

## COMMENTS AND NOTES

### TRADEMARK LICENSING: THE PROBLEM OF ADEQUATE CONTROL

*The enactment of the Lanham Act in 1946 gave legislative sanction to the practice of licensing trademarks for use by persons other than the trademark owner. In granting this approval, the Act required concomitantly that the trademark owner "control" the nature and quality of goods produced by his licensees and carrying his trademark. An examination of post-1946 cases, however, reveals that some courts have upheld licensing agreements in which there was very little "control" and that courts generally have failed to scrutinize diligently the licensors' actual exercise of control. This comment seeks to examine the manner in which courts have dealt with the Lanham Act's "control" requirement and to explore the implications which this has for the use of trademarks today.*

ONE OF THE most significant aspects of modern business advertising and merchandising is the use of trademarks and brand names, since a large percentage of American consumers rely on trademarks in making purchasing decisions.<sup>1</sup> A key feature of trademarks, playing a determinative role in their extensive use and corresponding modern economic importance, is trademark licensing.<sup>2</sup> Under a trademark

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<sup>1</sup> See Link, *The Social Significance of Trademarks*, 38 TRADEMARK REP. 622 (1948), in which, on the basis of a 16 year study of consumer purchasing, the author concluded that from 70% to 95% of American consumers generally purchase on the basis of trademarks or brand names. Although the importance of *national* trademarks may have diminished due to the growth of local or "private" trademarks, more recent studies validate the importance of trademarks generally. See Cunningham, *Customer Loyalty to Store and Brand*, 39 HARV. BUS. REV. 127 (Nov.-Dec. 1961). But see Lebow, *Is the Trade-Mark Declining As a Marketing Tool?* 40 TRADEMARK REP. 770 (1950).

<sup>2</sup> Trademark licensing is an integral part of franchised operations, whereby a local businessman may take advantage of the consumer demand for products connected with a well-known symbol or name. See, e.g., *Susser v. Carvel Corp.*, 206 F. Supp. 636, 641 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505 (2d Cir. 1964). The relatively recent development of widespread interest in television personalities and similar characters has created a demand for products connected with these characters and has thereby provided a fruitful market for entrepreneurs in a wide variety of fields. See, e.g., *Wyatt Earp Enterprises, Inc. v. Sackman, Inc.*, 157 F. Supp. 621, 624 (S.D.N.Y. 1958); *Bowman Gum, Inc. v. Topps Chewing Gum, Inc.*, 103 F. Supp. 944, 948-49 (E.D.N.Y. 1952). The manufacturer of goods marked with an organizational emblem

licensing arrangement, a party contracts with a trademark owner for the use of the trademark, often in consideration for royalty payments. Such an arrangement is advantageous to both parties,<sup>3</sup> regardless of whether the trademark is used by the licensee in connection with the traditional product<sup>4</sup> or is applied to a completely new product line.<sup>5</sup>

The trademark concept may be traced at least to medieval times, when trademarks were an important part of the guild system.<sup>6</sup> Originally, a trademark was considered to signify the "source" of the product to which it was attached,<sup>7</sup> thus providing a means of

also profits from trademark licensing. See *Future Farmers of America v. Romack*, 114 F. Supp. 796, 797-98 (E.D. Ill. 1953), *aff'd*, 211 F.2d 925, 926 (7th Cir. 1954). Testimony given at a Senate hearing indicates that the currently favorable view toward licensing, the ease of satisfying control requirements, and the fact that licensing is largely dependent on private enforcement are all elements contributing to the fact that litigation in this area is slight in comparison to the actual number of licensing arrangements. Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 n.2 (1963).

<sup>3</sup> A trademark owner who licenses the mark expands the notoriety of the mark and creates additional sales possibilities as well as obtaining additional royalties. The party acquiring the use of the mark gains the advantage of a symbol known to the public which already generates considerable consumer demand. See Sage, *Trade-Mark Licenses and Control*, 43 TRADEMARK REP. 675 (1953).

<sup>4</sup> See, e.g., *Medd v. Boyd Wagner, Inc.* 132 F. Supp. 399 (N.D. Ohio 1955) (ice cream franchise); *Arthur Murray, Inc. v. Horst*, 110 F. Supp. 678 (D. Mass. 1953) (licensed dance studio); *Crown Beverage Corp. v. Nehi Corp.*, 196 Misc. 715, 92 N.Y.S.2d 902 (Sup. Ct. 1949) (soft drink franchise).

<sup>5</sup> See, e.g., *Bowman Gum, Inc. v. Topps Chewing Gum, Inc.*, 103 F. Supp. 944, 948-49 (E.D.N.Y. 1952) (licensees used baseball player's name on various merchandise); *Lone Ranger, Inc. v. Currey*, 79 F. Supp. 190, 192 (M.D. Pa. 1948) (same as to individual television character); *Television Merchandising, Inc. v. Wee Classics, Inc.*, 136 N.Y.S.2d 902 (Sup. Ct. 1954) (licensees used television performers' names on clothing, toys and other products).

<sup>6</sup> 3 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION AND TRADE-MARKS* §§ 65-5.2 (2d ed. 1950) [hereinafter cited as CALLMANN]. In the medieval guild economy, the mark was a mandatory requirement on an artisan's goods enabling the guild to control the trade and to hold accountable the producer of defective products. *Id.*; see Rogers, *The Lanham Act and the Social Function of Trade-Marks*, 14 LAW & CONTEMP. PROB. 173 (1949). For a detailed examination of the historical background of trademarks see F. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* (1925).

<sup>7</sup> CALLMANN §§ 65-5.2. While trademarks have served a number of different functions of varying importance in different historical periods, *identification* has been the classical function which has molded the law of trademarks. *Id.* For many years, the courts continued to conceive identification as the major function of the trademark. "The office of a trademark is to point out distinctively the origin, or ownership of the article to which it is affixed; or, in other words, to give notice who was the producer." *Canal Co. v. Clark*, 80 U.S. (13 Wall.) 311, 322 (1871); see *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916); *Elgin Nat'l Watch Co. v. Illinois Watch Case Co.*, 179 U.S. 665, 673 (1901). Of course, the trademark itself serves not only to protect the public, but to provide a means for an entrepreneur to capitalize on any "good will" his business has created. Thus, both common law and statutory trademark rights and

distinguishing between goods of similar appearance and enabling a consumer to make an intelligent selection on the basis of prior satisfaction.<sup>8</sup> Consumer purchasing conditioned upon previous experience with an identifiable product in turn provided an incentive for producers to maintain high quality standards.<sup>9</sup> Under the "source" theory, however, licensing of trademarks for another's use was considerably limited, since it was crucial for the consumer to be able to associate a trademarked product with its actual source<sup>10</sup>.

In the twentieth century, the "source theory" came under attack.<sup>11</sup> As an alternative, it was observed that the actual origin of a trademarked product was unimportant to the consumer, to whom the trademark signified only a standard of quality.<sup>12</sup> Consequently, the central concept was that the trademark owner "guaranteed" that his mark would appear only on goods of a certain quality and that the consumer might safely rely on it as indicating a consistent product quality level. To protect this reliance, the "guaranty" theory requires that any trademark licensing arrangement provide for control by the licensor sufficient to ensure the nature and quality

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remedies are directed toward a dual purpose. *See e.g.*, *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412-13 (1916). However, the protection of the public seems to be the more dominant theme in the trademark cases, and it is this aspect of the trademark's purpose on which this comment focuses.

<sup>8</sup> "[The trademark] must be designed, as its primary object and purpose, to indicate the owner or producer of the commodity, and to distinguish it from like articles manufactured by others." *Columbia Mill Co. v. Alcorn*, 150 U.S. 460, 463 (1893); *see CALLMANN* §§ 65-5.2.

<sup>9</sup> *Rogers*, *supra* note 6, at 175-76, 180. If there were no means of distinguishing among goods produced by different producers, a premium would be placed, not upon quality, but upon manufacturing the cheapest goods possible or upon successfully imitating the appearance of goods of high quality. *Id.* at 175-76.

<sup>10</sup> *See, e.g.*, *Kidd v. Johnson*, 100 U.S. 617, 620 (1879); *Macmahon Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474-75 (8th Cir. 1901); *Lea v. New Home Sewing Mach. Co.*, 139 F. 732 (C.C.E.D.N.Y. 1905); *CALLMANN* § 78.2.

<sup>11</sup> The source theory was attacked on the grounds that the consumer was not really concerned with the *actual* source or origin of the trademarked goods. Instead, it was maintained that the consumer only assumes that goods with the same trademark reach him through the same channels or emanate from the same "anonymous" source. *Schechter*, *The Rational Basis of Trademark Protection*, 40 *HARV. L. REV.* 813 (1927).

<sup>12</sup> *Isaacs*, *Traffic in Trade-Symbols*, 44 *HARV. L. REV.* 1210, 1215 (1931). The "guaranty" function did not spring full blown into the twentieth century as a completely new rationale for the trademark. Instead, changes in the economic structure of society and the increased impersonalization between producer and consumer made the guaranty function a more realistic explanation of the meaning of a trademark to the consumer. *CALLMANN* § 65.2; *see Pecheur Lozenge Co. v. National Candy Co.*, 122 F.2d 318 (3d Cir. 1941), *rev'd on other grounds*, 315 U.S. 666 (1942).

of goods produced by the licensee.<sup>13</sup> Thus, the "guaranty" theory allows broad licensing of trademarks,<sup>14</sup> for so long as standardized quality control is exercised, the number of actual sources should not affect the public's ability to rely on a trademark. Recognizing the value of expanded trademark licensing, Congress, by enacting the Lanham Act in 1946,<sup>15</sup> gave its approval to arrangements which provide for control over the quality of the trademarked goods.

However, it appears that the courts in numerous instances have failed to enforce adequately the control requirement by approving licensing arrangements which lack sufficient control measures. Furthermore, the control requirement seems to have been diluted by judicial failure to inquire whether *actual* control is exercised over a licensee, and by imposition of an unrealistic burden of proof on litigants who challenge a trademark license. In order to evaluate the substance and extent of such trends, this comment will examine trademark licensing prior to the Lanham Act, the meaning of the licensing provisions of the Act, and the licensing cases which have arisen since its passage. The primary focus will concern the exercise of adequate control by trademark licensors over their licensees and the court's treatment of this issue.

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<sup>13</sup> See, e.g., *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, 378-79 (E.D. Pa. 1959); *Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 175 F. Supp. 107 (E.D. Pa. 1958). *But cf.* Woodward, *Some Observations on Legitimate Control of Nature and Quality of the Goods*, 49 TRADEMARK REP. 609 (1959) (questioning the reasons for quality controls since the trademark owner himself could make changes in quality, design, or formula). See also *Trademark Licensing—Domestic and Foreign*, 51 TRADEMARK REP. 975 (1961) (reporting a simulated company management decision on how to license a trademark).

The control requirement is imposed on the licensor, who is the person most capable of protecting the public from exposure to goods not of the quality represented by his trademark. See *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959).

<sup>14</sup> The explication of the guaranty theory as a substitute for the source theory of trademarks is particularly significant for trademark licensing. If the consumer's concern is with a quality guarantee and not with specific identification, the owner of a trademark need not necessarily participate in the production of the goods bearing his trademark. Instead, the owner may license the use of the trademark and regulate or control the licensee without being directly involved in production of the goods. See Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1177 (1963).

<sup>15</sup> Lanham Act, 15 U.S.C. §§ 1051-1127 (1964). The term "licensing" does not appear specifically in the Act, but licensing is allowed under a provision providing for use by "related companies," 15 U.S.C. § 1055 (1964), as that term is defined in 15 U.S.C. § 1127 (1964). For the terms of these provisions see text accompanying notes 76-77 *infra*.

## THE PRE-LANHAM ACT PERIOD

Prior to 1946 many states enacted laws providing for trademark registration, but these laws proved inherently ineffective in safeguarding trademarks in interstate business<sup>16</sup> and, indeed, afforded little protection even at the state level.<sup>17</sup> While the Trademark Act of 1905<sup>18</sup> did provide some additional rights for a trademark registrant,<sup>19</sup> it contained no provision allowing the licensing of registered trademarks, although trademark assignment in connection with the transfer of a business' good will was permitted.<sup>20</sup> Thus, prior to the

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<sup>16</sup> Individual states could not, of course, extend their trademark laws outside of their own jurisdictions. Indeed, the use of trademarks may be a subject demanding uniformity of regulation upon which only Congress, and not the states, could legislate. See Diggins, *Federal and State Regulation of Trade-Marks*, 14 LAW & CONTEMP. PROB. 200, 213-14 (1949); Fenning, *Trade Mark Act Congressional Report*, 17 J. PAT. OFF. SOC'Y 120, 124-28, 133 (1935).

<sup>17</sup> The owner of a trademark generally could rely on an action of unfair competition to protect his rights in the mark, but registration with a state provided no additional remedies, procedural advantages in court, or other protections. Diggins, *supra* note 16, at 201; see *Coca-Cola Co v. Stevenson*, 276 F. 1010, 1015-16 (S.D. Ill. 1920).

<sup>18</sup> Act of Feb. 20, 1905, ch. 592, 33 Stat. 724. An attempt to enact trademark legislation in the nineteenth century had been defeated when the Supreme Court declared the statute unconstitutional. The Court held that a trademark was not an "invention" to which Congress, under Article I, could grant exclusive rights and also that the act did not attempt to limit its coverage to interstate and foreign commerce. *Trade-Mark Cases*, 100 U.S. 82 (1879).

<sup>19</sup> The benefits of the 1905 Act were procedural only, particularly in making access to the federal courts available to the owner of a registered trademark. Substantive rights, however, continued to be governed by the common law. Diggins, *supra* note 16, at 202; See 2 H. NIMS, *THE LAW OF UNFAIR COMPETITION AND TRADEMARKS* § 223 (4th ed. 1947).

<sup>20</sup> Act of Feb. 20, 1905, ch. 592, § 10, 33 Stat. 724. The assignment provision was merely a restatement of the common law position. Trademarks were considered to be a representation of any "good will" that a business might have generated. Thus, when the business was sold to another, it was natural for the trademark to accompany it. There was no danger of deception of the public since the mark would continue to be used in relation to the goods with which it had previously been connected. See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413-14 (1916); *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474-75 (8th Cir. 1901).

Doubts may be raised about the distinction between the well-accepted practice of assignment of a trademark in connection with the "good will" of a business, and the practice, which was often disapproved, of licensing another person to use a trademark while the original owner continued to use the same trademark in his own business. It would appear that in either case the "new" person using the trademark would have an opportunity to dilute the quality of the goods associated with the trademark and thereby deceive the public. See Taggart, *Trade-Marks and Related Companies: A New Concept in Statutory Trade-Mark Law*, 14 LAW & CONTEMP. PROB. 234, 235 (1949). However, if the trademark were completely assigned to another, any change in quality would be *uniform* and the public could either accept the new quality level or reject the product. A licensing arrangement, however, does permit varying quality levels within the standard expected by the public.

Lanham Act, trademark licensing was governed largely by the common law.<sup>21</sup>

The common law rule respecting the assignment or licensing of trademarks was well stated in the case of *Macmahan Pharmacal Co. v. Denver Chemical Manufacturing Co.*<sup>22</sup> The Macmahan Company had contracted to allow use of the trademark, "antiphlogistine," on the licensee's medical product. The contract required that Macmahan protect the licensee from any infringement by other parties, and Macmahan brought the suit against Denver to enjoin the using of the trademark on Denver's product.<sup>23</sup> The Court of Appeals for the Eighth Circuit held Macmahan's contract invalid, noting that "[a] trademark cannot be assigned or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used."<sup>24</sup> Thus, not only had the licensee acquired no enforceable trademark rights under the contract, but Macmahan, by participating in a scheme which deceived the public as to the source of the trademarked product, was not entitled to equitable relief against Denver's use of the trademark.<sup>25</sup> The requirement that the trademark continue to be associated with its related business was a logical consequence of the "source" theory of trademarks, for only in this way could a consumer properly associate trademarked goods with their actual origin.<sup>26</sup>

The *Macmahan* rule was followed by a number of courts which invalidated agreements licensing the use of a trademark without an

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<sup>21</sup> See, e.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413-14 (1916); *Kidd v. Johnson*, 100 U.S. 617, 620 (1879); *Trade-Mark Cases*, 100 U.S. 82, 92 (1879); *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474-75 (8th Cir. 1901); *Independent Baking Powder Co. v. Boorman*, 175 F. 448, 451-54 (C.C.D.N.J. 1910).

<sup>22</sup> 113 F. 468 (8th Cir. 1901).

<sup>23</sup> There were actually three products involved in the case. Macmahan itself applied the term "antiphlogistine" to a liquid dentrifice, and both the licensee and Denver used the name on a plastic compound used to reduce external inflammation. *Id.* at 474.

<sup>24</sup> *Id.* at 474-75. The court suggested that the issue was not one of the quantity or percentage of the business to be transferred, so long as the trademark continued to be associated with the business enterprise or property with which it had previously been associated. See note 30 *infra*. As the licensee had formerly been a stockholder and president of Denver and definitely knew of its product, the court may well have been influenced by the possibility of an attempt by the licensee to defraud Denver. 113 F. at 474-75.

<sup>25</sup> *Id.* at 475-76. In addition to determining that the licensing agreement was invalid, the court found that Macmahan itself had not sufficiently used the trademark so as to acquire trademark rights. *Id.* at 473-74. Thus, it would appear that Denver could have successfully restrained the use of the mark by both Macmahan and its licensee.

<sup>26</sup> See notes 7-10 *supra* and accompanying text.

accompanying transfer of the related business interest. Thus, the use of a trade name by locally-franchised teachers' agencies under the supervision of the trade name's owner was held invalid.<sup>27</sup> The court found that the local agencies were separate businesses connected with the trade name owner only by contract and ruled that, by allowing such businesses to use the name, the owner had abandoned his right to protection of the name.<sup>28</sup> Similarly, a baking powder firm which had acquired the use of a trademark from a company continuing in business was not allowed to restrain the use of the trademark by another.<sup>29</sup> The deciding tribunal reasoned that the owner of the trademark could not license another to use his mark while he continued to produce the same product under a different name.<sup>30</sup>

While the rule that a valid transfer of a trademark must be accompanied by the transfer of the "business" or its "good will,"

<sup>27</sup> *Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc.*, 3 F.2d 7 (8th Cir. 1924). The name "Fisk Teachers' Agency" was first used in a local operation and gradually expanded to other cities. Fisk allowed these other local agencies to use the name and included the local agency in his advertising, in exchange for which the local agency paid royalties and agreed to operate subject to Fisk's direction in its relation to the other agencies. One of the local agencies subsequently repudiated the contract, but continued to operate under the Fisk name. Fisk sued to enjoin the use of the name, but the court denied relief. *Id.* at 7-8. See *American Broadcasting Co. v. Wahl Co.*, 121 F.2d 412, 413 (2d Cir. 1941).

<sup>28</sup> 3 F.2d at 8-9. By improperly licensing a trademark, a trademark owner may be considered to have "abandoned" his trademark rights to the general public. See note 83 *infra*.

<sup>29</sup> *Independent Baking Powder Co. v. Boorman*, 175 F. 448 (C.C.D.N.J. 1910). The dispute was over the use of the word "Solar" on baking powder. The complainant had allegedly obtained the use of the word from an individual who had acquired it from the original developer of the name, and the complainant sued to enjoin its use by the defendant. The court held that the complainant had improperly acquired the mark because the original developer had purported to transfer *only* the name "Solar" while remaining in the business of making baking powder under another name. *Id.* at 449-51; see *Atlas Beverage Co. v. Minneapolis Brewing Co.*, 113 F.2d 672, 677-78 (8th Cir. 1940); *Dietz v. Horton Mfg. Co.*, 170 F. 865, 870-71 (6th Cir. 1909); *Bulte v. Igleheart Bros.*, 137 F. 492, 498-99 (7th Cir. 1905).

<sup>30</sup> Thus, because the owner could not validly license the trademark under these circumstances, the licensee had no trademark rights to enforce. 175 F. at 451-54. In noting that a trademark could only be transferred in connection with the good will of the business itself, the court noted that it was not a matter of "decimal fractions" of the business which needed to be transferred. *Id.* at 453-54.

In *Lea v. New Home Sewing Mach. Co.*, 139 F. 732 (C.C.E.D.N.Y. 1905), the plaintiff, who had previously sold sewing machines under the name "National" and had established a market for them, subsequently licensed the defendant to sell the latter's machines under the "National" name. When the defendant refused to pay the agreed royalties, the plaintiff sued. The court denied relief, however, holding that a trademark owner could not grant a licensee the right to use the mark unless the owner himself participated in the production or inspection of the product. *Id.*; cf. *Nisley Shoe Co. v. Nisley Co.*, 72 F.2d 118, 120 (6th Cir.) (dictum), *cert. denied*, 293 U.S. 602 (1934).

was frequently applied, it was never clearly delineated. Because the courts were evidently not concerned with mechanical formulas or percentages and wished to treat each case individually, no specific guidelines were established as to the nature or quantity of the "business" which had to be transferred.<sup>31</sup> However, it seems clear that the courts, relying on the "source" theory of trademarks,<sup>32</sup> were attempting to prevent consumer deception by requiring that trademarked goods come from the source with which the consumer associated them.<sup>33</sup>

In spite of the *Macmahan* rule, licensing of trademarks was permitted in numerous situations in which the transfer of a business interest was not the crucial factor. Instead, the courts were willing to sustain trademark licensing contracts where a certain amount of control over the licensee was retained by the trademark owner.<sup>34</sup> Such control over the nature and quality of the licensee's product was felt to be an adequate means of protecting consumer reliance on the trademark.<sup>35</sup> Frequently, trademark licensing was sanctioned where the licensor supplied raw materials to the licensee, the most notable

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<sup>31</sup> See note 30 *supra*. Because the important point was that the trademark continue to be associated with the "business" which had previously utilized it, a requirement that a certain percentage of a business be transferred, clearly would be misplaced. In some instances it might be necessary to transfer the entire business operation, while in others a small portion of the total business would be sufficient.

<sup>32</sup> See notes 7-10 *supra* and accompanying text.

<sup>33</sup> See, e.g., *Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc.*, 3 F.2d 7, 9 (8th Cir. 1924); *Bulte v. Igleheart Bros.*, 137 F. 492, 498-99 (7th Cir. 1905); *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 475 (8th Cir. 1901). As long as a court relied on the "source" theory of trademarks, it would be extremely difficult for it to sustain the licensing of trademarks, since usually the licensee would not be identified as being the actual source of the product. However, at least one court indicated that the real issue was not necessarily one of source, but one of control. See *Lea v. New Home Sewing Mach. Co.*, 139 F. 732 (C.C.E.D.N.Y. 1905).

<sup>34</sup> See *Shniderman, Trade-Mark Licensing—A Saga of Fantasy and Fact*, 14 *LAW & CONTEMP. PROB.* 248, 252-59 (1949); *Taggart, Trade-Marks and Related Companies: A New Concept in Statutory Trade-Mark Law*, 14 *LAW & CONTEMP. PROB.* 234, 236-41 (1949); Note, *Trade Mark Law—Valid Use of Trade Marks By Other Than Owner*, 23 *N.Y.U.L.Q. REV.* 483, 488-89 (1948). But see Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 *YALE L.J.* 1171, 1185 (1963).

<sup>35</sup> As indicated in note 33 *supra*, a court which strictly followed the "source" theory of trademarks was not likely to approve of trademark licensing. The number of cases involving licensing which were approved can best be explained by recognizing that the "Macmahan rule" was honored as much in the breach as in the observance, and that some courts recognized the rationale of the "guaranty" theory. See notes 11-13 *supra*. Although the guaranty function seems not to have been articulated in most cases, the function was occasionally recognized. See, e.g., *Ralston Purina Co. v. Saniwax Paper Co.*, 26 F.2d 941 (W.D. Mich. 1928).

instances involving the Coca-Cola Company.<sup>36</sup> Coca-Cola entered into contracts to supply the syrup base to local franchised dealers who bottled the drink subject to substantial rights of control by Coca-Cola.<sup>37</sup> In granting Coca-Cola an injunction against an unauthorized bottler, the court pointed out that the right to bottle the drink was a right Coca-Cola could grant to others<sup>38</sup> and that an injunction was necessary to prevent the destruction of the trademark's value.<sup>39</sup> In these cases the courts did not examine whether the

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<sup>36</sup> See *Coca-Cola Co. v. Bennett*, 238 F. 513 (8th Cir. 1916), *rev'g* 225 F. 429 (D. Kan. 1915); *Coca-Cola Co. v. Gay-Ola Co.*, 200 F. 720 (6th Cir. 1912), *cert. denied*, 229 U.S. 613 (1913); *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 269 F. 796 (D. Del. 1920); *Coca-Cola Co. v. J. G. Butler & Sons*, 229 F. 224 (E.D. Ark. 1916); *Coca-Cola Co. v. Deacon Brown Bottling Co.*, 200 F. 105 (N.D. Ala. 1912); *cf. Bacardi Corp. of America v. Domenech*, 311 U.S. 150, 153 (1940).

<sup>37</sup> *Coca-Cola Co. v. Bennett*, 238 F. 513 (8th Cir. 1916), *rev'g* 225 F. 429 (D. Kan. 1915). The Coca-Cola Company licensed two "parent" bottling companies, which in turn licensed local bottlers in their respective areas. Each local bottler received the syrup base and the right to bottle the beverage under trademark upon agreeing to prepare the beverage by adding a certain proportion of carbonated water, and agreeing not to add any unauthorized substances or to label any other drink with the Coca-Cola trademark. Moreover, the Company retained a right of inspection and supervision over the bottling of the beverage. *Id.* at 514-15.

<sup>38</sup> The court did not attempt to distinguish or harmonize the cases following the "Macmahon rule." It seemed to *assume* that the proposition that Coca-Cola could license bottlers and the use of the trademark was uncontroverted. Of course, the case may be analyzed on the basis that a business interest, *i.e.*, bottling, was being transferred; but the *court* made no such analysis. *Id.* at 516. *But see Coca-Cola Bottling Co. v. Coca-Cola Co.*, 269 F. 796, 806-08 (D. Del. 1920) (sustaining trademark rights on the ground that there had been a transfer of the bottling portion of the business in connection with the trademark).

<sup>39</sup> "Control" by Coca-Cola was the only way that the company and, by implication, the public could be protected. Thus, the court placed considerable emphasis on the need of the company to supervise the bottling of the product, which, of course, it could not do, since it had no contract with the defendant. 238 F. at 516-17; *see Coca-Cola Co. v. J. G. Butler & Sons*, 229 F. 224, 230-31 (E.D. Ark. 1916).

The manufacturing of clothing from trademarked textiles was another area where trademark licensing was sustained. In *B. B. & R. Knight, Inc. v. W. L. Milner & Co.*, 283 F. 816 (N.D. Ohio 1922), the owner of the "Fruit of the Loom" trademark sought to enjoin the defendant, an unauthorized user of the mark, from selling shirts under this name. The owner's system of licensing, under which manufacturers who used the owner's cotton cloth also were allowed to use the trademark, was not directly challenged; but in establishing the owner's right to equitable relief, the court emphasized the care with which the trademark had been protected by its owner in selecting manufacturers of high standing who were willing to guarantee the product along with him and to refund the price of the goods upon customer dissatisfaction. *Id.* at 817; *cf. Finchley, Inc. v. George Hess Co.*, 24 F. Supp. 94, 96 (E.D.N.Y. 1938); *H. Freeman & Son v. F. C. Huyck & Son*, 7 F. Supp. 971 (N.D.N.Y. 1934). In *Crown Fabrics Corp. v. American Viscose Corp.*, 145 F.2d 246 (C.C.P.A. 1944), Crown Fabric's application to register "Crown" as a trademark was successfully opposed by American Viscose. The court sustained the decision, holding that American Viscose had not forfeited its trademark rights due to its licensing of others to use the mark on goods made from materials supplied by American Viscose. The court noted that not only did American Viscose require the testing by an independent fabrics bureau of

*Macmahon* requirement of transferring a business interest had been satisfied. Instead, their approval of the trademark licensing rested on the assumption that since the trademark owner supplied the basic material *and* exerted supervision over the production, there was little danger of the public mistakenly buying inferior goods.<sup>40</sup>

Courts also validated licensing agreements in which the trademark was licensed along with the licensing of a patent. Thus, a patentee of a water heater who licensed another to use his patent and its trademark, but reserved the right to cancel the contract if unauthorized changes were made, did not forfeit his trademark rights by the licensing and later was permitted to enjoin the former licensee from using the mark.<sup>41</sup> The underlying theory of the patent cases seemed to be that because the trademark continued to be associated with its traditional product and the patentee was able to supervise the proper use of the patent, no problem of public deception was likely to arise.<sup>42</sup>

Trademark licensing contracts also withstood judicial scrutiny where the licensor owned stock in the licensee's business. For example, a maple syrup company which granted the right to use its trademark to another company in which it owned one-half the capital stock was held to have retained its trademark rights and not to have released them to its controlled licensee.<sup>43</sup> Similarly, a holding company

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all fabrics made from its rayon yarn, but it had sole control over the use of labels and advertising bearing the trademark. *Id.* at 247.

<sup>40</sup> The focus in the cases is clearly on the steps taken by the licensor to insure that the quality of the trademarked product was maintained. Generally, there is no attempt to analyze the licensing situation in terms of a transfer of a business interest. See cases cited in notes 36-39 *supra*. *But see* *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 269 F. 796, 806-808 (D. Del. 1920).

<sup>41</sup> *Adam v. Folger*, 120 F. 260 (7th Cir. 1903). Subsequent to licensing the patent, the patent owner revoked the license and sued for infringement of the patent and trademark when the licensee made unauthorized changes in the water heater. *Id.* at 261. Noting that the trademark represented to the public not that the heater was manufactured by a particular person, but only that it was the kind covered by the patent, the court held that the trademark licensing was a natural consequence of the patent licensing. *Id.* at 264; *see* *Hoffman v. B. Kuppenheimer & Co.*, 183 F. 597 (C.C.N.D. Ill. 1910). In *Smith v. Dental Products Co.*, 140 F.2d 140 (7th Cir.), *cert. denied*, 322 U.S. 743 (1944), the court, observing that the dentist had not abandoned his trademarks to the defendant by licensing them, emphasized the control which the dentist continued to exercise over the production and sale of the equipment, including the spending of considerable time at the manufacturing plant. *Id.* at 147.

<sup>42</sup> Although under the theory of the patent cases the product no longer originated from the actual source, the trademark was associated with the traditional product. Moreover, there was little likelihood of a diminution of quality since the patentee continued to exercise "control" by supervising the licensee's operations or by exercising a right of revocation when unauthorized changes were made.

<sup>43</sup> *Vermont Maple Syrup Co. v. F.N. Johnson Maple Syrup Co.*, 272 F. 478 (D. Vt. 1921). Actually, the court only mentioned the stock ownership and placed its entire emphasis on the

subsidiary allowed other subsidiaries which were also under the holding company's general control to use its trademark on a certain type of cracker, and in a suit to enjoin another company's use of the trademark, the subsidiary's rights were upheld and an injunction granted.<sup>44</sup> The courts' implied justification for sustaining these licenses seemed to be that stock ownership and certain control measures ensured that the licensor would continue to control the quality of goods produced under its trademark.<sup>45</sup>

Approval was also given to trademark licensing agreements which authorized American companies to use a mark while serving as exclusive sales representatives of foreign companies. Thus, the American sales representative of textile belting made by a British corporation was held to have a "special ownership" in the accompanying trademark with the right to register it and receive protection.<sup>46</sup> While cases in this area may have involved a "business transfer," the sounder basis for upholding the agreement seems to be that the trademark licensor produced the goods, reducing the possibility of the licensee's diminishing the quality.<sup>47</sup>

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fact that the agreement provided that the license was *at will* and could be revoked by the licensor at any time. Thus, the trademark owner had extensive "control" over the use of his trademark.  
*Id.*

<sup>44</sup> *Keebler Weyl Baking Co. v. J. S. Ivins' Son*, 7 F. Supp. 211 (E.D. Pa. 1934). The court noted that all the subsidiaries were controlled by the United Biscuit Company with respect to sales methods and manufacturing. Also, the subsidiary which had originally owned the trademark had participated in establishing the manufacturing methods in other subsidiaries' plants. *Id.* at 213-14.

<sup>45</sup> In the *Keebler* case, *id.*, the court relied on the relation of the companies to infer that there would be a uniform quality product produced by the subsidiaries, but some attention was given to methods of actual control. In *Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co.*, 272 F. 478 (D. Vt. 1921), the emphasis was clearly on the ability of the licensor to terminate the relationship quickly and thus to control the licensee.

<sup>46</sup> *Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937, 955-56 (2d Cir.), *cert. denied*, 250 U.S. 644 (1919); *see Lalanne v. F. R. Arnold & Co.*, 39 F.2d 269, 271 (C.C.P.A. 1930) (American company distributed French company's cosmetics); *cf. American Dirigold Corp. v. Dirigold Metals Corp.*, 125 F.2d 446, 453 (6th Cir. 1942).

<sup>47</sup> Admittedly, the courts did not specifically use a "control" rationale for their decisions. Furthermore, there is considerable discussion of the need for a trademark to be associated with a business, *see, e.g., Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937, 956 (2d Cir.), *cert. denied*, 250 U.S. 644 (1919). However, there is reason to believe that the courts felt that no problem of public deception would arise in these situations both because of the licensor's production and because there was only one domestic source with which the public might associate the product. It seems, too, that it would be possible for the American company to manufacture the product, not just distribute it, because there would still be only one uniform quality product with which American consumers would associate the trademark.

Many of the pre-Lanham Act cases sustaining trademark licensing agreements can be explained on a transfer of a business interest basis, thus fitting them within a broad interpretation of the *Macmahan* rule.<sup>48</sup> However, judicial failure to attempt to harmonize them with *Macmahan* implies that courts basically were not enforcing the "rule" of that case. Instead, believing that the public need only be protected as to the *quality* of the goods, these courts approved licensing arrangements which provided for sufficient "control" over the licensee to ensure such quality.<sup>49</sup> Regardless of the rationale utilized, however, it is evident that some licensing of trademarks was judicially permitted prior to the Lanham Act.<sup>50</sup>

Even though trademark licensing arrangements in a number of contexts received judicial protection from infringement before the Lanham Act, it remained difficult to secure registration of such marks under the 1905 Trademark Act.<sup>51</sup> Under the decision of the Commissioner of Patents in the *United States Steel* case,<sup>52</sup> a company could not register a trademark if it sought to establish the necessary requisite of "use"<sup>53</sup> of the trademark by showing "use" by licensees. *United States Steel* sought to register a trademark which was being used by its subsidiary companies,<sup>54</sup> but the application was denied, the Commissioner holding that *United States Steel itself* must use the

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<sup>48</sup> For example, when Coca-Cola licensed local bottlers, they were arguably transferring the "bottling business" along with the trademark. Similarly, a subsidiary of a larger company might be operating part of a total business operation to which a trademark could attach. See Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1172, 1185 (1963).

<sup>49</sup> See, e.g., *Smith v. Dental Products Co.*, 140 F.2d 140 (7th Cir.), cert. denied, 322 U.S. 743 (1944); *Coca-Cola Co. v. Bennett*, 238 F. 513 (8th Cir. 1916), rev'g 225 F. 429 (D. Kan. 1915); *Crown Fabrics Corp. v. American Viscose Corp.*, 145 F.2d 246 (C.C.P.A. 1944).

<sup>50</sup> See notes 34-35 *supra* and accompanying text.

<sup>51</sup> Although the advantages of registration under the 1905 Act were not extensive, there was some incentive to register a trademark. The main advantage was the right of a registrant to obtain access to the federal courts without meeting diversity of citizenship requirements. See note 19 *supra*.

<sup>52</sup> *United States Steel Corp.*, 23 U.S.P.Q. 145 (Comm'r 1934).

<sup>53</sup> It is an elementary tenet of trademark law that ownership rights in a trademark only arise out of the actual *use* of the mark. Therefore, before a person can register a mark (or establish his right to equitable protection of the mark), he must establish that he has sufficiently used the mark so as to give rise to rights in it. E.g., *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916); *Trade-Mark Cases*, 100 U.S. 82, 94 (1879); *Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 471-72 (8th Cir. 1901).

<sup>54</sup> Although the subsidiaries were actually using the trademark, U.S. Steel alleged that *it* was the "owner" of the mark because it owned substantially all the stock of the subsidiaries. 23 U.S.P.Q. at 146.

trademark before it could claim trademark rights.<sup>55</sup> This decision created a dichotomous situation in that a trademark owner who had licensed its use by a controlled subsidiary might receive protection for the mark in an infringement suit, but he could not register the mark with the Patent Office because under *United States Steel* he was not the "owner" of the mark.<sup>56</sup> The Commissioner himself recognized that the advantages to both licensor and licensee in allowing such a registration were obvious,<sup>57</sup> but he held that the 1905 Trademark Act did not permit such a registration.<sup>58</sup> Thus, the *United States Steel* decision, by pointing up the Act's deficiencies, was instrumental in spurring the drive for new trademark legislation.<sup>59</sup>

### THE LANHAM ACT

Underlying both the trademark revision movement and the resulting Lanham Act was the premise that American businessmen and the public generally would benefit from a comprehensive statute which would simplify trademark registration and make it more readily available.<sup>60</sup> Accordingly, the Act attempted to encourage registration by providing a registrant with advantages unavailable under common law, including access to the federal courts without meeting normal jurisdictional requirements,<sup>61</sup> general incontestability of the trademark after five years of continuous use,<sup>62</sup> and registration as prima facie evidence of a mark's validity and the registrant's rights

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<sup>55</sup> The Commissioner denied U.S. Steel's allegation as to ownership, holding that in spite of the stock ownership, the subsidiaries were separate legal entities. Therefore, the Company had no rights in the trademark. *Id.* at 147. The Commissioner distinguished *Keebler Weyl Baking Co. v. J. S. Ivins' Son*, 7 F. Supp. 211 (E.D. Pa. 1934), on the ground that, in that case, the subsidiary itself was claiming ownership of the mark and that registration rights were not involved. *Id.* at 147-48.

<sup>56</sup> The dichotomy was not absolute, however. Under the decision there would be no bar to a company registering a mark if *that company*, as well as licensees, used the mark. Also, a company which had licensed its trademark might receive *no* protection of the mark if a court followed the *Macmahon* rule. See note 24 *supra* and accompanying text.

<sup>57</sup> See note 19 *supra* and accompanying text.

<sup>58</sup> 23 U.S.P.Q. at 147-48.

<sup>59</sup> See note 66 *infra* and accompanying text.

<sup>60</sup> S. REP. NO. 1333, 79th Cong., 2d Sess. (1946); see Ooms, *How the Lanham Act Affects Trademarks*, 37 TRADEMARK REP. 383 (1947). For a general legislative history of the Lanham Act see Schneiderman, *supra* note 34, at 249-52 (1949); Taggart, *supra* note 34, at 241-42 (1949); Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1181-82 (1963).

<sup>61</sup> 15 U.S.C. § 1121 (1964).

<sup>62</sup> *Id.* at § 1065.

to its use.<sup>63</sup> Furthermore, the Act provided that marks which were being used through licensing arrangements could be registered as part of a "related company" situation.<sup>64</sup>

However, the changes in the trademark law with regard to licensing were not quickly achieved, the first attempts dating back to 1938 when a House bill provided that the use of registered trademarks by companies subsidiary or related to the registrant should affect neither the validity of the mark nor its registrability.<sup>65</sup> Although much of the debate on the bill indicated that its primary purpose was to overturn the *United States Steel* decision,<sup>66</sup> there was sentiment favoring expansion of the "related companies" provision to include arrangements beyond that of parent and subsidiary.<sup>67</sup> Thus, the 1939 bill defined a "related company" as one in which the nature and quality of its products were controlled by "stock ownership, contractual relationship, or otherwise,"<sup>68</sup> clearly allowing relationships other than parent and subsidiary to qualify as that of a "related company."

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<sup>63</sup> *Id.* at § 1057(b).

<sup>64</sup> *Id.* at §§ 1055, 1127. The entire discussion of licensing throughout the legislative history of the Act is in terms of "related companies." See Taggart, *supra* note 34; notes 76-78 *infra* and accompanying text.

<sup>65</sup> H.R. 9041, 75th Cong., 3d Sess. (1938). The 1938 bill did not define a "related company," and a brief submitted by the U.S. Trademark Association suggested doing so to make clear the "apparent object" of the bill—to allow a parent company to apply for registration where the "ownership" of the mark was shared with subsidiaries. *Hearings on H.R. 9041 Before the Subcomm. on Trade-Marks of the House Comm. on Patents, 75th Cong., 3d Sess. 65* (1938) [hereinafter cited as 1938 *Hearings*].

<sup>66</sup> See notes 52-58 *supra*. Mr. Rogers, head of the ABA committee on trademarks improvement, and "expert" on the bill, testified that the "related companies" section was designed "to meet the very situation" then existing in the law, that an applicant for registration could not rely on use by a subsidiary or related company. He referred to the *United States Steel* decision as an example of a case which could be overruled by the provision. 1938 *Hearings* at 136.

<sup>67</sup> The brief of the U.S. Trademark Association noted it was "strongly in favor" of permitting the assignment of marks for a part of the business, or without any partial transfer of the business *if the owner retained sufficient control*. 1938 *Hearings* at 65. Mr. Rogers noted that the related company section was designed to include a holding company which did not engage in manufacturing, but licensed or assigned to other companies its trademark rights. *Id.* at 135-36. There was also support for an express trademark licensing provision, using the British trademark statute as an example. *Id.* at 159-66. Finally, the bill was amended in committee hearings to provide that a registered trademark might be used by members of an association, in addition to subsidiary or related companies. *Id.* at 134-37.

<sup>68</sup> H.R. 4744, 76th Cong., 1st Sess. (1939).

In spirited debate during the hearings,<sup>69</sup> opponents of this provision argued that licensors might fail to control their “related company” licensees, and the resulting diminution of quality would destroy the public’s faith in trademarks.<sup>70</sup> Proponents, on the other hand, maintained that no company would commit “commercial suicide” by allowing inferior goods to be marketed under its trademark, that proof of control was mandatory before a trademark could be registered, and that controlled licensing had proved a success—as evidenced by Coca-Cola.<sup>71</sup> Although passed by the House in 1939, the bill failed in the Senate.<sup>72</sup> Final action on the measure was forestalled for several years due to the inability of the two houses to agree on an identical bill<sup>73</sup> and the opposition of the Justice Department, which feared the legislation would hamper the antitrust laws;<sup>74</sup> and it was 1946 before the Lanham Act finally became law.<sup>75</sup>

As enacted, Section 5, on “related companies,” provides:

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 registra-

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<sup>69</sup> *Hearings on H.R. 4744 Before the Subcomm. on Trade-Marks of the House Comm. on Patents*, 76th Cong., 1st Sess. (1939) [hereinafter cited as 1939 *Hearings*].

<sup>70</sup> 1939 *Hearings* at 58-59.

<sup>71</sup> 1939 *Hearings* at 60. In response to questions, Mr. Rogers indicated that the provision made control over a related company mandatory before a registrant could claim the benefit of use by the related company.

<sup>72</sup> The Senate Committee on Patents made several changes including language to the effect that control over the nature and quality of the goods was to be *exercised* by the registrant. 86 CONG. REC. 8990, 8993 (1940). This reference to the actual exercise of control, which seems to mean that mere *power* to control would be insufficient, appeared in the 1941 House bill, but it subsequently was deleted. The Senate also added a provision that the trademark was not to be used so as to deceive the public. *Id.* at 8990. However, final passage was prevented by a motion to reconsider. *Id.* at 8993.

<sup>73</sup> In 1941 and 1942 the House and Senate considered bills substantially the same as the 1939 Senate version. *Hearings on H.R. 102, H.R. 5461, and S. 895 Before the Subcomm. on Trade-Marks of the House Comm. on Patents*, 77th Cong., 1st Sess. (1941). The Senate did actually pass a bill in 1941, 87 CONG. REC. 7445 (1941), but the House did not. When the House did act in 1942, 88 CONG. REC. 7431, 7437 (1942), the bill was unlike the Senate version.

<sup>74</sup> *Hearings on H.R. 82 Before a Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 63-152 (1944); 90 CONG. REC. 9430, 9439 (1944). The word “legitimately” was added to the section on use by related companies in the 1946 bill to satisfy the antitrust opponents. H.R. 1654, 79th Cong., 2d Sess. (1946); see Shniderman, *supra* note 34, at 251-52 (1949).

<sup>75</sup> 92 CONG. REC. 7522, 7525 (1946); S. REP. NO. 1333, 79th Cong., 2d Sess. (1946).

tion, provided such mark is not used in such manner as to deceive the public.<sup>76</sup>

A "related company" is defined in section 45:

The term "related company" means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.<sup>77</sup>

The consequence of these sections is to recognize the validity of the previously existing practice of licensing and to allow trademark owners operating under such licensing agreements to register their marks.<sup>78</sup> The definition of a "related company," moreover, definitely encompasses situations beyond that of *United States Steel*.<sup>79</sup>

In approving trademark licensing, it seems that Congress relied on previous judicial decisions and adopted the "guaranty" theory of trademarks.<sup>80</sup> Under both the theory and the Act, a valid licensing agreement was specifically conditioned on the licensor's controlling the nature and quality of his licensees' goods,<sup>81</sup> a condition which serves a dual function under the Act. On the one hand, a licensor who adequately controls his licensees can meet the definition of a "related company" under section 5 and may register the trademark.<sup>82</sup> On the other hand, a failure to exercise sufficient control over the nature and quality of a licensee's goods may constitute an "abandonment" of the trademark and result in cancellation of registration.<sup>83</sup> Furthermore,

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<sup>76</sup> 15 U.S.C. § 1055 (1964). "Collective marks," those used by unions or cooperatives such as the Future Farmers of America, and "certification marks," denoting regional or other origin (e.g., "Idaho potatoes"), are both protected under § 4 of the Act if the registrant exercises "legitimate control" over their use. *Id.* § 1054.

<sup>77</sup> *Id.* § 1127 (emphasis added).

<sup>78</sup> See *C. B. Donald Co.*, 117 U.S.P.Q. 485 (Comm'r 1958); *Pure Oil Co.*, 99 U.S.P.Q. 19 (Comm'r 1953) (dictum); *Developments in the Law—Trademarks and Unfair Competition*, 68 HARV. L. REV. 814, 871 (1955); Note, *Trade Mark Law—Valid Use of Trade Mark by Other than Owner*, 23 N.Y.U.L.Q. REV. 482, 488-89 (1948).

<sup>79</sup> See notes 67-68 *supra* and accompanying text.

<sup>80</sup> There were no extensive presentations of case law either for or against trademark licensing, but discussion during the hearings indicates that the litigation had made known the existence of previous trademark licensing. See 1939 *Hearings* at 58-59. While the "guaranty" theory of trademarks seems not to have been adverted to by name, the proposed changes with regard to licensing definitely were based on this newer theory. See 1938 *Hearings* at 147, 158; 1939 *Hearings* at 80-81.

<sup>81</sup> See notes 69-70 *supra* and accompanying text.

<sup>82</sup> See notes 76-77 *supra* and accompanying text.

<sup>83</sup> "Abandonment" is grounds for cancellation under 15 U.S.C. § 1064(c) (1964). One of the definitions of "abandonment" is conduct of the registrant "including acts of omission as well as

since Congress chose to rely on licensor control rather than actual source in order to prevent public deception, it seems clear that a licensor's mere inclusion of a control provision in the contract would be inadequate. Thus, to secure registration of the mark, a trademark owner who allows the mark to be used by his licensees must *exercise* control over the nature and quality of the goods produced by the licensees under his trademark.<sup>84</sup> However, the Act specified neither the degree of control required nor the extent to which the courts should examine the issue.<sup>85</sup>

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commission, [which] causes the mark to lose its significance as an indication of origin." 15 U.S.C. § 1127 (1964). Uncontrolled licensing may be such an abandonment. *See* Sterling Drug, Inc. v. Lincoln Laboratories, Inc., 322 F.2d 968 (7th Cir. 1963); American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619, 624-25 (5th Cir. 1963); Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367-68 (2d Cir. 1958); Annot., 3 A.L.R.2d 1226 (1949). The theory behind the "abandonment" concept is that when others are allowed to use a trademark without control, the mark comes to denote only the article involved and the name becomes public property and may be used by anyone making the article. *See* Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc., 3 F.2d 7, 8 (8th Cir. 1924).

<sup>84</sup> *See* Lahart, *Control—The Sine Qua Non of a Valid Trademark License*, 50 TRADEMARK REP. 103, 107-08 (1960); Shniderman, *Trademark Licensing—A Saga of Fantasy and Fact*, 14 LAW & CONTEMP. PROB. 248, 264 (1949); Wehringer, *Trademark Licenses: Control Provided, Control Exercised*, 47 TRADEMARK REP. 287, 298-99 (1957). *See* note 72 *supra*.

Theoretically, a licensor's interest in maintaining the value of his trademark would make it unnecessary to impose any control *requirement*, as the licensor would control his licensees out of his own self-interest. Although this is undoubtedly the case in many instances, there are several possibilities mitigating against this "natural" control. A licensor may encounter difficulty in policing his licensees and, unless there is a threat of losing his trademark rights, he may elect not to enforce control—at least against some of the licensees. Similarly, if there are a large number of licensees, the burden of control may be considered to be too great. Finally, there undoubtedly will be licensors who would capitalize on short-term exploitation of a trademark's value, ignoring any possible long-range adverse effects of inadequate control.

<sup>85</sup> As the legislative history indicates, the exact form or nature of "control" was never clearly delineated, which suggests that any of several measures might suffice depending on the circumstances of the particular trademark and business involved. Similarly, as was the case with the "business transfer" requirement in certain pre-Lanham Act cases, *see* note 31 *supra* and accompanying text, no specific "amount" of control could be specified. This may be contrasted with the fairly definite meaning of "control" in other contexts. For example, "control" of a corporation for tax purposes exists with ownership of stock possessing at least 80 percent of the total combined voting power of all classes of voting stock and at least 80 percent of the total number of shares of all other classes of stock. INT. REV. CODE OF 1954, § 368(c). Also, under the Public Utility Holding Company Act of 1935, a company is presumed to be a holding company if it owns 10 percent of the voting securities of a public utility company. 15 U.S.C. § 79b(a)(7) (1964); *see* 2 L. LOSS, SECURITIES REGULATION 764-83 (2d ed. 1961). The "control" exercised by corporate "insiders" is regulated by the Securities Exchange Act of 1934, an "insider" being defined as one who has the beneficial ownership of more than 10 percent of any registered equity security. 15 U.S.C. § 78p (1964).

THE POST-LANHAM ACT PERIOD<sup>86</sup>

As a review of its legislative history suggests, the Lanham Act in sanctioning trademark licensing merely reflected congressional approval of an already established business practice.<sup>87</sup> It is not surprising, therefore, that many trademark licensing arrangements judicially upheld after 1946 were substantially similar to licenses approved prior to the Act.<sup>88</sup> Thus, the bottling of soft drink beverages under licensing agreements was sustained,<sup>89</sup> an American distributor of products made by a foreign company was permitted to use that company's trademark,<sup>90</sup> the licensing of a trademark in connection with the transfer of a patented secret formula received judicial approval,<sup>91</sup> and a licensing contract was upheld where a licensee had common corporate officers with the trademark owner.<sup>92</sup> These cases, while evidently adhering to the concept of "control" as the crucial element in a valid licensing agreement, provided little guidance in determining the type of control required and the extent to which the courts should examine the issue of adequate control.

Seeking to resolve the question of the Lanham Act's control requirements for a valid trademark license, the Commissioner of

<sup>86</sup> Since the enactment of the Lanham Act there appears to be more judicial decisions on trademark licensing, although such decisions still probably represent a small part of actual licensing. See note 2 *supra*. The subject of licensing has also received increased attention from commentators. See, e.g., Shniderman, *supra* note 84; Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 *YALE L.J.* 1171 (1963).

<sup>87</sup> See notes 34 & 35 *supra* and accompanying text.

<sup>88</sup> The cases seldom refer to the earlier comparable cases, particularly since the licensing arrangements were not always the direct items of controversy. However, it seems that the fact that licensing had been approved in like situations before the Lanham Act, would provide some rationale for approval of later cases. The situations would still have to meet a "control" test, however, and some of the cases are subject to the same objection of failure to look into actual control. See notes 120-22 *infra* and accompanying text.

<sup>89</sup> Compare *Jones v. Pepsi-Cola Co.*, 223 F. Supp. 650 (D. Neb. 1963) (by implication), *Dad's Root Beer Co. v. Doc's Beverages, Inc.*, 94 F. Supp. 121 (S.D.N.Y. 1950), *aff'd*, 193 F.2d 77 (2d Cir. 1951) and *Crown Beverage Corp. v. Nehi Corp.*, 196 Misc. 715, 92 N.Y.S.2d 902 (Sup. Ct. 1949) (latter two cases not decided under Lanham Act), with *Coca-Cola Co. v. Bennett*, 238 F. 513 (8th Cir. 1916), *rev'g* 225 F. 429 (D. Kan. 1915).

<sup>90</sup> Compare *Browne-Vintners Co. v. National Distillers & Chem. Corp.*, 151 F. Supp. 595 (S.D.N.Y. 1957), with *Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc.*, 257 F. 937 (2d Cir.), *cert. denied*, 250 U.S. 644 (1919).

<sup>91</sup> Compare *Pickren v. United States*, 249 F. Supp. 560 (N.D. Fla. 1965) (by implication), *aff'd*, 378 F.2d 595 (5th Cir. 1967), with *Adam v. Folger*, 120 F. 260 (7th Cir. 1903).

<sup>92</sup> Compare *Clover Farm Stores Corp.*, 118 U.S.P.Q. 110 (Comm'r 1958), with *Keebler Weyl Baking Co. v. J. S. Ivins' Son*, 7 F. Supp. 211 (E.D. Pa. 1934).

Patents stated in a 1958 registration proceeding<sup>93</sup> that section 5 of the Act did not change the earlier general decisional law<sup>94</sup> and was mainly designed to change the result of *United States Steel*, not to establish a system of unlimited licensing. As a consequence, any applicant to register a mark who relied on use by “related companies” would be required to show that he actually exercised control over the companies.<sup>95</sup> This emphasis on actual control of “related companies” seemed to be complemented by the Court of Appeals for the Second Circuit in the case of *Dawn Donut Co. v. Hart's Food Stores, Inc.*<sup>96</sup> The owner of registered trademarks for “Dawn” and “Dawn Donut” sued Hart's Food Stores for infringement resulting from the latter's unauthorized use of “Dawn” on bakery goods, and Hart's, as defendant, counterclaimed to cancel plaintiff-owner's registration on the grounds that the trademark had been abandoned due to the owner's licensing the mark's use by others.<sup>97</sup> The Second Circuit, affirming the district court's denial of relief to both parties,<sup>98</sup> noted that the Lanham Act clearly “carries forward” the view that controlled licensing does not result in abandonment of trademark rights.<sup>99</sup> Emphasizing the importance of control to prevent misuse of the trademark and deception of the public, the appellate court asserted that the “critical question” was “whether the plaintiff sufficiently policed and inspected its licensees' operations to guarantee the quality of the products they sold under its trademarks to the public.”<sup>100</sup> Apparently feeling the trial judge had correctly applied its

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<sup>93</sup> C. B. Donald Co., 117 U.S.P.Q. 485 (Comm'r 1958).

<sup>94</sup> *Id.* The Commissioner specifically mentioned the cases of B.B. & R. Knight, Inc. v. W.L. Milner & Co., 283 F. 816 (N.D. Ohio 1922), Coca-Cola Co. v. Bennett, 238 F. 513 (8th Cir. 1916), and Keebler Weyl Baking Co. v. J. S. Ivins' Son, 7 F. Supp. 211 (E.D. Pa. 1934).

<sup>95</sup> 117 U.S.P.Q. at 487. The Commissioner stated that “a determination must be made as to whether or not a mark is used by the applicant—or by someone *controlled by the applicant* as to the nature and quality of the goods—to identify his goods and distinguish them from those of others.” *Id.* (emphasis added).

<sup>96</sup> 267 F.2d 358 (2d Cir. 1959).

<sup>97</sup> *Id.* See note 83 *supra* and accompanying text.

<sup>98</sup> The plaintiff was denied an injunction against the defendant, the court finding no likelihood of public confusion since the two parties were operating in separate trading areas with little likelihood of future overlapping. The defendant's counterclaim was dismissed because the court found that there had been sufficient control by the plaintiff so that there was no abandonment. 267 F.2d at 360-61. It is this latter holding which is significant in discussing the issue of “controlled” licensing.

<sup>99</sup> *Id.* at 367. The court noted that the pre-Lanham Act cases had been in conflict over the question of whether “controlled” licensing was permissible, but that the Act had adopted the view of the cases approving licensing of this nature. *Id.* at 366-67.

<sup>100</sup> *Id.* at 367.

definition of control, a majority of the *Dawn* panel sustained the lower court's finding that the plaintiff had exercised sufficient control over his licensees, even though the contracts contained no control provisions, and minimal evidence of *actual* control was presented.<sup>101</sup> One judge, however, dissented from the factual holding.<sup>102</sup> While indicating that contractual control provisions<sup>103</sup> were not essential so long as sufficient proof of *actual* control could be presented, he could not agree that "inspections" made by Dawn's salesmen, apparently unqualified to inspect, would meet the Act's requirement.<sup>104</sup>

Both the Commissioner's decision and the *Dawn Donut* case leave little doubt but that the Lanham Act requires a licensor *actually to control* the nature and quality of goods produced by his licensees. However, a comparison of the majority and dissenting opinions in *Dawn Donut* indicates that the Act's initial interpretive difficulties concerning the extent of control and the scrutiny with which the courts should examine the exercise of control remain unresolved. In fact, an examination of case law since the Lanham Act reveals judicial approval of a wide spectrum of licensing arrangements, ranging from those involving detailed control provisions to those in which licensee inspection is made at the licensee's option.<sup>105</sup>

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<sup>101</sup> The contract between Dawn and its licensees did not provide for any quality guarantee of the goods produced by the licensees, nor were there any provisions granting Dawn a right of inspection. The only evidence in the trial record as to *actual* supervision was testimony by two of Dawn's sales representatives that they regularly visited the licensees and "in many cases" had an opportunity to inspect and observe their operations. *Id.* at 368.

<sup>102</sup> *Id.* Although he dissented from the majority's holding on the defendant's counterclaim, the entire opinion in this case was written by Judge Lumbard, and there is no dissenting opinion denominated as such. Judge Lumbard dissented from the holding that there was adequate control on the grounds that the lower court's findings of fact were insufficient for the appellate court to pass on the question.

<sup>103</sup> Dawn's contracts with its licensees did provide that they were to use the mix sold to them "as directed and without adulteration," but there was no provision for inspection or enforcement. *Id.*

<sup>104</sup> *Id.* at 368-69. Judge Lumbard concluded that the court "can [not] fairly determine on this record whether plaintiff subjected its licensees to periodic and thorough inspections by trained personnel or whether its policing consisted only of chance, cursory examinations of licensees' operations by technically untrained salesmen. The latter system of inspection hardly constitutes a sufficient program of supervision to satisfy the requirements of the Act." *Id.* at 369. Therefore, he believed the case should be remanded for additional findings on the control issue since the only evidence in the record was the testimony of Dawn's salesmen. *Id.*

<sup>105</sup> Some of the cases on licensing decided prior to the Lanham Act doubtless found "control" over a licensee where in fact there was little control exercised, but in general the pre-Lanham Act cases seem to exhibit a greater concern for the exercise of control and would generally fall on the side of the spectrum in which there is substantial control. *See, e.g.,* *Smith v. Dental Products*

On one end of the spectrum are trademark licensing arrangements specifically including contractual provisions for substantial control by the licensor.<sup>106</sup> For example, judicial sanction was obtained for an agreement between a yarn producer and yarn spinners requiring the spinners to produce goods with a minimum number of stitches per inch and to submit sample goods for extensive testing.<sup>107</sup> Similarly, the Court of Customs and Patent Appeals held that the Act's control requirements were satisfied by the Celanese Company's licensing agreements which provided that the "Celanese" trademark would be used only to designate dyestuffs meeting Celanese's quality standard, that Celanese had a right to inspect the products, and that it could terminate the license on six month's notice.<sup>108</sup> Such licensing agreements, by specifically providing for quality control standards and rights of inspection, reveal the parties' compliance with both the letter and spirit of the control requirement, and the courts have found little difficulty in sustaining such agreements.

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Co., 140 F.2d 140, 147 (7th Cir.), *cert. denied*, 322 U.S. 743 (1944); *Coca-Cola Co. v. Bennett*, 238 F. 513, 514-16 (8th Cir. 1916); *Crown Fabrics Corp. v. American Viscose Corp.*, 145 F.2d 246 (C.C.P.A. 1944).

It is arguable that in light of modern extended federal supervision and inspection of products, as done by the Food and Drug Administration, the control requirement need not be so strictly enforced. There are, however, several objections to such an approach. First, the Lanham Act requires control, and it is of recent enough vintage that it may be assumed that the control requirement would not have been included had its authors thought governmental control adequate. Secondly, there are a large number of products which are not touched by any such federal regulation as are drugs and certain foods. Finally, such governmental inspection involves only a minimum standard of purity or wholesomeness and does not extend to any higher level of quality or excellence with which the consumer may associate the trademark.

<sup>106</sup> See, e.g., *Denison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403, 406, 409 (5th Cir. 1962); *Heublin, Inc. v. David Sherman Corp.*, 223 F. Supp. 430, 433 (E.D. Mo. 1963), *aff'd*, 340 F.2d 377 (8th Cir. 1965); *Huntington Nat'l Mattress Co. v. Celanese Corp. of America*, 201 F. Supp. 938, 944-45 (D. Md. 1962) (*dictum*). Although not arising under the Lanham Act, an excellent example of the control which a licensor may exercise over his licensee's products may be seen in *Manischewitz Food Products, Inc. v. Rosenberg*, 9 F.R.D. 115 (E.D. Pa. 1949).

<sup>107</sup> *Joseph Bancroft & Sons v. Shelley Knitting Mills, Inc.*, 119 U.S.P.Q. 463, 468 (E.D. Pa. 1958). Bancroft spent an annual sum of \$150,000 on its "quality control" program, which involved the purchasing of goods on the open market to be tested along with samples submitted by the licensees. *Id.*; see *Engbrecht v. Dairy Queen Co.*, 203 F. Supp. 714, 715-16 (D. Kan. 1962).

<sup>108</sup> *E.I. DuPont DeNemours & Co. v. Celanese Corp. of America*, 167 F.2d 484, 486-89 (C.C.P.A. 1948), *noted in* 49 COLUM. L. REV. 575 (1949). Although the case was decided under the 1905 Trademark Act, the opinion definitely seems to have been influenced by the passage of the Lanham Act shortly before.

Other decisions seem to have required only minimal amounts of "control" over the licensee's production. For example, adequate control was found in a licensing system under which a woolen fabrics manufacturer "controlled" his licensees by selecting clothing manufacturers of "high quality standards" and by contractually limiting the use of trademark labels by clothing made from his fabric.<sup>109</sup> Likewise, a court upheld by implication a licensing agreement in which a baker's association allowed individual baking companies to use the name "Sunbeam" on their bread.<sup>110</sup> Although the control test was theoretically met by the availability of extensive services to test the ingredients and final products, it appeared that, in fact, these "control" measures were exercised only at the option of the individual licensees.<sup>111</sup>

The case of *Land O'Lake Creameries, Inc. v. Oconomowoc Canning Co.*<sup>112</sup> most clearly illustrates judicial approval of a licensing arrangement which provided very little control. Land O'Lakes, a marketing cooperative, registered its trademark for dairy products, although the Oconomowoc company previously had been granted registration of the same mark for canned goods.<sup>113</sup> Land O'Lakes subsequently sought to cancel Oconomowoc's registration on the ground that the latter had abandoned the mark because of a lack of control over a licensee.<sup>114</sup> Oconomowoc had permitted a grocery distributor to label certain goods with the "Land O'Lakes" mark, although the goods were not those of Oconomowoc. The district court acknowledged that Oconomowoc neither knew in advance the source of goods to which its licensee attached the mark, nor tested the

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<sup>109</sup> *Forstmann Woolen Co. v. J.W. Mays, Inc.*, 89 F. Supp. 964, 966 (E.D.N.Y. 1950). However, there seemed to be an absence of *effective* control, because no provisions permitted the licensor to inspect or test to determine if his trademark was in fact being properly utilized. Thus, the case seems distinguishable from pre-Lanham Act cases where the licensor supplied the raw material but *also* had substantial means of control. See note 39 *supra*.

<sup>110</sup> *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir.), *cert. denied*, 358 U.S. 829 (1958).

<sup>111</sup> *Id.* at 949.

<sup>112</sup> 221 F. Supp. 576 (E.D. Wis. 1963), *aff'd*, 330 F.2d 667 (7th Cir. 1964).

<sup>113</sup> It is possible for two companies to register the same trademark if there is no danger of public deception or confusion, either because the respective products are sufficiently different or the marketing areas are far enough apart. *Id.* at 582-83; *accord*, *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 364 (2d Cir. 1959).

<sup>114</sup> 221 F. Supp. at 577-80. Previous to the instant suit there had been a series of disputes between the two companies arising out of Oconomowoc's repeated attempts to expand the use of the trademark to additional products.

products independently.<sup>115</sup> Nevertheless, the court upheld the validity of the licensing arrangement and refused to cancel the registration because the *licensee* was exercising control over the sources from which the trademarked goods came and no evidence showed that the quality of the trademarked goods had diminished.<sup>116</sup>

While the range of the control spectrum can be delineated, it remains difficult to predict whether courts will find a particular licensing contract within that range. Thus, a number of licensing arrangements providing for as little control as the *Land O'Lakes* license have failed judicial scrutiny. In one case, a fur breeding association which had registered certain trademarks for furs was held to have forfeited its trademark rights because it had allowed all fur producers who agreed to market pelts through certain agencies to use its trademarks on their furs—without providing for any actual control over the quality of the furs.<sup>117</sup> Even licensing situations similar to approved pre-Lanham Act cases, such as control by stock ownership, have been found inadequate.<sup>118</sup> Invalid licensing agreements have not

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<sup>115</sup> *Id.* at 581.

<sup>116</sup> *Id.* In sustaining the trial court's finding as to sufficient control, the court of appeals noted that the name of Oconomowoc appeared on the labels used by the licensee and that during the 40-year duration of the license there had been no complaints as to quality of the licensee's goods. 330 F.2d at 670. In reaching the conclusion as to valid licensing, both the district court and the court of appeals seemed to employ a pragmatic test based on the actual results of the licensing. Thus, since *Land O'Lakes* seemingly sustained little actual damage as a result of Oconomowoc's activities, the licensing was upheld. Such an approach seems clearly in conflict with the Lanham Act's requirement that a licensor actually exercise control over his licensees.

<sup>117</sup> *Midwest Fur Producers Ass'n v. Mutation Mink Breeders Ass'n*, 127 F. Supp. 217, 229 (W.D. Wis. 1954). The holding regarding improper licensing was an alternative one; the court also found that the registration had been improperly granted because the names were generic. *Id.*; see *American Junior Aircraft Co. v. L.M. Cox Mfg. Co.*, 107 U.S.P.Q. 260 (S.D. Cal. 1955). In *Philip Morris, Inc. v. Imperial Tobacco Co. of Great Britain and Ireland, Ltd.*, 251 F. Supp. 362 (E.D. Va. 1965), *modified on other grounds*, 156 U.S.P.Q. 259 (E.D. Va. 1967), Philip Morris had acquired the trademark in question from American Tobacco, but the court held that American did not properly acquire the mark since its relation with the original trademark owner had been severed as violative of the antitrust laws. Furthermore, the voluntary exchange of information between Philip Morris and its licensor did not constitute sufficient use for a "related company" relation. *Id.* at 379; *of. Morse-Starrett Products Co. v. Steccone*, 86 F. Supp. 796 (N.D. Calif. 1949), *appeal dismissed*, 191 F.2d 197 (9th Cir. 1951).

<sup>118</sup> *Johnson & Johnson v. Medcraft Pharmacal Co.*, 130 U.S.P.Q. 373 (Pat. Off. Trademark Trial & App. Bd. 1961). The Patent Office Trademark Trial and Appeals Board noted that trademark rights arise out of use and that mere ownership of the capital stock of a corporation was not, in itself, sufficient to establish a proprietary interest in the trademark since the stockholder company did not use the mark nor was in any way responsible for the nature and quality of the goods produced. *Id.* at 374; see *Circus Foods, Inc. v. Frank Herfort Canning Co.*,

been unique to injunction and other *court* proceedings, for a number of trademark owners seeking to *register* their own marks have been denied registration because their "control" over licensees did not meet Lanham Act standards.<sup>119</sup>

The distinction between cases holding licensing agreements invalid, and cases such as *Land O'Lakes* which sustained licenses providing for similar minimal control seems to be the extent to which the courts have examined *actual* control. Cases in which the licensing did not pass judicial scrutiny often turned on a lack of effective *exercise* of control, even though there may have been adequate *provisions* for control.<sup>120</sup> However, judicial inquiry as to whether substantial control was in fact exercised by a licensor is unusual; indeed, in most cases courts either have examined only contractual control provisions<sup>121</sup> or have required only very minimal actual control.<sup>122</sup> Judicial reluctance to consider the question of substantial actual control is a distinctive feature of cases decided since the Lanham Act. Even though the leading case of *Dawn Donut* clearly indicated that actual control is necessary in a valid trademark licensing agreement, the only critical examination of actual control was made by the dissenting judge, the majority giving wide latitude to

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110 U.S.P.Q. 501 (Comm'r 1956) (alternative holding). However, the pre-Lanham Act cases which approved licensing arrangements between companies connected by stock ownership also found additional "control" measures present. See notes 43-45 *supra*.

<sup>119</sup> In *Celanese Corp. of America*, 136 U.S.P.Q. 86, 87-88 (Pat. Off. Trademark Trial & App. Bd. 1962), *Celanese* was denied registration of a trademark for a plastic which was used on toys because of insufficient control over the toy producers. This case seems very similar to pre-Lanham Act cases where the licensor supplied the raw material and exercised some control. See notes 36-40 *supra*. The fact that registration was denied is probably a function of the Patent Office's strict requirement that proof of *actual* control be *demonstrated*. See *Dan River Mills, Inc.*, 109 U.S.P.Q. 68 (Comm'r 1956); *Pure Oil Co.*, 99 U.S.P.Q. 19 (Comm'r 1953) (dictum); *Baxter Laboratories, Inc. v. Don Baxter, Inc.*, 87 U.S.P.Q. 122 (Comm'r 1950), *modified on other grounds*, 186 F.2d 511 (C.C.P.A. 1951); *cf. Illini Dairy Queen, Inc. v. McCullough's Dairy Queen*, 115 U.S.P.Q. 18 (Comm'r 1957) (dictum); *Jongleux and Lundquist, Inc.*, 101 U.S.P.Q. 77 (Comm'r 1954). See notes 127-28 *infra* and accompanying text.

<sup>120</sup> See, e.g., *Philip Morris, Inc. v. Imperial Tobacco Co. of Great Britain and Ireland Ltd.*, 251 F. Supp. 362, 379 (E.D. Va. 1965); *Celanese Corp. of America*, 136 U.S.P.Q. 86 (Pat. Off. Trademark Trial & App. Bd. 1962); *Pure Oil Co.*, 99 U.S.P.Q. 19 (Comm'r 1953); *Baxter Laboratories, Inc. v. Don Baxter, Inc.*, 87 U.S.P.Q. 122 (Comm'r 1950), *modified on other grounds*, 186 F.2d 511 (C.C.P.A. 1951); *cf. Circus Foods, Inc. v. Frank Herfort Canning Co.*, 110 U.S.P.Q. 501 (Comm'r 1956) (alternative holding).

<sup>121</sup> See, e.g., *Engbrecht v. Dairy Queen Co.*, 203 F. Supp. 714, 715-16 (D. Kan. 1962).

<sup>122</sup> See, e.g., *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir.), *cert. denied*, 358 U.S. 829 (1958); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 221 F. Supp. 576 (E.D. Wis. 1963), *aff'd*, 330 F.2d 667 (7th Cir. 1964).

the trial court's limited findings.<sup>123</sup> Furthermore, a number of other post-Lanham Act licensing arrangements would clearly have satisfied the control requirement if they had been in fact enforced. For example, ice cream franchise contracts usually require use of specific formulas and special auxiliary products, prohibitions against serving certain foods, and rights of inspection and product testing by the licensor. However, courts have not inquired whether these controls were utilized.<sup>124</sup> Such reluctance is made more significant by the fact that when the inquiry *has* been conducted, the control has been found inadequate<sup>125</sup>—thus suggesting that the real purpose of the Lanham Act's control requirement is not being fulfilled. Furthermore, Senate hearings have revealed that there may be widespread evasion of the control requirement in modern licensing.<sup>126</sup>

Thus, post-Lanham Act precedents reasonably suggest that some "recital" of control over the licensee generally will be sufficient to protect a trademark licensor whose ownership is challenged in an infringement suit or other proceeding. However, the Commissioner of Patents has made it quite clear that an applicant seeking to *register* a trademark on the basis of use by a "related company" will have to show more than contractual provisions for control.<sup>127</sup> According to the Commissioner, such an applicant should be required to furnish "docu-

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<sup>123</sup> *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367-68 (2d Cir. 1959).

<sup>124</sup> See *Susser v. Carvel Corp.*, 206 F. Supp. 636, 640-48 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505 (2d Cir. 1964); *Engbrecht v. Dairy Queen Co.*, 203 F. Supp. 714, 715-16 (D. Kan. 1962); *Medd v. Boyd Wagner, Inc.*, 132 F. Supp. 399, 402-03 (N.D. Ohio 1955). For other cases in which the courts have ignored the issue of actual control see *Drexel Enterprises, Inc. v. American Heritage, Inc.*, 142 U.S.P.Q. 194 (D. Conn. 1964); *Flexitized, Inc. v. National Flexitized Corp.*, 214 F. Supp. 664 (S.D.N.Y. 1963), *aff'd*, 335 F.2d 774 (2d Cir. 1964), *cert. denied*, 380 U.S. 913 (1965); *Forstmann Woolen Co. v. J.W. Mays, Inc.*, 89 F. Supp. 964 (E.D.N.Y. 1950); *E.I. DuPont DeNemours & Co. v. Celanese Corp. of America*, 167 F.2d 484 (C.C.P.A. 1948); *cf. Sterling Drug, Inc. v. Lincoln Laboratories, Inc.*, 322 F.2d 968 (7th Cir. 1963); *George A. Hormel & Co. v. Hereford Heaven Brands, Inc.*, 341 F.2d 158 (C.C.P.A. 1965).

<sup>125</sup> See notes 117-18 *supra*. There seem to be no definite underlying factors which determine the extent to which courts examine control requirements. The nature or size of the industry or similar factors seem to play no part. Instead, it seems that the extent of the inquiry will be determined by the particular court's conception of the need or desirability of looking beyond the basic contractual arrangements.

<sup>126</sup> *Hearings on S. 1396 Before the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Judiciary Comm.*, 87th Cong., 1st Sess. (1961). S. 1396 provided, in part, for a more complete registration of trademarks involving use by "related companies" whereby licensees would be identified and registered, a description of the relationship given, and the methods of control used by the licensor disclosed. *Id.* at 8. The assertion about evasion of the control requirement was made by former Assistant Commissioner of Patents, Leeds. *Id.* at 6.

<sup>127</sup> *Pure Oil Co.*, 99 U.S.P.Q. 19 (Comm'r 1953) (dictum).

mentary evidence . . . or a clear and concise verified explanation of the type or method and the extent of the control exercised."<sup>128</sup> The Patent Office's strict attitude toward the necessity of control, coupled with the laxity of some courts in ascertaining actual control in licensing agreements, creates a double standard about the amount of control required which is somewhat analogous to the situation after the *United States Steel* decision.<sup>129</sup> The extensive showing of control required in order to register a trademark is often greater than the control which must be shown by a trademark owner seeking to protect his common law trademark rights from infringement.<sup>130</sup> As a result, the difficulty of registering a trademark may outweigh the advantages of such action, and the Lanham's Act's purpose of encouraging registration may be significantly impaired.<sup>131</sup>

Another problem which hampers proper supervision of licensing arrangements registered under the Lanham Act is whether the burden of proof on the issue of improper licensing should be allocated to the party challenging the licensing arrangement or to the party whose licensing is challenged. Requiring basically a showing of inadequate control,<sup>132</sup> the improper licensing question arises in every type of trademark proceeding. Currently, placement of the burden apparently varies with the type of proceeding involved.<sup>133</sup> In a proceeding in which

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<sup>128</sup> *Id.* at 20-21. The case was remanded for further proceedings, and the statement of the Commissioner was dictum intended to guide the examiner in making further findings. However, it seems the Commissioner was taking the opportunity to express clearly the policy of the Patent Office with regard to trademark licensing. Moreover, other decisions of the Commissioner indicate that a showing of actual control is required. See, e.g., *Celanese Corp. of America*, 136 U.S.P.Q. 86 (Pat. Off. Trademark Trial & App. Bd. 1962); *C.B. Donald Co.*, 117 U.S.P.Q. 485 (Comm'r 1958).

<sup>129</sup> See notes 52-58 *supra* and accompanying text.

<sup>130</sup> See note 56 *supra* and accompanying text. It would appear obvious that effective enforcement of the Lanham Act requires a common approach to the "control" concept by both the courts and the Patent Office. The failure of some courts to enforce a strict control requirement undercuts the basic premise of licensing and creates the possibility of consumer deception in relying on "false" trademarks. See note 131 *infra* and accompanying text.

<sup>131</sup> See notes 60-63 *supra* and accompanying text. Discouraging the registration of trademarks would seemingly result in an increased number of trademark licensing situations which would not be subject to an outside examination. The apparent result of this would be increased opportunity for abusing the licensing arrangement and, therefore, for further public deception and loss of confidence in trademarks generally.

<sup>132</sup> The cases do not deal with the question of what standard of proof must be met to sustain the burden on the issue of control. However, it seems reasonable that in an infringement case, which is a civil action, the traditional preponderance of the evidence test would be applied. Where the question is registration, it may be concluded that the same standard is to be met.

<sup>133</sup> See *Krayer, Domestic Trademark Licensing*, 43 J. PAT. OFF. SOC'Y 574, 578-79 (1961).

an applicant seeks to register a trademark by relying on use by "related companies," the applicant must establish the adequacy of his control over licensees.<sup>134</sup> Secondly, a party who opposes an application and seeks to establish *his own* rights in a trademark through use by related companies must sustain the burden on the issue of whether the licensing is proper.<sup>135</sup> As a corollary, if the party opposing an application only asserts that the *applicant* has engaged in improper licensing and is, therefore, not entitled to registration, the opponent bears the ultimate responsibility for proof.<sup>136</sup> A third context in which the issue of improper licensing may be presented occurs when the defendant in an infringement suit contends that the owner is precluded from suing because he has "abandoned" his trademark rights by failing to control his licensees.<sup>137</sup> In this posture, lack of control is an affirmative defense, which the non-owner defendant must establish.<sup>138</sup> Finally, a party seeking to have another's trademark registration cancelled on the ground of "abandonment" through improper licensing carries the burden of proof on the issue.<sup>139</sup>

Placing the burden of proving adequate control on an applicant for registration and on a party who opposes a registration application by asserting his own trademark rights on the basis of use by licensees is acceptable, since a party who seeks the benefits of Lanham Act registration seems properly required to show that he is entitled to them. However, to place this entire burden on a defendant in an infringement suit or on a party who opposes a registration application by asserting that the applicant engages in improper licensing raises difficult problems. Its consequence is to restrict an otherwise effective method of enforcing the Lanham Act's

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<sup>134</sup> See *Joseph Bancroft & Sons*, 129 U.S.P.Q. 329 (Pat. Off. Trademark Trial & App. Bd. 1961); *Jongleux and Lundquist, Inc.*, 101 U.S.P.Q. 77 (Comm'r 1954).

<sup>135</sup> See *Sealey, Inc. v. Simmons Co.*, 265 F.2d 934, 936 (C.C.P.A. 1959); *Bellbrook Dairies, Inc. v. Hawthorn-Melody Farms Dairy, Inc.*, 253 F.2d 431 (C.C.P.A. 1958) (by implication); *Tetra Pak Co. v. Schneider*, 125 U.S.P.Q. 460 (Pat. Off. Trademark Trial & App. Bd. 1960); *Jones & Laughlin Steel Corp. v. A. Bruene & Co.*, 115 U.S.P.Q. 24 (Comm'r 1957).

<sup>136</sup> Cf. *James, Pond and Clark, Inc. v. R.H. Baker & Co.*, 128 U.S.P.Q. 262 (Pat. Off. Trademark Trial & App. Bd. 1961).

<sup>137</sup> See note 84 *supra* and accompanying text.

<sup>138</sup> *Sterling Drug Inc. v. Lincoln Laboratories, Inc.*, 322 F.2d 968 (7th Cir. 1963); *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619, 624-25 (5th Cir. 1963); *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 368 (2d Cir. 1959); cf. *R.C.W., Supervisor, Inc. v. Cuban Tobacco Co.*, 220 F. Supp. 453 (S.D.N.Y. 1963).

<sup>139</sup> See *E.I. DuPont De Nemours & Co. v. Celanese Corp. of America*, 167 F.2d 484, 487-89 (C.C.P.A. 1948); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 221 F. Supp. 576 (E.D. Wis. 1963), *aff'd*, 330 F.2d 667 (7th Cir. 1964).

requirement of control, because parties challenging the trademark's validity—the only ones likely to raise the improper licensing issue—are not favorably positioned to prove that such licensing has actually occurred.<sup>140</sup> On the other hand, the Lanham Act gives a registered mark *prima facie* validity,<sup>141</sup> which should include insulation from specious charges of improper licensing. Thus, some accommodation must be reached between the Act's requirement of control and its goal of encouraging registration. The present allocation of the proof burden, however, along with the general reluctance of courts to examine the issue of actual control,<sup>142</sup> effectively undercuts the Lanham Act's control requirement.<sup>143</sup> Therefore, it is reasonable to conclude that the right to challenge improper licensing has become largely illusory—a conclusion supported by the paucity of cases invalidating trademark rights on the basis of inadequate control by a licensor.<sup>144</sup>

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<sup>140</sup> The Patent Office does not independently investigate trademark licensing, and the issue is only raised in some formal proceeding. In *registration* proceedings, the Office clearly does all it can in requiring an applicant to demonstrate his "control" procedures. However, in an adversary proceeding the issue must necessarily be raised by the opposing party. While such adversaries may often have *some* knowledge about improper licensing, it is doubtful that they will often have sufficiently detailed information to carry a burden of proving that improper licensing has, in fact, occurred.

<sup>141</sup> See note 63 *supra* and accompanying text.

<sup>142</sup> See notes 121-23 *supra* and accompanying text.

<sup>143</sup> Thus, under present judicial trends in trademark licensing, the Lanham Act's control requirement is significantly hampered in two different ways. Apparently, a mere "recital" of control in a licensing agreement will ordinarily protect a trademark owner's rights and foreclose an opposing party from proving a lack of control. However, even *were* the courts to examine actual control, if the burden of proof was placed on the party opposing the trademark licensor, the improper licensing issue generally would remain foreclosed due to the difficulty of proving improper licensing.

<sup>144</sup> See notes 117-18 *supra* and accompanying text. One problem, beyond the scope of this comment, which may arise in trademark licensing is a possible conflict with the antitrust laws. Thus, the arrangement between a licensor and licensees may involve a sufficient merger of assets to substantially lessen competition in violation of section 7 of the Clayton Act, 15 U.S.C. § 18 (1964). However, it has been suggested that the amount of control over a licensee will *not* be the crucial fact in determining if a violation exists, but that the determination will turn on such factors as the strength of the trademark and the market situation in which it competes. See Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1194-97 (1963). Licensing arrangements, particularly those of a franchise nature, may also restrict a licensee from engaging in certain competitive practices and thus run afoul of section 3 of the Clayton Act, 15 U.S.C. § 14 (1964), and section 1 of the Sherman Act, 15 U.S.C. § 1 (1964). Such arrangements as "tie-in" agreements, territorial divisions, and price maintenance may be particularly vulnerable to attack on these grounds. However, while licensing of trademarks is clearly not exempted from the antitrust laws, recent court decisions have indicated that certain practices which are a legitimate part of a licensing agreement may be employed,

## CONCLUSION

The Lanham Act clearly requires that in order to obtain the benefits of registration under the Act, a trademark licensor must exercise control over the nature and quality of the goods produced by his licensees. This requirement is necessary to effectuate the trademark's "guaranty" that the product on which it appears is of a certain quality and that the public will not be deceived in relying on the "guaranty." Although the control requirement must necessarily be enforced to a large extent by voluntary compliance by trademark licensors and their licensees and by competition among rival trademark owners in the same field, the courts retain an important role. The courts should vigorously insist that a licensor *actually control* his licensees, in order to protect the rights of the litigants and to encourage all licensors to observe the control standard. Greater judicial insistence on actual control in licensing would not only diminish the opportunity for public deception resulting from the use of the same trademark on goods of different quality, but would result in continued, and perhaps expanded, confidence in trademarks generally. Both consequences were prime objectives of the Lanham Act.<sup>145</sup>

Furthermore, enforcing the control concept would require no particular expertise on the part of the courts, and the reasonable measures of supervision could be judicially ascertained with minimal difficulty. While the great majority of "control" measures would vary with the product and industry involved,<sup>146</sup> several measures would appear necessary in most licensing situations. One such measure would be product testing by the licensor.<sup>147</sup> Another standard control

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although they would perhaps violate the laws if used in other situations. *See Denison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403 (5th Cir. 1962); *Susser v. Carvel Corp.*, 206 F. Supp. 636 (S.D.N.Y. 1962). *See generally* Timberg, *Trade-Marks, Monopoly, and the Restraint of Competition*, 14 LAW & CONTEMP. PROB. 323 (1949); Note, 72 YALE L. J. *supra*.

<sup>145</sup> See note 60 *supra* and accompanying text.

<sup>146</sup> For example, the necessary control measures in franchised operations, such as ice cream, generally include production according to formulas, use of standardized goods and materials, and supervised advertising. *See, e.g.*, *Engbrecht v. Dairy Queen Co.*, 203 F. Supp. 714, 715-16 (D. Kan. 1962). Certain products may need to pass a resiliency or strength test. *See, e.g.*, *In re Celanese Corp. of America*, 136 U.S.P.Q. 86, 87-88 (Pat. Off. Trademark Trial & App. Bd. 1962).

<sup>147</sup> The *type* of testing, of course, would vary with the industry. In the clothing industry the test might be the number of stitches per inch in the garment, *see Joseph Bancroft & Sons v. Shelley Knitting Mills, Inc.*, 119 U.S.P.Q. 463, 468 (E.D. Pa. 1958), as well as other tests, *see Crown Fabrics Corp. v. American Viscose Corp.*, 145 F.2d 246, 247 (C.C.P.A. 1944). Requiring

measure would be a system for quickly terminating the licensing arrangement upon violation by the licensee.<sup>148</sup> Finally, the licensor should make certain inspections of the licensee's premises and business operations, a control measure now found in many licensing agreements.<sup>149</sup> The difficulty in judicially checking the use of these control measures is certainly no greater than the courts face in cases involving other modern business intricacies.<sup>150</sup>

Moreover, to make the Act's "guaranty" theory work properly, the burden of proof on lack of control should be modified so that it will no longer present an obstacle to challenging improper licensing. The solution to this burden of proof problem, however, does *not* lie in changing the burden so that a party who merely alleges that improper licensing has taken place may force his licensor-opponent to disprove improper licensing by showing control over his licensees. In addition to being inconsistent with the Lanham Act's granting of prima facie validity to a registered mark,<sup>151</sup> such an approach would only cause the question of improper licensing to be raised as a matter of course in many licensing cases in which it need not be an actual issue. A reasonable alternative solution would be to shift the burden to the party who is alleged to have failed to control his licensees if *some* evidence of this is introduced or if there are reasonable grounds to believe that such a lack of control has occurred.

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foodstuffs to pass certain ingredient or taste tests would be a natural control measure. See *Manischewitz Food Products, Inc. v. Rosenberg*, 9 F.R.D. 115, 116 (E.D. Pa. 1949).

<sup>148</sup> See *Adam v. Folger*, 120 F. 260 (7th Cir. 1903); *Vermont Maple Syrup Co. v. F.N. Johnson Maple Syrup Co.*, 272 F. 478 (D. Vt. 1921). While some type of physical control over trademark labels would be most desirable, this would probably prove impractical in many cases. However, if the licensing agreement clearly provided that the use of the trademark was to cease upon certain contingencies, including disputes between licensor and licensee, the licensor would seemingly be in a more favorable position to obtain injunctive relief, if it were necessary.

<sup>149</sup> See, e.g., *Smith v. Dental Products Co.*, 140 F.2d 140, 145-46 (7th Cir.), *cert. denied*, 322 U.S. 743 (1944); *Coca-Cola Co. v. Bennett*, 238 F. 513, 514-15 (8th Cir. 1916); *E.I. DuPont De Nemours & Co. v. Celanese Corp. of America*, 167 F.2d 484, 486-87 (C.C.P.A. 1948). A periodic inspection of the licensee's facilities, particularly important where sanitary production is required, would seem to be an effective control measure in all licensing situations. Such inspections would surely make licensees in general more aware of their responsibilities, as well as providing a means for detecting individual violators of the licensing agreement.

<sup>150</sup> Courts have not hesitated to make inquiries into technical practices and procedures in various industries. See, e.g., *S.E.C. v. Texas Gulf Sulphur Co.*, 258 F. Supp. 262 (S.D.N.Y. 1966); *Eustis Mining Co. v. Beer, Sondheimer & Co.*, 239 F. 976 (S.D.N.Y. 1917).

<sup>151</sup> See note 63 *supra* and accompanying text.