherwise continue to carry on active research and improve its service will be content to rest on past performance which is paying handsome dividends in the form of licensing royalties. Moreover, the requirement of uniform quality[137] which trademark licensing imposes may also discourage innovation and improvement by licensees. Uniformity of quality requires the inventive licensee either to share its improvement with all other users of the licensed mark, or else to cease using that mark and attempt to develop his own. The cost of combatting the established mark may render the latter step undesirable; therefore, licensees of well established marks may be reluctant to

135. See note 128 *supra*.

136. See S. REP. No. 1333, 79th Cong., 2d Sess. 3-4 (1946); "Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles." H. REP. No. 944, 76th Cong., 1st Sess. 2-3 (1939).

137. Martin, *The Meaning of Distinctiveness in Trade-mark Law*, 45 ILL. L. REV. 535, 566 (1951) (licensing requires "product invariance" among all licensees).

spend initial time and funds in research for an improvement which, even if found, will not necessarily fully inure to the discoverer's own competitive advantage.[138] While the inventive licensee might be rewarded by the licensor and other licensees for use of his improvement, this would depend on his bargaining power, which may be slight if the mark is a well established one. Even with such rewards, research might never occur where the possibility that other licensees might develop mutually beneficial improvements outweighs the costs of conceivably fruitless research. In addition, trademark licensing may impede the development of higher quality goods and services among non-licensees. Where firmly established marks exist, existing competitors and new entrants fearful of competing may seek to join the licensing relationship. This would require them merely to meet the licensor's existing standard of quality; if licensing were unavailable, they would have had to develop their own marks by seeking to provide superior performance. Thus, trademark licensing, by encouraging actual and potential competitors to become licensees, may not only impede research and innovation but may also reduce the very competition which trademarks are intended to promote.

Trademark licensing may also enable a successful firm to spread its economic influence far more widely and rapidly than if the firm had to rely on its own capital investment for growth.[139] While this may aid some smaller firms to compete against national giants, it may also make entry more difficult for a non-licensed newcomer into the market.[140] Moreover, through the introduction of a strongly developed mark into a group of small competitors, a licensor, by disrupting the previous pattern of competition, may force some of the pre-existing businesses to sell out or fail.[141] Furthermore, the increased profits from licensing royalties may enable more rapid capital expansion of the licensor in both physical size and relative market share. And since effective quality control necessitates constant and extensive interrelationship between actual or potential competitors,[142] the resulting relationship may serve to induce and camouflage other forms of anticompetitive combination. Thus, the economic ramifications of unrestricted or widespread trademark licensing may be highly undesirable.

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138. Individual [users] will be reluctant to introduce new or improved products unless agreement is reached with the group of users.

House Hearings at 63 (Department of Justice statements).

139. NATIONAL INDUS. CONF. BD., FOREIGN LICENSING AGREEMENTS 16-18 (1958) [hereinafter cited as NATIONAL INDUS. CONF. BD.]; Schniderman, *Trade-mark Licensing: A Saga of Fantasy and Fact*, 14 LAW & CONTEMP. PROB. 248, 260 (1949).

140. *Cf.* Associated Press v. United States, 326 U.S. 1, 4 (1945); United States v. Nationwide Trailer Rental System, 156 F. Supp. 800, 805 (D. Kan.), *aff'd per curiam*, 355 U.S. 10 (1957).

141. *Cf.* Reynolds Metals Co. v. FTC, 309 F.2d 223 (D.C. Cir. 1962).

142. As the Department of Justice pointed out at the hearings on the Lanham Act, where there are a large number of licensees "considerations of group stability and its value, rather than the drive to improve individual competitive position, becomes determinative ...." *House Hearings* at 63.

On the other hand, unrestricted trademark licensing may have desirable economic effects. A trademark owner's foreknowledge that he can license may provide an added impetus for quality performance in order to develop a mark worth licensing. And trademark licensing royalties may provide the progressive, innovating firm with necessary funds for further research.[143] Trademark licensing may also foster the dispersion of managerial and technical know-how which the owner would not give without the inducement of royalties and the knowledge that the fruits of his expertise will be sold under his tradename.[144] Similarly, where costs of transportation are high, a manufacturer may expand his operations by licensing producers in other parts of the country, thus avoiding the high cost of new construction or the possible antitrust consequences of merger. Moreover, trademark licensing may encourage growth in an industry where incumbents have such strongly entrenched marks that new entrants would not appear unless they could license from, rather than compete with, the owners of established marks.[145] In fact, trademark owners have often financed the enterprise of their licensees.[146] Such licensees may thus reap the benefits of their licensor's research, promotion, and advertising which they could not afford individually.[147] In addition, through the vehicle of trademark licensing, small businessmen competing against giant national corporations have formed associations whose marks they have licensed.[148] This, they claim, enables pooling of funds for advertising and research, and allows them to compete more effectively against their large national competitors.[149] Finally, licensing does enable the public to get what it wants when the trademark owner's capacity to supply is insufficient.

What the above discussion makes clear, then, is that unrestricted or guaranty theory trademark licensing may be responsible for a myriad of possible beneficial and detrimental economic effects in the form of encouraging or stifling both innovation and competition. It should be recognized that licensing arrangements meeting the stricter requirements as to origin of the source theory may also be responsible for many of the anticompetitive effects listed above, although such licensing may have less of a deleterious impact on the goal of innovation. Thus, arguably, the function of disallowance of arrangements stifling licensor or licensee innovation would best be served by confining licensing to source theory standards. However, the extent to which transactions unaccompanied by a transfer of a product or service of the licensor inhibit the incentive to innovate is incommensurable. Moreover, limiting licensing to source theory

143. NATIONAL INDUS. CONF. BD. 16.

144. *Ibid.*

145. See H. H. Scott, Inc. v. Annapolis Electroacoustic Corp., 195 F. Supp. 208, 213 (D. Md. 1961).

146. *E.g.*, Medd v. Boyd Wagner, 132 F. Supp. 399 (N.D. Ohio 1955); see also 1961 HEARINGS at 95-100, 146-67.

147. See 1961 HEARINGS at 98.

148. *Id.* at 60. See, *e.g.*, Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403 (5th Cir. 1962).

149. 1961 HEARINGS at 98.

requirements would greatly restrict trademark licensing and therefore drastically reduce the number of licensing arrangements that have potentially desirable economic effects. Thus, the argument—that because of the impact on innovation the Lanham Act should be read to incorporate the source theory—seems a dubious one.

The difference between source and guaranty theory and the kinds of licensing allowed under each of these theories are not tenable distinctions from the point of view of anticompetitive effects of trademark licensing; inquiry into whether any given licensing transaction unduly lessens or restrains competition does not depend primarily on such conditions as the presence or absence of ingredient transfers, on whether the mark truthfully indicates origin, or on whether the licensor effectively exercises quality control. Any particular instance of a licensing transaction that meets the less restrictive standards of the guaranty theory is not more likely to have anticompetitive effects than a license in accord with the source theory. Therefore, the argument based on economic considerations, like the arguments based upon public deception and innovation, does not persuasively indicate that the Lanham Act should be narrowly construed to preclude those licensing arrangements that violate the strictures of the source theory.

One argument, however, remains. Recognition of trademark licensing on the wide scale contemplated by the guaranty theory means that the anticompetitive effects outlined above will present a much more significant problem, quantitatively, than would have been the case had licensing been restricted by source theory standards. Such a result might prove a compelling argument for a return to the source theory if these anticompetitive effects are unmanageable and if the disadvantages resulting from them outweigh the benefits achieved through increased use of licensing as a business device. It is possible, however, that many of these undesirable consequences may be controlled through vigorous application of the antitrust laws to trademark licensing arrangements. Resort to the antitrust laws seems justified since the Lanham Act does not purport to deal directly with anticompetitive effects,[150] and since the two competing trademark theories are not adequate conceptual tools for dealing with antitrust problems presented by licensing transactions.

Antitrust Laws and Anticompetitive Effects

The transfer of the use of a valuable trade symbol may be viewed as a partial merger of assets between the contracting parties that, at least under some conditions, falls within the type of conduct found violative of section 7 of the Clayton Act.[151] Moreover, the mode and degree of permissible licensor control over his licensee may be restricted by section 3 of the Clayton Act[152] and section 1

150. Section 33(b)(7) of the Lanham Act acknowledges a qualified defense where the mark is used in violation of the antitrust laws, but the weight of this defense is uncertain. See note 204 *infra*.

151. 38 Stat. 731 (1914), as amended, 15 U.S.C. § 18 (1958). See Farm Journal, Inc., 53 F.T.C. 26 (1956).

152. 38 Stat. 731 (1914), 15 U.S.C. § 14 (1958).

of the Sherman Act.[153] In several recent cases,[154] however, courts have indicated that because the trademark owner has an acknowledged power to license, he has the privilege of protecting the good will of his mark through conduct which would otherwise be condemned as violating the antitrust laws.[155]

Section 7 of the Clayton Act was enacted in 1914 to halt anticompetitive consolidation where the market impact was not sufficient to warrant relief under the Sherman Act.[156] The courts, especially since the 1950 amendment,[157] have employed the incipiency test embodied in section 7 with a vengeance. Thus, where a merger has occurred, only a small percentage of the market need be affected before the courts will view the transaction as tending to lessen competition substantially.[158] Moreover, the merger does not have to be complete: the statutory language prohibits the mere "acquisition of assets"[159] where the result demonstrates a tendency toward objectionable market power. For this reason, joint ventures are being subjected to increased scrutiny, although these transactions do not involve completed mergers, but only a pooling of resources for a particular project.[160] Similarly, the licensing of a trademark, which may be an important, and perhaps the only asset of the licensor,[161] may be viewed as a "partial merger"[162] invoking the proscriptions of section 7 of the Clayton Act, if it is believed that certain economic consequences of trademark licensing should be proscribed. The application of section 7 to licensing arrangements is not dependent on the licensor's control over the licensee; whether a licensing transaction is violative of section 7 depends rather on the strength of the trade symbol licensed and the market pattern of the licensee's competitors.[163]

153. 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1958).

154. See Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403 (5th Cir. 1962); Baker v. Simmons Co., 307 F.2d 458, 468 (1st Cir. 1962); Susser v. Carvel Corp., 206 F. Supp. 636 (S.D.N.Y. 1962); Engbrecht v. Dairy Queen Co., 203 F. Supp. 714 (D. Kan. 1962).

155. See, *e.g.*, Susser v. Carvel, *supra* note 154, at 645. The principal concern in this section is not the sometimes expressed fear that trademarks constitute a dangerous monopoly in the English language which might be "speedily impoverished in these days when competition in all lines of trade and manufacture is both selfish and keen." Brennan v. Emery-Bird Thayer Dry Goods Co., 108 Fed. 624, 627 (8th Cir. 1901). See 29 U. CHI. L. REV. 371 (1962).

156. 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1958).

157. 64 Stat. 1125 (1950). The amendment was designed to make § 7 a more effective weapon against concentration. See United States v. Bethlehem Steel Corp., 168 F. Supp. 576, 583 (S.D.N.Y. 1958); H.R. REP. No. 1191, at 2-3, 81st Cong., 2d Sess. (1950).

158. See, *e.g.*, United States v. Brown Shoe, Inc., 370 U.S. 294 (1962).

159. 38 Stat. 731 (1914), as amended, 15 U.S.C. § 18 (1958).

160. United States v. Penn-Olin Chem. Co., Civil No. 2282 (D. Del.), complaint filed Jan. 6, 1961; 14 STAN. L. REV. 777 (1962). See United States v. Bausch & Lomb Optical Co., 45 F. Supp. 387, 398 (S.D.N.Y. 1942), *aff'd as modified*, 321 U.S. 707 (1944).

161. *E.g.*, *In re* C. B. Donald Co., 122 U.S.P.Q. 401, 403 (1959).

162. See Bork, *Ancillary Restraints and the Sherman Act*, 15 A.B.A. ANTITRUST SECTION 211, 225 (1959).

163. Though a license agreement has not been recognized as a joint venture or partial merger in a Clayton Act § 7 context, the tendency of an impact saturated mark to substantially lessen competition was recognized in United States v. General Elec. Co., 1954

A trademark license may particularly be found to violate section 7 in a market situation having the following characteristics: where the owner of a well-known mark licenses it into a market where the pre-existing trade symbols did not have significant consumer impact; where the market of the licensee is characterized by relatively small businesses; where neither the licensee, nor any one of his competitors is dominant; and where, because of product fungibility, differentiation is based primarily on brand name. A strikingly similar situation was presented in *Procter & Gamble Co.*,[104] where the petitioner acquired Clorox, a manufacturer of liquid bleach commanding 48 per cent of the market. The liquid bleach market was characterized by producers who did not have the vast advertising resources which Procter & Gamble could provide. Moreover, postacquisition data showed that Clorox's share of the market rose to 51.5 per cent of the market. The Hearing Examiner, in both his first [105] and second [106] initial orders to cease and desist, held that where the acquirer had power to expend huge sums of money for advertising in a market where the previous competitors were unable to advertise on so large a scale,[107] the acquisition tended substantially to lessen competition.[108] Though the decision may be ques-

Trade Cas. 69294 (D. N.J.). General Electric previously permitted only one of its patent licensees, Westinghouse, to use the trademark "Mazda," although some public bodies specified in contracts that furnished lamps be "Mazda or equal." United States v. General Elec. Co., 82 F. Supp. 753, 849-51 (D. N.J. 1949). To eliminate the competitive misuse of the mark, General Electric was enjoined from using the mark on more than 1% of its yearly sale of lamps. United States v. General Elec. Co., 1954 Trade Cas. 69294, 69299 (D. N.J.); *cf.* Radiant Burners, Inc. v. Peoples Gas Light & Coke Co., 364 U.S. 656 (1961).

164. 3 TRADE REG. REP. (1961 Trade Cas.) ¶ 15245, *remanding* 1960-1961 C and O ¶ 28881 (1960). For decision on remand see 3 TRADE REG. REP. ¶ 15773 (1962); see also Hurt, *Antitrust and Competition*, 1 NEW INDIVIDUALIST REV. 3, 7 (1962).

165. 1960-1961 C and O ¶ 28881 (1960). The Commission remanded the case, holding that there was insufficient evidence concerning the post-acquisition competitive position to sustain the initial order. 3 TRADE REG. REP. ¶ 15245, at 20258.

166. 3 TRADE REG. REP. ¶ 15773 (1962).

167. The Hearing Examiner stressed the advantages of advertising power in a market where interbrand competition is keen and the products fungible, by quoting a Clorox competitor:

> I do not think it is the product itself of our competitors that we fear as competition because all good brands of bleach are, chemically speaking, identical. They bear a different trade name. It is the ability of the larger companies to spend tremendous amounts of money in advertising that gets them the business instead of the smaller company.

1960-1961 C and O ¶ 28881, at 37421. The decision seems to subordinate product differentiation through advertising to interbrand competition by price and quality distinctions. The opposite result would probably have increased advertising budgets by all the competitors of Clorox, since that would probably be the most effective way to meet the new competitive force created by the licensed mark. The implications of the *Procter & Gamble* decision may be seen from the following example: if there are several small restaurants competing in one area along a highway, the license to one of them of the Howard Johnson trade symbol may be viewed as a possible violation of § 7 of the Clayton Act. *Cf.* Howard D. Johnson Co. v. Robbins Light, Inc., 328 Mass. 46, 101 N.E.2d 348 (1951).

168. On remand the Hearing Examiner relied more heavily on post-acquisition data, but still stressed the acquirer's vast advertising budget, and the advantage thus accruing to

tioned by those who view the antitrust laws as directed solely at encouraging competition, rather than protecting competitors,[169] its implications for licensing are manifest. For licensing differs from the Clorox situation only in that the advertising by the licensor precedes the transaction, while the advertising by the acquirer follows it.[170] Thus, if a licensing transaction is treated as a form of asset acquisition, licensing of a strongly advertised mark into a market similar to that of *Procter & Gamble* may be subject to proscription, regardless of the degree of quality control exercised by the licensor. It may be argued, moreover, that the acquisition of the right to use a mark may provide the licensee with a greater advantage than the acquisition of other types of assets.

Section 7 consequences must also be considered where the market is characterized by strong competitors who have captured a large share of the market through the use of nationally known trade symbols, and where the nondominant competitors attempt to increase their respective market shares by obtaining a mark which will increase point-of-sale impact in their favor. These nondominant producers may acquire such a mark by license from one of the dominant competitors [171] or they may consider it worthwhile to pool their advertising resources to develop a common mark which can be used by all contributors.[172] In either of these situations, the *Procter & Gamble* rationale is less applicable, since the pre-existence of a strong symbol in the market arguably precludes a finding of unfair competitive advantage. On the other hand, a "strong competitor" defense should only be persuasive in those market situations where courts have indicated that defensive merger does not lessen competition.[173]

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the respondent when competing for valuable grocery store shelf-space. 3 TRADE REG. REP. (1962 Trade Cas.) ¶ 15773, at 20584 (Feb. 28, 1962).

169. See Klor's, Inc. v. Broadway-Hale Stores, Inc., 359 U.S. 207 (1959). For a comprehensive discussion of this conflict, see Note, *Conglomerate Mergers Under Section 7 of the Clayton Act*, 72 YALE L.J. 1265 (1963).

170. Even this difference may be slight, since the Hearing Examiner emphasized that the grocer was heavily influenced in his granting of shelf-space by the pre-selling of the goods. See note 168 *supra*. If pre-selling is the competitive advantage which is injurious, licensing will almost necessarily have this effect since the real benefit of a trade symbol is its ingrown pre-selling ability. The conclusion that the pre-transaction advertising embodied in a trademark should have the same legal consequences as advertising services offered a retailer or distributor after an acquisition has been urged in a Robinson-Patman context. See K. S. Corp. v. Chemstrand Corp., 198 F. Supp. 310 (S.D.N.Y. 1961).

171. See, *e.g.*, Temperato v. Horstman, 321 S.W.2d 657 (Mo. 1959).

172. Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403 (5th Cir. 1962); United States v. Serta Associates, Inc., 5 TRADE REG. REP. (1962 Trade Cas.) ¶ 70310 (N.D. Ill. 1961). Both these cases deal with the mattress industry in which, during the late 1920's, small manufacturers found themselves at an extreme disadvantage because of the national impact of the Simmons Co. mark on the retail level. At the recommendation of a consultant economist, a number of these manufacturers formed a special corporation to develop a trade symbol that would compete with the Simmons mark. The funds to promote the new trade symbol came from the licensees. At present, Serta Associates has 36 licensees. Brief for defendant, United States v. Serta Associates, Inc., *supra* at 3-6. See also *Hearings on S. 1396 Before the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary*, 87th Cong., 1st Sess. 40-43 (1961).

173. See Brown Shoe Co. v. United States, 370 U.S. 294, 346 (1962); *cf.* United States v. Bethlehem Steel Corp., 168 F. Supp. 576, 618 (S.D.N.Y. 1958).

Anticompetitive effects involving section 3 of the Clayton Act and section 1 of the Sherman Act are also presented in a trademark context. Such problems arise where the licensor, allegedly attempting to comply with the quality control requirements imposed under the guaranty theory, prevents his licensee from engaging in various kinds of competitive behavior. In such situations the licensor, seeking immunity from sanctions otherwise adhering to anticompetitive agreements in the deception-avoidance mandates of trademark law, have urged that the affirmative duty placed on the trademark owner to supervise the production of the licensee requires the use of quality controls which might have been proscribed as violative of the antitrust acts in the absence of a licensing transaction.[174]

These problems arise in traditional licensing arrangements where the trademark owner desires to extend the geographical sweep of market exposure without the necessity of heavy investment through new plant construction. Often, such licensing takes the form of providing the use of an already developed mark to numerous outlets in return for royalty payments plus the performance of specified obligations of the licensee.[175] Such arrangements are commonly referred to as franchises. In these agreements, it is the form and extent of control that the licensor exercises to guarantee uniform quality which determines whether the overall economic result is proscribed.

The methods employed to assert licensor control, while fulfilling the minimum requirements of the Lanham Act, may raise the question of antitrust violation where control is exercised through tie-in agreements, exclusive dealing contracts, territorial divisions, and resale price maintenance compacts.[176] Thus, for example, the licensor often will condition the use of his mark on the purchase of elements of the ultimate product either manufactured by the licensor [177] or

174. See, *e.g.*, Susser v. Carvel Corp., 206 F. Supp. 636, 645 (S.D.N.Y. 1962).

175. See McCullough v. Dairy Queen, Inc., 129 U.S.P.Q. 398 (E.D. Pa. 1960). For typical franchise agreements see Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 406 (5th Cir. 1962). The franchise system has generally been viewed as a boon to the small independent businessman, without regard to the serious restrictions which may inhere in such systems. As the court stated in Susser v. Carvel Corp.:

> The franchise method of operation has the advantage, from the standpoint of our American system of competitive economy, of enabling numerous groups of individuals with small capital to become entrepreneurs. . . . If our economy had not developed that system . . . these individuals would have turned out to have been merely employees.

206 F. Supp. 636, 640 (S.D.N.Y. 1962). *Cf.* American Column & Lumber Co. v. United States, 257 U.S. 377, 418 (1921) (Brandeis, J., dissenting).

176. It is also possible that the trademark owner may violate §§ 2(d) and 2(e) of the Robinson-Patman Act, 49 Stat. 1527 (1936), 15 U.S.C. §§ 13(d), (e) (1958) by discrimination in licensing his mark to purchasers. The first case posing this issue is K. S. Corp. v. Chemstrand Corp., 198 F. Supp. 310 (S.D.N.Y. 1961). In *Chemstrand*, the plaintiff K. S. and a third party purchased a synthetic fiber from defendant, but only the third party was given the free right to use the Acrilan trademark on the goods manufactured from the purchased fiber.

177. Anchor Serum Co. v. FTC, 217 F.2d 867, 869 (7th Cir. 1954). Often the sale of a commodity for resale is tied to an obligation on the part of the purchaser to contribute to

by suppliers "approved" by the licensor.[178] Such tie-ins may be necessary where consumer identification is with a specific product component only manufactured by the licensor.[179] On the other hand, control over licensee quality as to other requirements of the licensee may be effectively accomplished by a contractual obligation by the licensee to use products of agreed standards rather than products from specified sources.[180]

Similarly, exclusive dealing arrangements otherwise proscribed under section 3 of the Clayton Act have been allowed as a part of a trademark licensing arrangement.[181] As with other alleged licensing antitrust violations, internal distinctions are also necessary here. Thus, sometimes the licensee is required to deal exclusively in the product identified with the licensed mark, where such

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an advertising fund. This practice has been sustained in the automobile field, Nelligan v. Ford Motor Co., 262 F.2d 556 (4th Cir. 1959).

178. Susser v. Carvel Corp., 206 F. Supp. 636, 646 (S.D.N.Y. 1962) ("To require Carvel to limit itself to advance specifications . . . would impose an impractical and unreasonable burden . . . not required by the antitrust laws."); *cf.* Dehydrating Process Co. v. A. O. Smith Corp., 292 F.2d 653, 655 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961). *But see* Temperato v. Horstman, 321 S.W.2d 657, 664 (Mo. 1959).

179. If such product component is essentially what the public identifies with the trademark, tie-ins are likely to be permitted. See Susser v. Carvel Corp., *supra* note 178, at 647; *cf.* FTC v. Sinclair Ref. Co., 261 U.S. 463 (1923). In Baker v. Simmons Co., 307 F.2d 458 (1st Cir. 1962), the court found permissible the tying of Simmons mattress purchases to the lease to motel owners of signs reading, "Ask for Beautyrest by Simmons." *Id.* at 467. The licensor whose mark represents a "secret process" is even more likely to be protected, presumably because of the impossibility of dictating standards without revealing his secret. See Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 402 (1911); Coca-Cola Co. v. J. G. Butler & Sons, 229 Fed. 224, 233 (E.D. Ark. 1916). Compare Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19, 27 (1957). The court can solve the problem by finding that there is no tie, but only one "product":

> We may agree with the plaintiff that the compulsory joining of two "separate" articles is a per se violation of the act. This statement, however, solves nothing. Articles, though physically distinct, may be related through circumstances. . . . [A] substantial hardship apart from the loss of the tie-in sale may be such a circumstance. It would not be thought, for example, that a one-legged man could insist on purchasing only a left shoe.

Dehydrating Process Co. v. A. O. Smith Corp., 292 F.2d 653, 655 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961).

180. See Standard Oil Co. v. United States, 337 U.S. 293, 305-06 (1949). Specification of standards would seem to have been reasonable in the *Carvel* case, but the court agreed with the defendant that the licensor could stipulate sources for ice cream toppings, cups, and other accessories. See note 178 *supra*. But where the licensor's reputation and mark may be injured because conformity to specified standards is difficult, and purchasers consequently become dissatisfied with the seller's product, the seller may be justified in tying products together. See Dehydrating Process Co. v. A. O. Smith Corp., 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961); United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960); Note, 49 CALIF. L. REV. 746 (1961).

181. *Compare* Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 412 (5th Cir. 1962), *and* Susser v. Carvel Corp., 206 F. Supp. 636, 647 (S.D.N.Y. 1962), *with* United States v. White Motor Co., 194 F. Supp. 562, 578 (N.D. Ohio 1961). See consent judgment in United States v. Volkswagen of America, Inc., 1962 Trade Cas. ¶ 70256 (D. N.J. 1962), requiring the defendant to notify dealers that they may sell and service other makes of cars.

an agreement prevents him from selling products competitive with the trademarked product;[182] or the licensee is confined to merchandising the trademarked product with no privilege to sell other goods, whether competitive or noncompetitive.[183] If the licensor can require licensees to identify competing products so that there would be no passing off or public deception, the grounds for permitting exclusive dealerships to assure licensee quality performance are unclear. Such agreements, foreclosing the licensee from dealings with competitors of the licensor, seem to be exactly within the scope of section 3 of the Clayton Act.[184] On the other hand, preventing the licensee from dealing in the goods of a noncompetitor is not so plainly within the terms of the Clayton Act.[185] But where such exclusion has been contracted, it is possible that the excluded products, though dissimilar from the licensed product, are nevertheless competitive, as for instance, where cross-elasticity is sufficiently high that the consumer would be likely to transfer his economic vote from the licensor's product to those that have been foreclosed from sale by the licensee.[186]

Licensing agreements are also often characterized by attempted market divisions, many of which would appear to fall within the proscriptions of the Sherman Act.[187] A scheme of exclusive areas for product sales exploitation does

182. See cases cited *supra* note 181.

183. The restriction on the sale of non-competing goods is responsible for the current flurry of suits among the ice-cream franchisees who, smarting under contract prohibitions, refuse to pay their royalties. See Engbrecht v. Dairy Queen Co. of Mexico, Missouri, 203 F. Supp. 714, 720 (D. Kan. 1962). In Susser v. Carvel, 206 F. Supp. 636 (S.D.N.Y. 1962), the plaintiff-franchisees sought to invalidate the contract because of antitrust violations. The court found that some franchisees desired to sell hamburgers, and others, Christmas trees, in violation of their covenants. The court stated:

> No case has been found under any of the antitrust laws holding that the franchiser of a *valuable trademark* cannot restrict the line of the business operated by his franchisee. Carvel is in the business of franchising ice cream dealers and should not be forced by the operators to enter into or lend its name to other lines of business. Naturally any food products sold on the premises in a store of uniform specifications and displaying the Carvel sign would be attributed to Carvel. Any defects in quality, over which Carvel would have no control, would detract from the Carvel name and good will.

Id. at 647 (Emphasis added).

184. *Cf.* Standard Oil Co. of California v. United States, 337 U.S. 293 (1949) (5-4 decision); International Salt Co. v. United States, 332 U.S. 392 (1947).

185. See Susser v. Carvel Corp., 206 F. Supp. 636, 647 (1962). However, if all the franchisees know that each is agreeing with the distributor to exclude certain products, a conspiracy may be inferred to create a group boycott. *Cf.* United States v. Masonite Corp., 316 U.S. 265, 275 (1942).

186. The restriction on the sale of such similar commodities seems to be the covenant most irksome to the franchisees. See Susser v. Carvel Corp., *supra* note 185, at 648. But that case held such goods to be non-competitive. *Id.* at 647.

187. *E.g.*, Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951); Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 409 (5th Cir. 1962) (market division legal). The Lanham Act itself has been construed as permitting market division under the concurrent use provision, as long as the proposed concurrent users are without a present potential for overlapping territories. 60 Stat. 427 (1946), 15 U.S.C. § 1051(a)(1) (1958). For criticism of the provision, see TOULMIN, TRADE-MARK HANDBOOK v (1957).

not seem necessary for the licensor to maintain the quality necessary for adherence to Lanham Act requirements.[188] However, the Fifth Circuit, in *Denison Mattress Factory v. Spring-Air Co.*,[189] upheld the validity of territorial division on the ground that the allocation of territories was not "central" but rather "ancillary" to the purpose of the licensing agreement. Such immunity from what is otherwise considered a per se violation of section 1 of the Sherman Act was defended on the ground that licensor control through territorial division fulfills the licensor's public duty to take precautions against the mark's misuse.[190] Despite this broadly stated immunity, a distinction must be made in territorial allocations between restraints on the licensor and restraints on the licensee. An agreement by the licensor not to issue a license to another within the licensee's geographical region is not necessarily a contract unreasonably in restraint of trade;[191] one court has held such agreements non-violative on the ground that it is reasonable for a licensee to demand such assurances before he risk the capital necessary to embark on the venture.[192] On the other hand, a restraint on the licensee forbidding him to compete outside a given area was generally found to be per se illegal prior to the recent decision in *White Motor Co.* It is possible, in accordance with Mr. Justice Douglas' opinion, that after consideration of the economic effects of this type of arrangement that future cases will again be subsumed under the per se rule.[193] To circumvent this pro-

188. The licensor, under some conditions, may find it easier to trace licensee violations of quality standards if sales are confined to a narrow geographical area. This may be especially true where the licensor seeks an action back against the licensee after a suit by a purchaser from the licensee for an injury resulting from a departure from the quality standard. More often these agreements occur because participating licensees desire the added insurance against intrabrand competition, alleging that interbrand competition suffices to meet the Sherman Act requirements. See *Hearings Before the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary on S. 1396*, 87th Cong., 1st Sess. 30-33. The bill, S. 1396, makes territorial restrictions in a trademark context not per se illegal but subject to a rule of reason test. *But see* United States v. Serta Assoc., 1961 Trade Cas. ¶ 70310 (N.D. Ill. 1961).

189. Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 409 (5th Cir. 1962).

190. *Id.* at 409-10. The court reasoned that since the public relied on the mark, and the licensee may abuse the mark if he is permitted territorially unrestricted use, the licensor has a duty to confine its application.

191. See United States v. White Motor Co., 194 F. Supp. 562, 578 (N.D. Ohio 1961), *rev'd on other grounds*, 83 S. Ct. 696 (1963). If the market is defined by the trademark, or where there is no interbrand competition, exclusive grant of a trademark may be illegal. *Cf.* United States v. Guerlain, Inc., 155 F. Supp. 77, 83 (S.D.N.Y. 1957). *But see* Schwing Motor Co. v. Hudson Sales Corp., 138 F. Supp. 899, 903 (D. Md.), *aff'd per curiam*, 239 F.2d 176 (4th Cir. 1956), *cert. denied*, 355 U.S. 823 (1957).

192. See Note, 75 HARV. L. REV. 795, 808-09 (1962).

193. See United States v. White Motor Co., 194 F. Supp. 562, 578 (N.D. Ohio 1961), *rev'd on other grounds*, 83 S. Ct. 696 (1963). While the exclusive franchise lessens intrabrand competition, the franchisee is restrained from unduly raising his price for fear neighboring franchisees will invade his territory. Restrictions on the licensees, however, tend to eliminate intrabrand competition altogether. See Note, 75 HARV. L. REV. 795, 827 (1962).

scription, licensees have been assigned "areas of primary responsibility"[194] in which they are expected to concentrate their sales before selling in other territories. This method, however, has recently become suspect.[195]

Resale price controls also normally fall within the pale of Sherman Act per se violations,[196] and, to be sure, such controls are often present in the context of trademark licensing arrangements. The possibility of licensor price maintenance exists where the mark owner uses the pool of advertising resources to promote the marked product and includes in such promotion a retail price.[197] Such resale price maintenance, may, however, exist purely through the mark itself. For example, one type of hamburger may be known as the "nineteen-cent" hamburger. In such a case the license itself constitutes dictation of the maximum resale price. Furthermore, the licensor may set standards of such a nature, or extract a royalty which contributes to licensee cost per unit to such an extent that the contract virtually dictates a minimum price level.[198] Although many of these price controls are ordinarily considered anathema to the Sherman Act, licensors have successfully argued that such price controls are necessary to prevent licensee pricing which will jeopardize the trade symbol's good will with the public.[199] Moreover, "suggested" prices even where labeled "mandatory" have been held permissible in a trademark licensing arrangement.[200]

See also *Trademark Licensing—Domestic*, 51 TRADEMARK REP. 977, 989 (1961) for a description of the permissible bounds:

> There is no objection . . . in saying to Western Aerosol, "You will be our licensee West of the Mississippi." Now, if we stop there and don't go any further, and don't say, "You can't come East and we can't come West," we are not dividing territories.

To allow such market divisions through license would permit by vertical agreement what is proscribed when done horizontally. See Dr. Miles Med. Co. v. John D. Park & Sons, 220 U.S. 373, 407-08 (1911).

194. *Cf.* Consent order of United States v. Philco Corp., 1956 Trade Cas. ¶ 68409 (E.D. Pa.), where the defendant was enjoined from entering into any agreement "limiting or restricting, directly or indirectly . . . the territory within which any wholesale distributor or retail dealer may choose to sell Philco products." But Philco could "designate geographical areas" in which distributors would be "primarily responsible."

195. See Note, 75 HARV. L. REV. 795, 797 (1962).

196. United States v. Trenton Potteries Co., 273 U.S. 392 (1927).

197. See Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 411 (5th Cir. 1962).

198. Price fixing is probably most often attempted by a licensor who sells on the same line as his licensee; to prevent the licensee underselling, the licensor may try to set a minimum resale price. *Cf.* United States v. General Elec. Co., 272 U.S. 476 (1926). Although such a practice may be narrowly valid in a patent situation, the privilege does not extend to the trademark owner. See Susser v. Carvel Corp., 206 F. Supp. 636, 649 (S.D. N.Y. 1962). However, if the royalty figure is properly set, such added cost of production should prevent the licensee from long-run underselling. *Trademark Licensing—Domestic*, 51 TRADEMARK REP. 977, 991-92 (1961).

199. See Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 411-12 (5th Cir. 1962). *But see* Susser v. Carvel Corp., *supra* note 198, at 648; Temperato v. Horstman, 321 S.W.2d 657, 660 (Mo. 1959).

200. See Denison Mattress Factory v. Spring-Air Co., *supra* note 199, at 411-12.

The growing number of cases allowing trademark licensing arrangements to prevail over antitrust objections demonstrates that some courts have afforded trademark licenses a degree of protection not contemplated by the Lanham Act, the expression of federal policy toward trademark usage. As a result, the contemplated relationship between the antitrust laws and trademark law is being distorted. Had the Lanham Act been intended to immunize trademark licensing from the antitrust laws, the only restriction that would have been imposed on trademark licensing, either under the guaranty or source theory, would have been deception of the public. However, the act clearly contemplates the applicability of other sanctions to trademark licensing arrangements whose undesirable effects are unrelated to public deception. During the protracted hearings on the Lanham Act, Justice Department statements served as a constant reminder of the dangers inherent in broadly sanctioning licensing conduct without regard to the economic effects of licensing.[201] Thus, it was urged that liberal statutory approval of trademark licensing

> would be used as colorable legal sanction for contracts directed toward price control, against the production of competitive products, for allocation of markets, division of uses, and fixing channels of distribution.[202]

To assuage the concern of the Justice Department, the final version of the Lanham Act limited licensing to situations where the mark was to be "legitimately" used—section 5—by "legitimately" controlled persons—section 45—and "legitimately" was taken to mean conduct in accordance with the antitrust laws.[203] Moreover, the intent to subordinate trademark law to antitrust law is underscored by the inclusion of section 33(b)(7) in the act;[204] this section denies the incontestability benefits of the act to any trademark owner who uses his mark in a manner violative of the antitrust laws.[205]

But such courts as the Fifth Circuit in *Denison*, confronted with the problems of mergers, exclusive dealing arrangements, territorial division, and other anticompetitive conduct in the context of trademark licensing have not given content to the legitimacy standard provided by the Lanham Act; thus the skeleton of a doctrine which would distinguish between legitimate controls required under the Lanham Act for quality uniformity and which unduly hamper competition has yet to emerge.[206] Instead courts, in limiting the full impact

201. See, *e.g.*, SENATE HEARINGS (Letter to Sen. Claude Pepper from Wendell Berge, Nov. 14, 1944).

202. *Ibid.* The Justice Department also feared that the licensing power would give trademark owners the power to fix conditions on entry into a given market. *Id.* at 63. Because of these fears of anticompetitive effects, they urged that licensing be confined to wholly owned subsidiaries. *Ibid.*

203. Schniderman, *Trade Mark Licensing—A Saga of Fantasy and Fact*, 14 LAW & CONTEMP. PROB. 248, 261 (1949).

204. 60 Stat. 439 (1946), 15 U.S.C. § 1115 (1958).

205. For the weight of a § 33(b)(7) defense in an infringement action, see 45 VA. L. REV. 94 (1959).

206. Such a doctrine would be analogous to the patent misuse doctrine. See Krayer, *Domestic Trademark Licensing*, 43 J. PAT. OFF. SOC'Y 574, 585 (1961).

of the antitrust laws, have resuscitated an "ancillarity" theory,[207] derived from *United States v. Addyston Pipe & Steel*,[208] whereby anticompetitive controls imposed on a licensee, otherwise per se illegal, may be upheld if they are found reasonable and necessary for the accomplishment of a valid trademark licensing transaction.[209] But the analytical approach necessary to establish the conditions required for such ancillarity has rarely been undertaken.[210] And in the trademark licensing cases which have analyzed the licensing arrangement, the ancillarity argument has been dismissed as invoking a false characterization of the agreement in that the presence of a valid principal transaction, to which the questionable restraints were necessary, was not proved.[211] Thus, the lower court in *Timken Roller Bearing Co. v. United States*[212] found that trademark licensing agreements between American, British, and French manufacturers were "subsidiary and secondary to the central purpose of allocating trade territory,"[213] rather than the principal transaction to which the market division was an "ancillary" restraint. The Supreme Court affirmed, Mr. Justice Black stating in the majority opinion that:

> [R]estraints of trade [cannot] be justified as reasonable steps taken to implement a valid licensing system . . . . A trademark cannot legally be used as a device for Sherman Act violation.[214]

This language, however, does not ineluctably preclude an assertion in subsequent cases that the putatively anticompetitive controls could be tested by standards of reasonableness and necessity since Mr. Justice Black also based his rejection of the defense on the district court's finding that the market division itself was the crux of the transaction.

The difficulty the courts have in developing a rational policy toward trademark licensing, in an antitrust context, is in part attributable to the objectives of trademark protection. Those objectives were summarized in a Senate Report[215] on the Lanham Act:

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207. See Bork, *Ancillary Restraints and the Sherman Act*, 15 A.B.A. ANTITRUST SECTION 211 (1959).

208. 85 Fed. 271 (6th Cir. 1898).

209. See Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 408 (5th Cir. 1962).

210. A recent case which indicates the potentiality of such a doctrine in an area of restraints usually considered per se illegal is United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960). There, it was indicated that the manufacturer of community television antennas, in an early stage of the company's research and development, would have been permitted to require purchasers of the television relay systems to take a service agreement, since the repair expertise of the manufacturer would be necessary to sustain the company's good name; subsequently, after the firm became established, such requirement was illegal. And although the case did not involve a trademark, the emphasis on maintenance of the good name of the company would seem to make the decision applicable in a trademark context.

211. See, *e.g.*, Anchor Serum Co. v. FTC, 217 F.2d 867, 871-72 (7th Cir. 1954).

212. 83 F. Supp. 284 (N.D. Ohio 1949), *modified and aff'd*, 341 U.S. 593 (1951).

213. *Id.* at 314.

214. 341 U.S. 593, 598-99 (1951).

215. S. REP. No. 1333, 79th Cong., 2d Sess. 6 (1946).

1. To protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows it will get the product which it asks for and wants to get.
2. Where the owner of a trademark has spent energy, time, and money in presenting to the public the product he is protected in his investment from its misappropriation by pirates and cheats.

The first of these objectives—protection of the public—has impaired the application of the antitrust law to trademark misuse. The prospect of confusing the public by denying protection to the trademark owners from potential infringers, which, in effect, results in compulsory licensing, has limited the possible remedies. Moreover, trademark owners have argued that once notice is taken of their property rights in trademarks, an analogy between trademarks and patents compels the conclusion that they, like patentees, should be given a qualified exemption from the antitrust laws. The Supreme Court, however, has indicated that such an analogy is not valid, and that the protection of the owner in his property rights should not be construed as immunity from the antitrust statutes.[216] The constitutionally expressed desire to encourage invention and the useful arts is not normally construed to extend to trademarks; and absent that desire, there is little reason for giving more protection to marks than is necessary to safeguard the public from deceptive practices.

Courts should not doubt the applicability of the antitrust laws where anticompetitive trademark licensing arrangements are involved, lest the checks against undesirable economic effects envisaged by the draftsmen of the Lanham Act be vitiated. Thus, the owner of a strong mark should be permitted to license only into markets where the effect of the license will not be to lessen competition substantially, as measured by standards developed under section 7 of the Clayton Act. Moreover, only in rare circumstances should restrictive covenants be allowed to accompany trademark transfers, and then only after subjection to more rigorous analysis than they have been accorded in recent cases. Where the undesirable economic effects are bound to follow these restraints should be judged by per se rules. Where it is impossible to maintain quality uniformity among holders of the mark solely through the specification of standards, however, these restraints may properly be judged by rules of reason. By approaching licensing in such a manner, employing both Lanham Act and antitrust standards, the law can best accommodate what are the sometimes competing goals of allowing utilization of trademark licensing on as broad a scale as possible in accord with the guaranty theory while limiting its anticompetitive effects.

216. United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97-98 (1918).