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**TERRITORIAL TRADEMARK RIGHTS
AND THE ANTITRUST LAWS**

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**TERRITORIAL TRADEMARK RIGHTS
AND THE ANTITRUST LAWS**

By
Richard F. Dole, Jr.

The University of Michigan Law School
ANN ARBOR

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ABBREVIATED CITATIONS OF CONGRESSIONAL HEARINGS

- 1938 House Hearings Hearings on H.R. 9041 Before a Subcommittee of the House Committee on Patents, 75th Cong., 3d Sess. (1938)
- 1939 House Hearings Hearings on H.R. 4744, Before a Subcommittee of the House Committee on Patents, 76th Cong., 1st Sess. (1939)
- 1941 House Hearings Hearings on H.R. 102, H.R. 5461, and S. 895 Before a Subcommittee of the House Committee on Patents, 77th Cong., 1st Sess. (1941)
- 1942 Senate Hearings Hearings on S. 895 Before a Subcommittee of the Senate Committee on Patents, 77th Cong., 2d Sess. (1942)
- 1943 House Hearings Hearings on H.R. 82 Before the House Committee on Patents, 78th Cong., 1st Sess. (1943)
- 1944 Senate Hearings Hearings on H.R. 82 Before a Subcommittee of the Senate Committee on Patents, 78th Cong., 2d Sess. (1944)
- 1954 Senate Hearings Hearings on S. 2540 Before a Subcommittee of the Senate Judiciary Committee, 83d Cong., 2d Sess. (1954)
- 1961 Senate Hearings Hearings on S. 1396 Before a Subcommittee of the Senate Judiciary Committee, 87th Cong., 1st Sess. (1961)
- 1962 Senate Hearings Hearings on S. 1396 Before a Subcommittee of the Senate Judiciary Committee, 87th Cong., 2d Sess. (1962)

TERRITORIAL TRADEMARK RIGHTS AND THE ANTITRUST LAWS

Richard F. Dole, Jr.*

INTRODUCTION

Trademarks are devices used by business men to distinguish their goods from those of others.¹ The utility of trademarks to purchasers lies in the identification of different lines of merchandise by different trademarks.² On the other hand, perhaps the greatest advantage of trademarks to business derives from the connotations associated with marks by skillful advertising.³ Legal protection of trademark rights thus has a dual aspect: preventing others from copying marks both guards the identification function of trademarks and maintains exclusive rights in the commercial value of trademarks created by advertising. A Senate committee described the hybrid nature of trademark protection as follows:

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1. See Restatement (Second), Torts § 715 (Tent. Draft No. 8, 1963). A mark used to distinguish services is called a service mark. This comparatively recent refinement of terminology does not materially affect the applicable legal principles. See *id.* at comment g.
2. See Brown, "Advertising and the Public Interest," 57 Yale L.J. 1165, 1185-87 (1948). Trademarks historically identified the origin of commercial goods. Medieval craft guilds, for instance, required members to affix distinctive marks to their goods so that poor workmanship could be traced, and the goods of nonmembers excluded from the area of the guild monopoly. See Schechter, *Historical Foundations of Trade-Mark Law* 62-63 (1925). The evolution of a national economy characterized by labyrinthine channels of distribution has, however, stripped marks of this capacity. Marks seldom identify a known source today. Instead, if consumers have no experience with a product, trademarks initially identify like goods by connoting that every article that bears the same mark is alike and comes from, or is approved by, a single "anonymous" source. Once consumers have tried a product, trademarks identify known goods, permitting avoidance of brands that have not proved satisfactory.
3. Mr. Justice Frankfurter has written: "The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity

The purpose underlying any trade-mark statute is two-fold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner.⁴

The development of the law of trademark protection has been characterized by tension between the public and private reasons for protection. Proponents of liberal protection have stressed the importance of the identification function of trademarks in urging extensive protection for private interests,⁵ whereas opponents of strong protection have characterized trademarks as "monopolies, immunities from competition"⁶ and minimized their social value.⁷ Controversy has raged over both the goods and the geographical area for which protection should be accorded.⁸

A dramatic confrontation of the opposing viewpoints was initiated in 1938 when advocates of liberal protection prevailed upon Congressman Lanham to introduce a bill to revise the federal trademark laws.⁹ The Antitrust Division of the Department of Justice, motivated by evidence that international cartels were utilizing trademarks to

(Footnote continued)

by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value." *Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co.*, 316 U.S. 203, 205 (1942). The advertising value of trademarks has been hailed and condemned as their predominant role. Compare Schechter, "Rational Basis of Trademark Protection," 40 *Harv. L. Rev.* 813, 818-19 (1927) with Brown, note 2 *supra*, at 1187-91.

4. S. Rep. No. 1333, 79th Cong., 2d Sess. at 3 (1946).
5. E.g., Rogers, "The Lanham Act and the Social Function of Trade-Marks," 14 *Law & Contemp. Prob.* 173, 175-77 (1949); "The Democracy of Trade-Marks," 34 *Trademark Rep.* 57 (1944).
6. *Eastern Wine Corp. v. Winslow-Warren, Ltd.*, 137 F.2d 955, 957 (2d Cir.) (Frank, J.), *cert. den.*, 320 U.S. 758 (1943).
7. E.g., Auerbach, "Quality Standards, Informative Labeling and Grade Labeling as Guides to Consumer Buying," 14 *Law & Contemp. Prob.* 362 & n. 1 (1949).
8. E.g., Schechter, "Rational Basis of Trademark Protection," 40 *Harv. L. Rev.* 813, 819-24 (1927); Comment, "The Anti-Competitive Aspects of Trade Name Protection and the Policy Against Consumer Deception," 29 *U. Chi. L. Rev.* 371 (1962).
9. H.R. 9041, 75th Cong., 3d Sess. (1938).

implement their schemes,¹⁰ and by exaggerated fears that trademarks could equal patents as major instruments of anticompetitive abuse,¹¹ became the protagonist of the opposition.¹² The passage of the Lanham Act in 1946,¹³ replete with amendments intended to assuage the Justice Department,¹⁴ transferred the controversy over the act's protectionist features to the courts, where the opposing viewpoints have continued to clash.¹⁵

Though the Justice Department contended that the Lanham Bill bristled with objectionable features,¹⁶ the principal documentation related to division of territorial markets among competitors through use of common trademarks.¹⁷ This evidence was drawn on to illustrate how provisions of the Lanham Bill dealing with concurrent registration,¹⁸ assignment,¹⁹ and licensing²⁰ could be used to cloak conspiratorial division of trade territory by competitors.²¹ Although these are selected aspects of the Antitrust Division's position, the subject of territorial trademark rights with respect to competing goods affords a manageable microcosm in which to analyze competitive and non-competitive aspects of trademark protection. Despite the fulminations of the Antitrust Division, it is the contention of the author that the Lanham Act provisions dealing with territorial trademark rights on balance permit a more procompetitive demarcation of territorial trademark rights with respect to competing goods than common-law principles. This contention will be developed by survey of the territorial scope of trademark rights with respect to competing goods before and after the passage of the Lanham Act, analysis of the arguments for and against strong protection of these rights, and consideration of the relationship of these territorial trademark rights to the antitrust laws.

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10. See, e.g., Diggins, "Trade-Marks and Restraints of Trade," 32 Geo. L.J. 113 (1944).
 11. 1942 Senate Hearings at 35 (remarks of Ernest S. Meyers).
 12. The Justice Department's hypersensitivity to the abuses of trademark protection was no doubt partially due to the élan imparted to the Antitrust Division by then Assistant Attorney General Thurman Arnold.
 13. 60 Stat. 427 (1946), as amended, 15 U.S.C. § 1051-1127 (1964).
 14. These amendments originated in the Senate. Sen. Rep. 1333, 79th Cong., 2d Sess. (1946).
 15. E.g., S. C. Johnson & Son v. Johnson, 175 F.2d 176 (2d Cir.), cert. den., 338 U.S. 860 (1949); California Fruit Growers Exch. v. Sunkist Baking Co., 166 F.2d 971 (7th Cir. 1947); see Callmann, "The 'Sunkist' Decision: Trade-Marks at the Crossroads," 38 Trademark Rep. 304 (1948).
 16. 1944 Senate Hearings at 58-71 (statement of the Department of Justice).
 17. See Timberg, "Trade-Marks, Monopoly, and the Restraint of Trade," 14 Law & Contemp. Prob. 323, 360 (1949).
 18. See Chapter II *infra* for discussion of concurrent registration.
 19. See Chapter III *infra* for discussion of assignments.
 20. See Chapter III *infra* for discussion of licensing.
 21. See 1944 Senate Hearings at 63-64.

I. WHAT PRICE TRADEMARK PROTECTION?

A. Nature and Extent of Common-Law Trademark Rights¹

Judicially cognizable trademark rights do not spring from conception of an idea for a mark but are derived from "use,"² a term of art which refers to commercial distribution of goods³ identified by the mark.⁴ Temporal priority of use is a factor in

1. Since trademark rights depend on legal protection for their existence, it is imprecise to speak of "property in" or "ownership of" a trademark. See Cohen, "Transcendental Nonsense and the Functional Approach," 35 Colum. L. Rev. 809, 814-17 (1935); Goble, "Where and What a Trade-Mark Protects," 22 Ill. L. Rev. 379-80 (1927).
2. E.g., *United States v. Steffens*, 100 U.S. 82 (1879); accord, *Rolley, Inc. v. Younghusband*, 204 F.2d 209 (9th Cir. 1953); *Russell v. Caroline-Becker, Inc.*, 336 Mass. 161, 142 N.E.2d 899 (1957). There have been proposals to permit reservation of trademark rights prior to use. See Symposium, "Proposed Intention to Use Legislation," 53 Trademark Rep. 963 (1963).
3. The distribution must be in the ordinary course of business and not for the purpose of acquiring trademark rights. E.g., *Gordon, Inc. v. Handicraft Pub. Inc.*, 206 Misc. 1087, 136 N.Y.S.2d 558 (Sup. Ct. N.Y. County 1954), *aff'd mem.*, 286 App. Div. 809, 143 N.Y.S.2d 620 (1st Dep't 1955).
4. At common law physical affixation of a trade identifier to goods or to containers in which goods were sold was a sine qua non of trademark protection. E.g., *Hazelton Boiler Co. v. Hazelton Tripod Boiler Co.*, 142 Ill. 494, 30 N.E. 339 (1892). Unaffixed terms could only be protected as trade names which required evidence, dispensed with in trademark cases, that purchasers associated the unaffixed terms with the plaintiff's business. E.g., *Johnson v. Hitchcock*, 3 N.Y. Supp. 680 (Sup. Ct. N.Y. County 1888). This common-law distinction between trademarks and trade names is retained in modified form by the Lanham Act which makes "use in commerce" a condition of registrability as a trademark § 1, 60 Stat. 427 (1946), as amended, 15 U.S.C. § 1051 (1964). "Use in commerce" is defined as including display of trade identifiers in association with goods as well as physical affixation of trade identifiers to goods or to the containers in which goods are sold, § 45, 60 Stat. 444 (1946), as amended, 15 U.S.C. § 1127 (1964). Trade identifiers which are not used in commerce within this definition are regarded as unregistrable trade names. E.G., *In re Lyndale Farm*, 38 C.C.P.A. (Patents) 825, 186 F.2d 723 (1951). Despite the continuing technical distinction between trademarks and trade names the common-law principles applicable to both are similar, see Restatement (Second) Torts § 717 (Tent. Draft No. 8, 1963), and cases involving both trademarks and trade names will be cited hereafter although textual discussion will refer to trademarks.

determining which of two or more concurrent users of the same mark will prevail, but priority alone is not conclusive.⁵ Trademark protection is a traditional equitable subject matter and the principles of equity, including the concept of "balancing equities," have conditioned its development. The respective interests of the parties are invariably considered in order to ascertain whether protection should be granted in a particular instance.⁶ The identification function of trademarks means that the social interest in avoidance of purchaser deception is also involved, but the courts principally utilize the presence or absence of probable purchaser deception as a gauge in measuring the substantiality of the parties' interests. This is evidenced by the fact that courts generally inquire only whether probable purchaser deception will occur, not whether purchasers will be harmed if they are in fact misled.⁷

The core of the interests for which a senior user is able to obtain protection is an interest in avoiding loss of sales to a junior user because of purchaser confusion, an interest in avoiding tarnishment of his reputation as a result of the character of the junior use, and an interest in avoiding curtailment of the area in which, or the goods on which, the senior user can use the mark.⁸ The principal coordinate interest of a junior user lies in retaining the expectation of future patronage which he has created through advertisement of his brand and sales made to satisfied customers.⁹ These interests of senior and junior users do not, however, exhaust the range of factors considered by the courts in determining whether to grant trademark protection. The nature of the word or words used as marks¹⁰ and the reason for the

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5. Chandon Champagne Corp. v. San Marino Wine Corp., 335 F.2d 531 (2d Cir. 1964).
 6. See *ibid.*, Restatement (Second), Torts §§ 729, 731, 732 (Tent. Draft No. 8, 1963).
 7. Standard Brands, Inc. v. Smidler, 151 F.2d 34, 37-43 (2d Cir. 1945) (concurring opinion); see "Trademarks and the 'Free Ride' Doctrine," 16 Stan. L. Rev. 736, 740-41 (1964). It has been questioned whether the courts could successfully administer a test for trademark infringement which required evaluation of the quality of the defendant's and the plaintiff's products. Comment, "Misrepresentation and the Lindsay Bill," 70 Yale L.J. 406, 432-33 (1961). But see Avon Shoe Co. v. David Crystal, Inc., 279 F.2d 607 (2d Cir.), *cert. den.*, 364 U.S. 909 (1960) (considering the respective reputations of the parties' products).
 8. S. C. Johnson & Son v. Johnson, 175 F.2d 176 (2d Cir.), *cert. den.*, 338 U.S. 860 (1949).
 9. Avon Shoe Co. v. David Crystal, Inc., note 7 *supra*.
 10. Trademarks may consist of variegated combinations of words, names, symbols, devices, letters, numerals, or pictures, see Restatement (Second), Torts § 715 (Tent. Draft No. 8, 1963), but words are most common and discussion will focus on word-marks.

adoption of a particular mark are also important considerations.

Distinctive nondescriptive language, often referred to as a common-law or technical trademark,¹¹ qualifies for protection as soon as use commences.¹² On the other hand, because of reluctance to recognize exclusive rights in the ordinary meaning of words, or in words in common use as marks, descriptive language adopted to distinguish goods, and even nondescriptive language which is in common use as a mark, is not customarily protected unless there is evidence that purchasers associate the particular word or words with the plaintiff.¹³ Descriptive language and words in common use as marks that have attained significance as an indicia of source are said to have acquired secondary meaning.¹⁴

It is not always easy to ascertain whether secondary meaning is a prerequisite to trademark rights. The initial inquiry is whether a term is a "weak" mark, in the sense of being a word in common use as a mark. If it is, secondary meaning will generally be required even if the term originated as a coined word. However, if the term is a "strong" mark, a term that has seldom been used as a mark, attention should next be directed to whether the term was coined for use as a mark or had a pre-existing

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11. At common law a "trade name" was a descriptive term used to distinguish goods whereas a nondescriptive word used for the same purpose was referred to as a "trademark." Common-law trade names were not protected unless there was evidence that the descriptive language had acquired "secondary meaning" through purchaser recognition of its function of source identification; common-law trademarks were protected regardless of secondary meaning. See Handler & Pickett, "Trade-Mark and Trade Names," 30 Colum. L. Rev. 168-70 (1930). In modern parlance any word used to distinguish goods is a trademark whether the word is descriptive or nondescriptive. See Restatement (Second), Torts § 715, comment c (Tent. Draft No. 8, 1963). However, this distinction between common-law trade names and common-law trademarks persists in another form: a word which requires secondary meaning to function as a trademark is referred to as a secondary-meaning mark, and a word that does not require secondary meaning is referred to as a common-law or technical trademark.
 12. E.g., *Waldes v. International Mfrs' Agency*, 237 Fed. 502 (S.D.N.Y. 1916).
 13. E.g., *Arrow Distilleries, Inc. v. Globe Brewing Co.*, 117 F.2d 347 (4th Cir. 1941) (word in common use as mark); *American Waltham Watch Co. v. United States Watch Co.*, 173 Mass. 85, 53 N.E. 141 (1899) (descriptive term).
 14. Use of "secondary meaning" to refer to the primary commercial connotation of words has been called "a triumph of unintended obfuscation." Kaplan & Brown, *Cases on Copyright, Unfair Competition, and Other Topics* 490 (1960).

meaning. Coined words are protected regardless of secondary meaning because other businessmen are unlikely to coincidentally adopt them as marks. On the other hand, words with pre-existing meanings may or may not require secondary meaning for protection depending on the probability that others might accidentally adopt them. If the words describe qualities of the goods, e.g., "Allwite" for white shoe polish, or a geographical area pertaining to the goods, e.g., "Elgin" for watches manufactured in Elgin, Illinois, or the personal name of the manufacturer of the goods, e.g., "Ford" cars, secondary meaning is usually requisite. But, if words with a descriptive denotation are arbitrarily used with respect to goods unrelated to that denotation, e.g., "Brilliant" peas, "The Atlantic" magazine; "Dickie" trousers, or merely imaginatively suggest qualities of the goods, e.g., "Coppertone" suntan lotion, secondary meaning is usually held to be unnecessary.

The superficial intricacy of the secondary meaning concept should not be allowed to obscure its function as an aid in determining whether the interests for which a senior user claims protection overbalance the interests of a junior user. The presence of secondary meaning with respect to a weak mark or descriptive language used to distinguish goods indicates that a senior user's interests in avoiding loss of sales, tarnishment of his reputation, and confinement of his operations are more substantial than if the public did not recognize his mark as a source-symbol. Furthermore, the presence of secondary meaning decreases to some extent the possibility that a junior user inadvertently selected a substantially similar mark. In weighing the respective interests of a junior and a senior user, the courts have always given careful consideration to the circumstances surrounding the development of concurrent use.¹⁵ Judicial solicitude for a junior user's interests is markedly cooled by evidence that the junior user intended to capitalize on the reputation of the senior user and sometimes even by evidence that the junior user had notice of prior rights when he selected his mark.¹⁶ This is a reflection of the equitable principle that allocation of the responsibility for hardship is a major factor in determining whether the harm to the plaintiff's interests justifies the harm which an injunction will inflict on the defendant's interests.¹⁷ Judicial distaste for junior users who have deliberately copied the senior user's mark is

15. E.g., *Avon Shoe Co. v. David Crystal, Inc.*, note 7 *supra*.

16. Compare *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830, 833-36 (7th Cir. 1963) with *Triumph Hosiery Mills, Inc. v. Triumph Internat'l Corp.*, 308 F.2d 196 (2d Cir. 1962).

17. See 4 Restatement, Torts § 941, comment b (1939).

so great that some courts have enjoined such junior use where descriptive language was involved despite an avowed absence of proof of secondary meaning.¹⁸

There are four principal situations in which the courts may have to balance the interests of senior and junior users: (1) a junior user may sell competing goods—goods which satisfy the same purchaser needs that the senior user's goods satisfy¹⁹—in the senior user's trade territory; (2) a junior user may sell non-competing goods in the senior user's trade territory; (3) a junior user may sell competing goods in a different trade territory; or (4) a junior user may sell noncompeting goods in a different trade territory. A senior user will have difficulty in obtaining relief in situation 4 because of the relatively slight effect that the junior use can have on the senior user's interests.²⁰ The chances for relief in situation 2 are greater because the presence of a common trade territory measurably increases the probability of purchaser confusion and the senior user has a significant interest in preserving his reputation from tarnishment and his ability to diversify the goods on which he uses his mark in his actual market. Nevertheless, the fact that the concurrent use is on noncompeting goods means that the senior user's interest in avoiding loss of sales is not directly involved. If actual extension of the senior use to competing goods is improbable in situation 2 and the junior user sells high quality goods so that the danger of tarnishment is likewise slight, the junior use may be allowed to continue despite likelihood of purchaser confusion—provided that the junior user has not prejudiced his case by deliberately copying the senior user's mark.²¹ On the other hand, in situation 1 the senior user can almost always obtain relief as long as he has a protectible interest in his mark. The senior user's interests in avoiding loss of sales and tarnishment of his reputation are so directly affected by a junior use on competing goods in the same trade territory that relief may be available regardless of the junior user's good faith in adoption of his mark and regardless of the actual quality of the junior user's goods.²² In situation 3, like situation 4, the

18. *Flexitized, Inc. v. National Flexitized Corp.*, 335 F.2d 774 (2d Cir. 1964) cert. den., 380 U.S. 913 (1965); accord, *Lincoln Restaurant Corp. v. Wolfies Restaurant, Inc.*, 291 F.2d 302 (2d Cir.), cert. den., 368 U.S. 889 (1961).

19. See "Development in the Law—Trade-Marks and Unfair Competition," 68 *Harv. L. Rev.* 814, 843-44 (1955).

20. E.g., *El Chico, Inc. v. El Chico Cafe*, 214 F.2d 721 (5th Cir. 1954).

21. E.g., *Avon Shoe Co. v. David Crystal, Inc.*, note 7 supra.

22. E.g., *LaTouraine Coffee Co. v. Lorraine Coffee Co.*, 157 F.2d 115 (2d Cir. cert. den., 329 U.S. 771 (1946); see *Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc.*, 281 F.2d 755 (2d Cir. 1960).

senior user's ability to obtain relief is in doubt because the difference in trade territories weakens the impact of the junior use on the senior user's interests. Nevertheless, because the concurrent use in situation 3 is on competing goods, the senior user's interests are sufficiently involved to make situation 3 more analogous to situation 2 than to situation 4. Indeed, a senior user may actually obtain relief more often in situation 3 than in situation 2. Because a senior user is more likely to be expanding the area in which he uses a mark than the goods on which he uses a mark, it is often easier to establish substantial injury to the interest in avoiding territorial curtailment of use than to the interest in avoiding curtailment of the goods on which the mark can be used.²³

Insofar as situation 3, the principal subject of analysis, is concerned, two leading Supreme Court decisions struck a balance between the interests of senior and junior users in a fashion that is still customarily followed at common law today. In the 1916 decision of Hanover Star Milling Co. v. Metcalf,²⁴ the Court held that the prior user of "Tea Rose" for flour could not enjoin junior use in a separate trade territory where the junior user had adopted the mark without knowledge of the prior use and the senior user's mark was unknown in the junior user's territory. Two years later in United Drug Co. v. Theodore Rectanus Co.,²⁵ a case with similar facts, the Court reaffirmed Hanover despite the apparent presence of likelihood of purchaser confusion in denying an injunction to a senior user whose selling zone had gradually extended to the periphery of a good faith junior user's trade territory. Dictum in the Hanover and Rectanus cases suggested that a senior user might be able to enjoin a junior use on competing goods despite a difference in selling zones if the junior user adopted his mark with the intention of benefiting from the senior user's reputation²⁶ or, regardless of the junior user's intent, if at the time that the junior user adopted his mark, the senior use was known in the junior

23. This is not necessarily true with respect to "housemarks," trademarks used on a number of different products each generally bearing a separate individual trademark. See "Trademarks in the Marketplace," 53 Trademark Rep. 687, 697-98 (1963).

24. 240 U.S. 403 (1916).

25. 248 U.S. 90 (1918).

26. "But where two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant, unless at least it appear that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like." Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 415 (1916).

user's marketing area²⁷ or that area was within the senior user's probable zone of expansion.²⁸

Although the doctrine of concurrent territorial trademark rights elaborated in the Hanover and Rectanus cases was part of the federal common law disavowed by Erie R.R. v. Tompkins,²⁹ the doctrine has persisted after Erie due to reception into state law³⁰ and the tendency of the federal courts to apply "indeterminant general law" to claims of nonstatutory trademark infringement.³¹ Subsequent adjudications have confirmed the implications that a senior user's trademark rights may be protected in areas beyond his actual selling zone where his goods are advertized³² or known by reputation³³ or to which the senior user can demonstrate a probable imminent extension of his operations.³⁴ A line

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27. "Mrs. Regis and her firm, having during a long period of years confined their use of the "Rex" mark to a limited territory wholly remote from that in controversy, must be held to have taken the risk that some innocent party might in the meantime hit upon the same mark, apply it to goods of similar character, and expend money and effort in building up a trade under it. . . ." United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 103 (1918).
28. "We are not dealing with a case where the junior appropriator of a trade-mark is occupying territory that would probably be reached by the prior user in the natural expansion of his trade, and need pass no judgment upon such a case." Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 420 (1916).
29. 304 U.S. 64 (1938).
30. See Direct Service Oil Co. v. Honzay, 211 Minn. 361, 2 N.W.2d 434 (1941); Ambassador Hotel Corp. v. Hotel Sherman Co., 226 Ill. App. 247 (1922); Brady v. Servisoft, Inc., 338 S.W.2d 189 (Tex. Civ. App. 1960).
31. Maternally Yours, Inc. v. Your Maternity Shop, Inc., 234 F.2d 538, 540 n. 1 (2d Cir. 1956). But see Flexitized, Inc. v. National Flexitized Corp., 335 F. 2d 774 (2d Cir. 1964), cert. den., 380 U.S. 913 (1965).
32. Western Oil Ref. Co. v. Jones, 27 F.2d 205 (6th Cir. 1928); accord, Adam Hat Stores, Inc. v. Scherper, 45 F. Supp. 804 (E.D. Wis. 1942) (alternative holding). See also Huber Baking Co. v. Stroehmann Bros. Co., 252 F.2d 945, 955 (2d Cir.) (dictum), cert. den., 358 U.S. 829 (1958). But see Shoppers Fair, Inc. v. Sanders Co., 328 F.2d 496 (8th Cir. 1964).
33. Lincoln Restaurant Corp. v. Wolfies Restaurant, Inc., note 18 supra; accord, Ambassador East, Inc. v. Orsatti, Inc., 257 F.2d 79 (3d Cir. 1958); Stork Restaurant, Inc. v. Sahati, 166 F.2d 348 (9th Cir. 1948); Seegmiller v. Hunt, 391 P.2d 298 (Utah 1964); see Yarbrough, "Protection of Territorial Rights in Corporate Names and Trade Names," 19 Bus. Law 925, 927-28 (1964).
34. Nielsen v. American Oil Co., 203 F. Supp 473 (D. Utah 1962); accord, J. A. Dougherty's Sons, Inc. v. Kasko Distillers Prods. Corp., 35 F. Supp. 561 (E.D. Pa. 1940); see Food Fair Stores, Inc. v. Lakeland Grocery Corp., 301 F.2d 156 (4th Cir.), cert. den., 371 U.S. 817 (1962); Tampa Wholesale Co. v. Foodtown, U.S.A., Inc., 166 So. 2d 711 (Fla. App. 1964).

of authority following comments in Mr. Justice Holmes' concurring opinion in Hanover³⁵ indicates that a senior trademark user who can establish territorial rights through any of the above circumstances is prima facie entitled to statewide rights;³⁶ but there is a conflicting tendency to limit territorial rights in secondary-meaning marks to the area of secondary meaning³⁷ unless the junior user adopted his mark with the intention of capitalizing on the reputation of the senior user or with the knowledge that the senior user would soon expand into his trade area. Absent laches or acquiescence on the part of the senior user, a junior user who deliberately or recklessly initiates concurrent use on competing goods is seldom given any consideration regardless of the nature of the mark or the location of his use.³⁸

B. The Validity of Strong Trademark Protection

The common-law decisions which determine that the impact of junior use upon the senior user is not sufficient to justify

35. Hanover Star Milling Co. v. Metcalf 240 U.S. 403, 424 (1916).
36. Federal Glass Co. v. Loshin, 224 F.2d 100 (2d Cir. 1955); accord, Socony-Vacuum Oil Co. v. Oil City Refiners, Inc., 136 F.2d 470 (6th Cir.), cert. den. 320 U.S. 798 (1943); Western Oil Ref. Co. v. Jones, 27 F.2d 205 (6th Cir. 1928); Blanchard & Co. v. Charles Gilman & Son, 145 U.S.P.Q. 62 (D. Mass 1965); Forzly v. American Distilling Co., 142 F. Supp. 210 (E.D.N.Y. 1956); Yunker v. Nationwide Mut. Ins. Co., 175 Ohio St. 1, 191 N.E.2d 145 (1963). But see Yarbrough, note 33 supra, at 929-30. Territorial rights beyond the area of actual use may, of course, be forfeited by laches. Jacobs v. Iodent Chem. Co., 41 F.2d 637 (3d Cir. 1930).
37. See Food Fair Stores, Inc. v. Square Deal Market Co., 206 F.2d 482 (D.C. Cir. 1953), cert. den., 346 U.S. 937 (1954); Applebaum v. Senior, 154 Cal. App. 2d 371, 316 P.2d 410 (1957); Zimmerman v. B. & C. Motel Corp., 401 Pa. 278, 163 A.2d 884 (1960); cf., O'Hara v. Lance, 77 Ariz. 84, 267 P.2d 725 (1954) (term in common use); Seegmiller v. Hunt, 391 P.2d 298 (Utah 1964) (term in common use). See also Anheuser-Busch, Inc. v. Bavarian Brewing Co., 264 F.2d 88 (6th Cir. 1959).
38. White Tower System, Inc. v. White Castle System Corp., 90 F.2d 67 (6th Cir.), cert. den., 302 U.S. 720 (1937); accord, Fry v. Layne-Western Co., 282 F.2d 97 (8th Cir. 1960); Food Fair Stores, Inc. v. Lakeland Grocery Corp., 301 F.2d 156 (4th Cir.), cert. den., 371 U.S. 817 (1962). But see Yellow Cab Co. v. Sachs, 191 Cal. 238, 216 Pac. 33 (1923). Sachs was termed unique in "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 858 & n.326 (1955). A fortiori, the junior user is invariably enjoined when his adoption of the mark was intended to forestall expansion by the senior user. Sweet Sixteen Co. v. Sweet "16" Shop, Inc., 15 F.2d 920 (8th Cir. 1926); accord, Triangle Pub. Inc. v. Central Pub. Co., 117 F. Supp. 824 (W.D. Mo. 1954); Dunkin' Donuts of America, Inc. v. Dunkin' Donuts, Inc., 8 App. Div. 2d 228, 188 N.Y.S.2d 132 (3d Dep't 1959).

enjoining the junior user permit some junior users to benefit gratuitously from the reputation of established marks. It is the privileged existence of these junior users that underlines much of the dispute concerning the validity of strong trademark protection.

1. The Cry of Monopoly

The hue for strong trademark protection has long been countered with the cry of monopoly. This imprecise word, charged as it is with negative connotations, has generated far more heat than light on the validity of trademark protection.³⁹ In 1742 after hearing the first recorded attempt to obtain equitable relief for trademark infringement, Lord Hardwicke correctly dismissed the bill on the ground that to grant protection would be to enforce an illegal monopoly.⁴⁰ This ratio decidendi was fully justified because the plaintiff's right to his mark derived from an exclusive charter for the manufacture of playing cards granted in defiance of Parliament by Charles the First.⁴¹ In 1936 Harvard economist Edward Chamberlin was equally warranted in pointing out that trademarks have monopolistic characteristics in terms of economic theory because the existence of marks impairs the product homogeneity characteristic of theoretical pure competition.⁴² But the cry of monopoly is also raised by defendants in trademark infringement suits in an effort to cloud the issues and to create a specious aura of illegality. In this context the cry of monopoly is usually used as a counterpoise to a claim of exclusive rights in words or in an effort to trade on the condemnation of certain monopolies by the antitrust laws.

a. Trademarks as Word Monopolies

Now and again a judge will fervently denounce an attempt to "monopolize" words through the assertion of trademark

39. See Pattishall, "Trade-Marks and the Monopoly Phobia," 42 Trademark Rept. 588 (1952).

40. *Blanchard v. Hill*, 2 Atk. 484, 26 Eng. Rep. 692 (Ch. 1742) (alternative holding).

41. *Darcy v. Allein*, 11 Co. Rep 846, 77 Eng. Rep. 1260 (K.B. 1602), the celebrated "Case of Monopolies," had invalidated a similar royal dispensation. See Fox, *Monopolies and Patents* 128 & n.21 (1947).

42. In economic terms "monopoly" means control over supply and therefore control over price. See Chamberlin, *Theory of Monopolistic Competition* 7 (1st ed. 1936). Theoretical pure competition postulates that no producer has control over price because all producers supply identical goods for an identical market. *Ibid.* Trademarks are accordingly monopolistic because they differentiate producers' goods creating an opportunity for producers to acquire some control over the price of their goods. *Id.* at 56-70.

rights.⁴³ This is seldom a flash of insight, however, for the quintessence of trademark protection is the creation of a degree of exclusivity in the use of words.⁴⁴ A more fundamental question is "When and to what extent should trademark rights be recognized?"

The courts have traditionally answered this question by restricting the ambit of exclusive rights to commercial uses which materially affect a senior user's interests and by denying complete exclusivity within the area of significant impact if this is necessary to preserve competition. A noncommercial use by another of a word used as a mark, for example, reference to the term in a magazine article or news report, is not actionable,⁴⁵ nor is a good faith commercial use by another which is unlikely to be confused by purchasers with a prior use.⁴⁶ Moreover, exclusive rights are recognized solely in distinctive nondescriptive language used to distinguish goods.⁴⁷ No rights are recognized in descriptive language unless purchasers associate the descriptive language with a particular tradesman and even then the degree of protection varies. Only limited rights can be acquired in common descriptive names like "chair" or "bread" because competition would be unreasonably hampered if competitors could not use these familiar terms in describing their wares.⁴⁸ Highly descriptive language which is in fact commercially necessary for competitors to use is similarly treated. For example, if the senior user's mark is "Spanish Tile" for tile arches of Spanish design, a junior user may be permitted to use "Spanish Tile" to describe his goods accompanied by explanatory matter differentiating the users.⁴⁹ In view of the number of words available for

43. E.g., *General Motors Corp. v. Cadillac Marine & Boat Co.*, 226 F. Supp. 716 (W.D. Mich. 1964).

44. *Eastern Wine Corp. v. Winslow-Warren, Ltd.*, 137 F.2d 955 (2d Cir.), cert. den., 320 U.S. 758 (1943).

45. See Derenberg, "The Problem of Trademark Dilution and the Antidilution Statutes," 44 Calif. L. Rev. 439, 463-69 (1956).

46. See Restatement (Second), Torts §§ 717, 731, 732 (Tent. Draft No. 8, 1963).

47. *S. C. Johnson & Son v. Johnson*, 175 F.2d 176, 180 (2d Cir.), cert. den., 338 U.S. 860 (1949) (dictum).

48. See Restatement (Second), Torts § 720, comment d (Tent. Draft No. 8, 1963); cf. *In re Deister Concentrator Co.*, 48 C.C.P.A. (Patents) 952, 289 F.2d 496 (1961). Product names may serve as components of "composite trademarks," e.g., "Bond Bread." See Restatement (Second), Torts *supra*, at § 724. The user of a composite mark only acquires rights in his distinctive use of the common descriptive name, e.g., the user of "Bond Bread" might be able to prevent another from marketing "Band Bread" especially if both marks are in similar script, but he could not prevent the sale of "Stroehmann's Bread."

49. *R. Guastavino Co. v. Comerma*, 184 Fed. 549 (C.C.S.D.N.Y. 1911).

adoption as marks,⁵⁰ and the truncated scope of protection, a cry of "word monopoly" is devoid of import as long as the common-law limitations on trademark rights are properly applied.

b. Trademarks as Antitrust Monopolies

An intimation that trademarks are in any way akin to the monopolies condemned by the antitrust laws is even more unwarranted. The basic antimonopoly provision of the antitrust laws is section 2 of the Sherman Act which declares:

Every person who shall monopolize, or attempt to monopolize, or combine or conspire to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. . . .⁵¹

As is apparent from the fact of the statute, section 2 condemns not monopoly but monopolization, which has been defined as the possession by a single enterprise of the power to fix prices or exclude competition within a relevant market plus purposeful use or preservation of this power.⁵² A trademark "monopoly" is patently not a violation of the Sherman Act in and of itself.

It is possible, however, that the use of trademarks could indirectly result in violation of section 2. The market within which monopoly power is measured is delineated both in terms of area and products⁵³ so that trademarks are significant to the extent that they affect product market determination. If the mere existence of a trademark ever justified definition of the relevant product market in terms of a trademark user's brand of goods, the trademark user would *ipso facto* possess "monopoly power" in every relevant geographical market because of his "general right" to sell his goods to vendees of his choice at prices of his own determination,⁵⁴ and it would follow that a trademark user who deliberately perpetuated this "monopoly power," for example, by refusing to license a competitor to use the mark on the competitor's goods, would be engaging in illegal "monopolization."⁵⁵ Since this interpretation of section 2 would naturally tend to induce

50. Courts some times refer to the "infinity" of terms available as marks.

E.g., *Stork Restaurant v. Sahati*, 166 F.2d 348, 361 (9th Cir. 1948).

51. § 2, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 2 (1964).

52. Att'y Gen. Nat'l Comm. Antitrust Rep. 43 (1955).

53. *Indiana Farmer's Guide Pub. Co. v. Prairie Farmer Pub. Co.*, 293 U.S. 268, 279 (1934).

54. *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 625 (1953).

55. *Cf. United States v. Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945).

accession to a competitor's request for a trademark license, it is interesting to note that Justice Department representatives have pointed out with some justification that the sharing of marks by competitors is an open invitation to collateral antitrust violations.⁵⁶ In any event, the Supreme Court has rendered untenable an assertion that a trademark "monopoly" necessarily creates monopoly power by making it abundantly clear that the relevant product market must constitute a meaningful economic market. In Brown Shoe Co. v. United States, Chief Justice Warren summarized the pertinent considerations as follows:

The outer boundaries of a product market are determined by the reasonable interchangeability of use or the cross-elasticity of demand between the product itself and substitutes for it. However, within this broad market, well-defined submarkets may exist which, in themselves, constitute product markets for antitrust purposes. . . . The boundaries of such a submarket may be determined by examining such practical indicia as industry or public recognition of the submarket as a separate economic entity, the product's peculiar characteristics and uses, unique production facilities, distinct customers, distinct prices, sensitivity to price changes, and specialized vendors.⁵⁷

In view of the inquiry into substitute products required by Brown Shoe, it is inconceivable that a single brand of a generic product could constitute a product submarket under section 2 unless the trademark user in fact monopolized the generic product market itself.⁵⁸ Though a celebrated trademark may offer some shelter

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56. E.g., Timberg, "Trade-marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 356 (1949); see United States v. General Elec. Co., 82 F. Supp. 753 (D.N.J. 1949).
57. 370 U.S. 294, 325 (1962). Although Brown Shoe involved § 7 of the Clayton Act, § 7, 38 Stat. 731 (1914), as amended, 15 U.S.C. § 18 (1964), which forbids stock or asset acquisitions if the effect may be to substantially lessen competition or to tend to create a monopoly, the Court has indicated that the same general principles apply to product market determination under § 2 of the Sherman Act. International Boxing Club v. United States, 358 U.S. 242, 249-52 & n. 8 (1959). The variances that do exist in product market determination under §§ 2 and 7 are not material to the point made in the text. See, e.g., United States v. Continental Can Co., 378 U.S. 441, 447-58 (1964) (§ 7 relevant product market includes products in different industries which have the same uses); United States v. E. I. duPont de Nemours & Co., 351 U.S. 377, 393 (1956) (dictum) (§ 2 relevant product market does not include all products in different industries which have the same end uses).
58. E.g., United States v. Klear Flax Linen Looms, 63 F. Supp. 32 (D. Minn. 1945).

from competitive pressures, it would be paying an unwarranted (and unwanted) compliment to Madison Avenue to conclude that consumer hypnosis foreclosed competition from other brands.⁵⁹ Yet this is precisely what a lower federal court concluded in United States v. Guerlain, Inc.⁶⁰ Needless to say, the facts were unusual.

The defendant, the exclusive American distributor for a French toilet goods manufacturer, had obtained American trademark registrations for his supplier's marks⁶¹ and filed copies with the Secretary of the Treasury. This enabled the defendant to take advantage of section 526 of the Tariff Act⁶² which directs customs officials to bar importation of foreign merchandise bearing marks that infringe registered American trademarks. The Justice Department charged that the defendant's resort to section 526 constituted both monopolization and an attempt to monopolize. Before reaching the Sherman Act question, the court held that section 526 did not immunize the defendant's actions because the statute was not available to an American business that was contractually controlled by a foreign manufacturer. The court then determined that the relevant market was the trademarked toilet goods sold by the defendant in the United States. Since the defendant's exclusive distributorship established the existence of monopoly power within this relevant market, use of the Tariff Act to prevent other persons from importing the trademarked goods was held to constitute monopolization. The Supreme Court noted probable jurisdiction in Guerlain,⁶³ but before the Court heard argument the government obtained leave to vacate the judgments.⁶⁴

59. See Chamberlin, *Theory of Monopolistic Competition* 62 (8th ed. 1962).

60. 155 F. Supp. 77 (S.D.N.Y. 1957). Three consolidated cases with similar facts were involved. A fourth case was terminated by consent decree. United States v. Empro Corp., 1954 Trade Cas. ¶ 67778 (S.D.N.Y. 1954) (consent decree). The conclusion had previously been discredited. See United States v. Quaker Oats Co., 232 Fed. 499, 506-07 (N.D. Ill. 1916) (dissenting opinion), appeal dismissed, 253 U.S. 499 (1920) and Hale & Hale, *Market Power: Size and Shape Under the Sherman Act* 97-98 (1958).

61. An exclusive distributor who has an assignment of his supplier's American trademark rights can obtain registration. E. Leitz, Inc., v. Commissioner of Patents, 152 F. Supp. 631 (D.D.C. 1957), *aff'd*, 254 F.2d 777 (D.C. Cir. 1958); accord, Roger & Gallet v. Janmarie, Inc., 44 C.C.P.A. (Patents) 965, 245 F.2d 505 (1957).

62. § 526, 46 Stat. 741 (1930), 19 U.S.C. § 1526 (1964).

63. Guerlain, Inc. v. United States, 355 U.S. 937 (1958); Parfums Corday, Inc. v. United States, 355 U.S. 951 (1958).

64. Guerlain, Inc. v. United States, 358 U.S. 915 (1958). The district court subsequently dismissed the suit with prejudice. United States v. Guerlain, Inc., 172 F. Supp. 107 (S.D.N.Y. 1959).

The Justice Department dropped the suits at the last minute because of intragovernmental conflict, the Bureau of Customs being constrained by the Tariff Act to abet the controverted conduct.⁶⁵

The crucial and vulnerable aspect of Guerlain is its determination of the relevant product market. The defendant advisedly argued that all reasonably interchangeable toilet goods should have been included.⁶⁶ Although agreeing that the defendant's evidence suggested the objective interchangeability of several brands of highly advertised toilet goods, the district judge stated that the significance of objective interchangeability was negated by "lack of objectivity in consumer demand."⁶⁷ He drew this inference from the defendant's evidence that highly exploited trademarks sold more perfume than quality content did, and from defendant's failure to introduce evidence of the responsiveness of sales of one brand to changes in the price of another. This was unjustified. Under the applicable precedents the government bore both the risk of non-persuasion and the burden of going forward with evidence to counter objective interchangeability.⁶⁸ The district judge sought to buttress his position by contending that the defendant's obvious intent to exclude competition made a limited market determination appropriate.⁶⁹ This was equally untenable insofar as the defendant was charged with single-firm monopolization. The ban on monopolization forbids misuse of actual economic power not improper intent alone.⁷⁰ It is not surprising that the Guerlain theory of

65. See Stern, "Solicitor General's Office," 46 A.B.A.J. 154, 157 (1960). At the same time the government futilely sponsored legislation to make § 526 of the Tariff Act inapplicable if a "branch-factory, parent-subsidary, agency, licensee, partnership, or similar relationship" existed between an American trademark registrant and foreign business units. H.R. 9476, § 501 83d Cong., 2d Sess. (1954). See Derenberg, "The Seventh Year," 44 Trademark Rep. 991, 996-1000 (1954).

66. The "reasonably interchangeable" text was enunciated in the Cellophane case, *United States v. E. I. du Pont de Nemours & Co.*, 351 U.S. 377 (1956) and reaffirmed in *Brown Shoe*. See text accompanying note 57 supra.

67. 155 F. Supp. 77, 85.

68. *United States v. E. I. du Pont de Nemours & Co.*, note 66 supra, at 381, 404; accord, *United States v. International Boxing Club*, 150 F. Supp. 397, 401 (S.D.N.Y. 1957), aff'd, 358 U.S. 242 (1959); see Turner, "Antitrust Policy and the Cellophane Case," 70 Harv. L. Rev. 281, 303 (1956); Note, 67 Yale L. J. 1110, 1116 n. 16 (1958); 56 Mich. L. Rev. 309, 310 (1957).

69. 155 F. Supp. 77, 85-86.

70. See *United States v. E. I. du Pont de Nemours & Co.*, note 66 supra, at 394-95 & n. 23; Handler, "Trademarks—Assets or Liabilities?" 48 Trademark Rep. 661, 669-70 (1958). On the other hand, the defendant was also charged with an attempt to monopolize. If the district judge

market determination has met the same fate as the decision itself. The only specific citation to the opinion is in a dissent to the Sixth Circuit decision in Tampa Electric Co. v. Nashville Coal Co.⁷¹ with respect to a point not considered by the Supreme Court in its subsequent disposition of Tampa Electric. A few lines from the Supreme Court's opinion in United States v. E. I. du Pont de Nemours & Co. that have endured portray the true relationship of trademarks to section 2 of the Sherman Act wherever product market definition is material to establishing the offense charged:

One can theorize that we have monopolistic competition⁷² in every nonstandardized commodity with each manufacturer having power over the price and production of his own product. However, this power that, let us say, automobile or soft-drink manufacturers have over their trade-marked products is not the power that makes an illegal monopoly. Illegal power must be appraised in terms of the competitive market for the product.⁷³

One of the subtleties of innuendoes that trademarks are akin to monopolies condemned by the antitrust laws is the fact that market definition is not a prerequisite of all section 2 offenses so that in some instances it may superficially appear that a brand of goods constituted the relevant product market. In addition to monopolization, section 2 condemns combinations, conspiracies, and attempts to monopolize.⁷⁴ Combinations to monopolize are

(Footnote continued)

was right in holding that section 526 of the Tariff Act did not immunize the defendant's conduct, the judge was correct in finding an attempt to monopolize, the difference being that market determination is superfluous at least when an attempt to monopolize results in actual exclusion of competition. See Smith, "Attempt to Monopolize," 27 *Geo. Wash. L. Rev.* 227, 237-38 (1958). See also note 87 *infra* and accompanying text.

71. Tampa Electric Co. v. Nashville Coal Co., 276 F.2d 766, 780 (6th Cir. 1960) (dissenting opinion), rev'd on other grounds, 365 U.S. 320 (1961).
72. This is Professor Chamberlin's term for the economic effect of product differentiation. Chamberlin, *Theory of Monopolistic Competition* 6-9 (8th ed. 1962).
73. United States v. E. I. du Pont de Nemours & Co., note 66 *supra*, at 393. This language was cited with approval in Nelligan v. Ford Motor Co., 262 F.2d 556 (4th Cir. 1959); Packard Motor Car Co. v. Webster Motor Car Co., 243 F.2d 418 (D.C. Cir.), cert. den., 355 U.S. 822 (1957), Miller Motors, Inc. v. Ford Motor Co., 149 F. Supp. 790 (M.D. N.C. 1957), aff'd on other grounds, 252 F.2d 441 (4th Cir. 1958). See also A-1 Business Mach. Co. v. Underwood Corp., 216 F. Supp 36 (E.D. Pa. 1963).
74. § 2, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 2 (1964).

permanent amalgamations of businesses which result in the attainment of monopoly power⁷⁵ whereas conspiracies and attempts to monopolize refer respectively to group and individual conduct motivated by a specific intent to monopolize regardless whether monopoly power is actually achieved.⁷⁶ Since deliberately anticompetitive group action poses considerable danger to competition, conspiracies to monopolize are unlawful wherever an appreciable amount of commerce is involved.⁷⁷ In contrast, combinations to monopolize, which involve more equivocal conduct, require greater attention to the relevant market. The principal views are that the product market should consist of any distinctive commodity with qualitatively distinct substitutes *prima facie* excluded⁷⁸ and that reasonably interchangeable substitutes should be *prima facie* included as in the case of monopolization.⁷⁹ The dispute is largely academic because the government currently tests combinations under the more rigorous legal standards of section 7 of the Clayton Act and section 1 of the Sherman Act,⁸⁰ but reconciliation is possible. The narrow view of product market determination is predicated upon horizontal combination cases.⁸¹ On the other hand, in a vertical combination case⁸² decided under section 1 of the Sherman Act⁸³ the Supreme Court concluded that all products that

75. See Turner, note 68 *supra*, at 305.

76. *American Tobacco Co. v. United States*, 328 U.S. 781 (1946) (conspiracy to monopolize); *United States v. Columbia Steel Co.*, 334 U.S. 495, 531-32 (1948) (attempt to monopolize).

77. *United States v. Consolidated Laundries Corp.*, 291 F.2d 563 (2d Cir. 1961); see *United States v. E. I. du Pont de Nemours & Co.*, note 66 *supra*, at 395 n. 23; *Reliable Volkswagen Sales & Service Co. v. World-Wide Automobile Corp.*, 34 F.R.D. 134 (D.N.J. 1963). But see *Packard Motor Car Co. v. Webster Motor Car Co.*, note 73 *supra*; *United States v. Johns-Manville Corp.*, ATRR 157: A-13 (7/14/64). See Smith, "Attempt to Monopolize," 27 *Geo. Wash. L. Rev.* 227, 240-41 (1958); Turner, note 68 *supra*, at 304-05. See *contra*, Handler & Robinson, "A Decade of Administration of the Celler-Kefauver Antimerger Act," 61 *Colum. L. Rev.* 629, 645 (1961).

78. See Turner, note 68 *supra*, at 304-07.

79. See Whipple, "Problems of Combination—Integration, Intra-Corporate Conspiracy and Joint Ventures," 1958 CCH Antitrust Symp. 34, 36.

80. E.g., *United States v. First Nat'l Bank & Trust Co.*, 376 U.S. 665 (1964) (§ 1); *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321 (1963) (§ 7).

81. See Turner, note 75 *supra*, at 286-89, 305-07. Horizontal combinations involve competitors.

82. Vertical combinations involve businesses on different levels of production or distribution, i.e., a supplier and a customer.

83. § 1, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1964). § 1 forbids contracts, combinations, and conspiracies in unreasonable restraint of trade.

could be conveniently manufactured by the same production facilities were within the relevant market.⁸⁴ Although Brown Shoe makes clear that product market determination is primarily a question of fact,⁸⁵ a distinction between the factual inquiries necessary in vertical and horizontal combination cases has continued theoretical validity under section 2.⁸⁶ The extent to which attempts to monopolize require consideration of the relevant product market is presently unclear.⁸⁷ The Supreme Court recently denied certiorari of a holding that product market definition is irrelevant.⁸⁸

Review of the relationship of trademarks to section 2 of the Sherman Act makes clear that trademarks are unrelated to the monopolies condemned by the Sherman Act. If product market definition is material to a section 2 offense, the market delineated must be a meaningful economic market for a generic product or products. On the other hand, if product market determination is not integral to a section 2 offense, the existence of trademarked goods is likewise immaterial. The cry of monopoly has little legitimate antitrust content.

c. Trademarks as Sources of Economic Monopoly

Abjuring misleading and discredited charges of antitrust monopoly and word monopoly, modern critics of liberal trademark

84. United States v. Columbia Steel Co., 334 U.S. 495 (1948). The combination in Columbia Steel also had a horizontal posture which the Court found nonviolative of § 1. Although the Court has recently restricted the Columbia Steel decision to its "special facts" with regard to horizontal combinations, United States v. First Nat'l Bank & Trust Co., 376 U.S. 665 (1964), the aspect of the decision dealing with the product market in vertical combinations was cited with approval in Brown Shoe. Brown Shoe Co. v. United States, 370 U.S. 294, 325 n.42 (1962).
85. See Handler, "Fifteenth Annual Review of Antitrust Developments," 17 Record of A.B.C.N.Y. 411, 435 (1962).
86. Though the production flexibility test of Columbia Steel is subject to criticism, see Note, "Product Market Definition Under the Sherman and Clayton Acts," 110 U. Pa. L. Rev. 861, 867-68 (1962), more leeway should be permitted vertical combinations because they are not as patently anticompetitive. Cf. Handler, "Recent Antitrust Developments," 112 U. Pa. L. Rev. 159, 176-77 (1963).
87. Compare Handler & Robinson, "A Decade of Administration of the Celler-Kefauver Antimerger Act," 61 Colum. L. Rev. 629, 645 (1961); Turner, "Antitrust Policy and the Cellophane Case," 70 Harv. L. Rev. 281, 304-05 (1956); Smith, "Attempt to Monopolize," 27 Geo. Wash. L. Rev. 227, 233-38, 243-44 (1958).
88. Lessig v. Tidewater Oil Co., 327 F.2d 459 (9th Cir.), cert. den., 377 U.S. 993 (1964). But see United States v. Johns-Manville Corp., ATRR 157: A-13 (7/14/64).

protection condemn trademarks for producing economic monopoly. In economic terms monopoly entails control over the supply of a product with consequent control over its price.⁸⁹ Trademarks were accordingly classified as having monopolistic consequences by Harvard economist Edward Chamberlin because the differentiation of a generic product into various brands gives each seller an economic monopoly over his own brand with control over price realizable to the extent that consumer preference can be established for a brand.⁹⁰ Chamberlin pointed out that regardless whether sellers of competing brands succeeded in gaining significant control over price, the apparent opportunity to do so led to vigorous sales promotion, increased costs, and higher industry prices.⁹¹ Although trademarks only constituted an example of product differentiation in Chamberlin's general analysis of the need for a new economic theory of value, he went on in an appendix to suggest that trademark protection might be ill-advised.⁹² Chamberlin noted, for example, that repudiation of trademark protection would allow competitors to whittle away the product differentiation caused by trademarks, pro tanto, restoring the product homogeneity characteristic of pure competition, and that any diversion of trade accompanying the copying of established marks would merely siphon off monopoly profits attributable to product differentiation.⁹³

Chamberlin's economic theory has gained far more acceptance than his suggestions concerning abolition of trademark protection.⁹⁴ This was not altogether unexpected for Chamberlin himself has indicated unwillingness to convert his suggestions into recommendations.⁹⁵ One of the reasons for his reluctance is undoubtedly that the abandonment of trademark protection which he

89. Chamberlin, *Theory of Monopolistic Competition* 7 (8th ed. 1962).

90. *Id.* at 65-68.

91. This aspect of Chamberlin's thesis is neatly summarized in Bain, *Pricing, Distribution, and Employment* 367-68 (rev. ed. 1953).

92. Chamberlin, note 89 supra, at 270-74.

93. These analytical arguments seem principally intended to provoke re-examination of the premises of trademark protection. See Chamberlin "Product Heterogeneity and Public Policy," 40 *Am. Econ. Rev.* 85-86 (1950); cf. Cohen, "Transcendental Nonsense and the Functional Approach," 35 *Colum. L. Rev.* 809, 814-17 (1935).

94. Compare Borden, *Advertising in Our Economy* 40-42 (1945); Brown, "Advertising and the Public Interest," 57 *Yale L. J.* 1165, 1171 n. 29 (1948) with Comment, "The Anti-Competitive Aspects of Trade Name Protection and the Policy Against Consumer Deception," 29 *U. Chi. L. Rev.* 371, 380 (1962).

95. See Chamberlin, note 93 supra. For an inference that Chamberlin overstressed the disadvantages of product differentiation see Bain, note 91 supra, at 366-74.

proposed was linked to the concomitant adoption of large-scale government grade labeling.⁹⁶ Since the latter has not come to pass, Chamberlin's analysis indicates that he concedes trademark protection is justifiable at least where purchaser deception is probable and the junior user is selling an inferior product.⁹⁷

2. The Cry of Restriction

Chamberlin's economic analysis, in league with a skepticism toward trademark protection fueled by the T.N.E.C. hearings and hostility to the excesses of advertising, has produced demands for a restrictive attitude toward trademark protection.⁹⁸ If there is any doubt whether a claim of trademark rights is in the public interest, restrictionists contend that protection should be denied. The cardinal tenet of the restrictionists is that trademark protection should be limited to preservation of the identification function of trademarks because the private interests of a senior user are considered worthy of protection only where they coincide with the social interest in avoiding deception of purchasers.⁹⁹ In essence, the cry of restriction is an articulation of the metaphorical cry of monopoly.

3. The Cry of Dilution

The case for strong trademark protection is succinct. Frank I. Schechter, an ardent protectionist, put it this way:

The owner of a trade-mark who expends large sums of money in making his mark known to the public as a symbol and guarantee of the excellence of his product should receive the same protection from the courts for his investment in advertising his trademark that he would undoubtedly be entitled to receive for investment in plant and materials.¹⁰⁰

There is little doubt that the pecuniary value of an established trademark and the expectancy of custom which the mark both

96. Chamberlin, note 89 *supra*, at 273. See Auerbach, "Quality Standards, Informative Labeling, and Grade Labeling as Guides to Consumer Buying," 14 *Law & Contemp. Prob.* 363 (1949) for presentation of a possible government grade labeling program.

97. Chamberlin, note 89 *supra*, at 273.

98. See *Standard Brands, Inc. v. Smidler*, 151 F.2d 34, 41-42 (2d Cir. 1945) (Frank, J. concurring); Brown, note 94 *supra*, at 1205-06; Oppenheim, "The Public Interest in the Protection of Industrial and Intellectual Property," 40 *Trademark Rep.* 613, 615-16 (1950).

99. E.g., Brown, note 94 *supra*, at 1184-1206; cf. Stern & Hoffman, "Public Injury and the Public Interest," 110 *U. Pa. L. Rev.* 935-41, 970-71 (1962).

100. Schechter, *Historical Foundations of Trade-Mark Law* 171 (1925).

symbolizes and stimulates have been powerful factors in molding judicial attitudes toward trademark rights.¹⁰¹ One commentator has neatly illustrated Mr. Schechter's point by analogizing trademark protection to the legal principles governing trespass to land.¹⁰² Not content with explaining the status quo, however, Schechter utilized his aphorism to justify the strongest possible trademark protection. Schechter argued that the only rational basis of trademark protection was preservation of the uniqueness of marks.¹⁰³ Businessmen who invented terms for use as marks or who assiduously promoted the distinctiveness of their marks should be able to prevent others from using those marks in broad territorial markets and on noncompeting as well as on competing goods. On the other hand, businessmen who elected to use words in common use as marks should receive a narrow ambit of protection consonant with the lack of distinctiveness of their symbols. Schechter's theory is known as the "dilution" theory of trademark protection because he contended that the user of a distinctive trademark should be able to enjoin all junior users in order to prevent "dilution" (diminution) of the mark's uniqueness. He believed that the senior user of a distinctive mark had a legitimate interest in ensuring that the term was solely associated by purchasers with his product.¹⁰⁴

Although the distinctiveness of a mark is one factor considered by the courts in determining whether a junior user is apt to be associated by purchasers with a senior user, in the absence of probable purchaser deception most judges have rejected dilution as a ground of relief at common law.¹⁰⁵ Proponents of the dilution theory have accordingly sought legislative approbation of the theory, and with some success. Five state currently have anti-

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101. E.g., *National Fruit Product Co. v. Dwinell-Wright Co.*, 47 F. Supp. 499, 506 (D. Mass. 1942), aff'd, 140 F.2d 618 (1st Cir. 1944) (dictum).
 102. Willcox, "Territorial Extent of Trade-Mark Rights," 25 Ill. L. Rev. 485, 489-92 (1931).
 103. Schechter, "The Rational Basis of Trademark Protection," 40 Harv. L. Rev. 813, 830-31 (1927).
 104. Id., at 825-26.
 105. Compare *Champion Paper & Fibre Co. v. National Association of Mutual Insurance Agents*, 148 F. Supp. 123 (D.D.C.), aff'd, 249 F.2d 525 (D.C. Cir. 1957), with *Tiffany & Co. v. Tiffany Productions, Inc.*, 147 Misc. 679, 264 N.Y. Supp. 459 (Sup. Ct. N.Y. County) aff'd per curiam, 237 App. Div. 801, 260 N.Y. Supp. 821 (1st Dep't 1932), aff'd mem., 262 N.Y. 482, 188 N.E. 30 (1933). See Derenberg, "The Problem of Trademark Dilution and the Antidilution Statutes," 44 Calif. L. Rev. 439, 450-51 (1956); Middleton, "Some Reflections on Dilution," 42 Trademark Rep. 175, 184-87 (1952). But see Day, "State Anti-Dilution Without a Statute," 54 Trademark Rep. 590 (1964).

dilution statutes,¹⁰⁶ and hearings were held on a proposed federal act in June of 1964.¹⁰⁷ Nevertheless, the courts have generally restrictively construed the anti-dilution statutes to the chagrin of exponents of liberal trademark protection.¹⁰⁸

C. Interplay Between the Cry of Dilution and the Cry of Restriction With Respect to Concurrent Territorial Use on Competing Goods

Since the restrictionist approach takes a "show me" attitude toward the asserted desirability of trademark protection, there is no necessary conflict between dilutionist and restrictionist positions with respect to territorial trademark rights. Indeed, it is the thesis of this monograph that the social interest in free competition, which ordinarily overrides the social interest in avoiding deception of purchasers,¹⁰⁹ favors strong territorial trademark protection with respect to competing goods.

The Hanover and Rectanus cases are readily understandable in their historical context. The cases were decided before radio, television, and national magazines made possible widespread exploitation of vast territorial markets and facilitated the development of farflung marketing systems by mail order houses, chain stores, and franchisors.¹¹⁰ Moreover, the felicitous dicta of the Supreme Court made it easy for the lower courts to adjust to the revolution in marketing through rigorous application of the exceptions to the recognition of concurrent territorial rights; namely, where a junior user adopted his mark with intention of benefiting from the senior user's reputation, or where, regardless of the junior user's intent, the senior use was known in the junior user's marketing area or that area was within the senior user's probable

106. Conn. Gen. Stat. Ann. § 35-11i(c)(1963); Ga. Code Ann. § 106-115 (1956); Ill. Ann. Stat. ch. 140, § 22 (Smith-Hurd 1955); Mass. Gen. Laws Ann. ch. 110, § 7A (1954); N.Y. Gen. Bus. Law § 368-d.

107. Hearings on H.R. 4651 Before a Subcommittee of the House Committee on Interstate and Foreign Commerce, 88th Cong., 2d Sess. (1964).

108. See "Dilution: Trademark Infringement or Will-O' the Wisp?," 54 Trademark Rep. 184, 192-95 (1964). But see *Polaroid Corp. v. Polaroid, Inc.*, 319 F.2d 830 (7th Cir. 1963); *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836 (D. Mass. 1964).

109. See Handler, "Trade-Marks and Antitrust Law," 38 Trademark Rep. 387-91 (1948).

110. The Department of Commerce's 1958 census of business indicated that there were 182,735 multiunit retail organizations in the United States. 1 Census of Business 4-2 (1958). See also Weiss, *Merchandising for Tomorrow* 10-13 (1961) (discussing the trend toward giant retailing). With respect to franchising see Hall, "Franchising--New Scope for an Old Technique," 42 Harv. Bus. Rev. 60 (1964).

zone of expansion at the time that the junior user adopted his mark. Nevertheless, a junior user who can establish inadvertent adoption of a senior user's mark in a discrete trade territory to which the senior user's reputation had not spread can generally rely on the Hanover and Rectanus cases to block orderly expansion of territorial markets by the senior user.¹¹¹ Because the collision of interests frequently does not occur until a senior user has invested substantial sums in his mark, he is forced to choose between (1) purchasing the junior user's rights, (2) proceeding at his own peril, (3) adopting a new mark,¹¹² or (4) staying out of the junior user's territory.¹¹³ The first alternative may be impracticable if the junior user demands an exorbitant price;¹¹⁴ the second may be stymied by an infringement suit brought by the junior user;¹¹⁵ the third may lead to later conflict with another good faith concurrent user; and the fourth results in a noncompetitive division of trade territories. The validity of recognition of concurrent territorial rights where marks are used on competing goods is further undercut by the premium it places on financial resources. Smaller firms which can ill afford to adopt a new mark or to buy out a concurrent user are more likely to be forced to curtail their market expansion than more affluent competitors.¹¹⁶ In the long run this may not only exclude a potential competitor from a junior user's trade territory but impair a smaller firm's ability to compete against the giants of its particular industry.

The unsatisfactory state of territorial trademark rights at common law is easily illustrated. International cartel arrangements allocating world markets sometimes require participants to adopt identical trademarks for like goods. After each participant

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111. E.g., Shoppers Fair, Inc. v. Sanders Co., 328 F.2d 496 (8th Cir. 1964); accord, Katz Drug Co. v. Katz, 188 F.2d 696 (8th Cir. 1951).
112. This might be done by adopting an entirely new mark or by adopting a second mark for use in the area of concurrent use. Both are expensive but the latter involves serious distribution problems as well. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 900 (1955).
113. See Browne, "Three Major Trademark Problems in the United States," 2 PTC J. Res. & Ed. 135 (1958).
114. E.g., Symposium, "Trademarks in the Market Place," 53 Trademark Rep. 687, 696-97 (1963). During the legislative hearings on the Lanham Bill it was suggested that courts should be given discretion to order sale of concurrent territorial rights at a reasonable price. 1941 House Hearings at 187 (remarks of Louis Robertson).
115. E.g., Conley v. Colgate-Palmolive Co., 125 U.S.P.Q. 2 (N.D. Cal. 1959).
116. See also Hopkins, Trademarks, Tradenames, and Unfair Competition 25 (4th ed. 1924).

acquires enforceable rights in the mark within his allotted territory, use by his co-conspirators of the same mark permits utilization of remedies for trademark infringement to enforce the allocation of markets both against fellow participants and third parties.¹¹⁷ This collusive manipulation of territorial trademark rights is clearly illegal as an unreasonable restraint of trade under section 1 of the Sherman Act.¹¹⁸ Although the coincidental allocation of trade territories within the American market fostered by the doctrine of concurrent territorial rights carries no similar taint of antitrust illegality,¹¹⁹ the result is analogous to that of the cartel arrangements. Consider, for instance, the ironic interaction between trademark and antitrust law that followed the 1911 dissolution of the Standard Oil combination.¹²⁰ Prior to divestment of its corporate empire Standard Oil of New Jersey had divided the country into districts and turned over the oil business in each district to a marketing subsidiary which acquired territorial rights to the "Standard" name and mark.¹²¹ After these subsidiaries were separated from Standard Oil of New Jersey, the doctrine of concurrent territorial rights enabled each former subsidiary to prevent the others from expanding their operations over the borders of the old districts under the "Standard" mark.¹²² The various "Standard" oil companies possessed sufficient resources

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117. See Timberg, "Trade-Marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 334-41 (1949).
118. Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951); United States v. Holophane Co., 119 F. Supp. 114 (S.D. Ohio 1954), aff'd per curiam, 352 U.S. 903 (1956). See also United States v. Bayer Co., 135 F. Supp. 65 (S.D.N.Y. 1955). § 1 forbids contracts, combinations, and conspiracies in restraint of trade. § 1, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1964).
119. A parallel agreement for concurrent territorial use would, however, be of doubtful validity under § 1. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 899-900 (1955).
120. Standard Oil Co. v. United States, 221 U.S. 1 (1911). See Sherman, "Trademark Problems as I See Them," 52 Trademark Rep. 1190-91 (1962).
121. The subsidiaries included Standard Oil Co. of California, Standard Oil Co. of Indiana, Standard Oil Co. of Iowa, Standard Oil Co. of Kansas, Standard Oil Co. of Kentucky, Standard Oil Co. of Nebraska, Standard Oil Co. of Ohio, and Standard Oil Co. of New York.
122. Esso, Inc. v. Standard Oil Co. of Indiana, 98 F.2d 1 (8th Cir. 1938); accord, Standard Oil Co. of Indiana v. Standard Oil Co. of Ohio, 141 F. Supp. 876 (D. Wyo. 1956), aff'd, 252 F.2d 65 (10th Cir. 1958); see Note, "Use of Confusing Brand Names by Standard Oil Companies," 48 Yale L.J. 332 (1938). See also Standard Oil Co. v. Standard Oil Co., 239 F. Supp. 97 (E.D. Mo. 1965) (proceeding to modify 8th Cir. decree). In one instance the right to prevent market penetration has been held waived by contract. Humble Oil Ref. Co. v. Standard Oil Co., 229 F. Supp. 586 (S.D. Miss. 1964).

to develop new trademarks and trade names with which to penetrate one another's territories,¹²³ but companies with more modest means might not find this possible.¹²⁴

In view of the foregoing, it is difficult to accept the Justice Department's contention during the hearings on the Lanham Bill that "legitimate rights of the owners of trade names and trademarks are adequately protected by the principles of law prohibiting unfair competitive practices."¹²⁵ Insofar as territorial trademark rights are concerned, by ignoring the noncompetitive consequences of the doctrine of concurrent territorial rights this statement exalts principles of trademark law over the social interest in free competition in exactly the same manner as the Justice Department charged that the supporters of the Lanham Bill sought to do. It became evident during the hearings that the Justice Department fell into this inconsistency because of misconception of the consequences of the Hanover and Rectanus cases. At one point, a Justice Department representative stated:

There is no occasion for a controversy to arise except in those cases where territorial expansion may bring them [concurrent territorial users] altogether; and in those cases the courts work out, under decrees, arrangements whereby, if the Florida and Washington men did expand to Illinois, for example, there would be an arrangement whereby there would be a designation of the source so as to indicate the different ownership. [matter in brackets supplied.]¹²⁶

The reference was to what was erroneously conceived to be the common practice in trademark cases of permitting several persons to use the same term as a mark accompanied by qualifying clauses or explanatory matter differentiating the users. E.g., If "Toasted Corn Flakes" were the mark, a junior user might be permitted to sell "Quaker Toasted Corn Flakes" accompanied by a statement disclaiming association with the Kellogg Toasted Corn Flake Co., the original manufacturer of "Toasted Corn Flakes."¹²⁷ Qualified decrees are utilized with some frequency to permit competitors to utilize generic or highly descriptive language which has

123. See Sherman, note 120 supra, at 1191.

124. Even the Standard Oil companies find the maintenance of multiple sets of trademarks and tradenames "inefficient" and are currently endeavoring to develop new marks and names in which they can obtain nationwide rights. Ibid.

125. Statement of the Department of Justice, 1944 Senate Hearing at 59.

126. Id. at 40 (remarks of Elliott H. Moyer).

127. Cf. Kellogg Toasted Corn Flake Co. v. Quaker Oats Co., 235 Fed. 657 (6th Cir. 1916).

acquired secondary meaning and to permit businessmen to use marks comprising their personal names,¹²⁸ but the Justice Department compounded its error concerning the prevalence of qualified decrees by assuming that they were specifically used to adjust conflicts between concurrent territorial users selling competing goods. The Standard Oil Co. cases are proof positive that this has not been so. In Esso, Inc. v. Standard Oil Co.,¹²⁹ for instance, the defendant had voluntarily used the words "Not Connected with Standard Oil Company (Indiana)" in conjunction with its display of "Esso," but the Eighth Circuit nonetheless affirmed the grant of an absolute injunction in the following terms:

It is urged that the so-called explanatory words, "Not connected with Standard Oil Company (Indiana)," were sufficient to avoid the charge of unfair competition. First, it may be noted in passing that manifestly defendant recognized that without this explanation, confusion or deception might result. The court found that notwithstanding the explanatory words, actual deception and confusion did result. The marks are simply words, or letters of the alphabet, not derivative of the product. . . . They mean "Standard Oil," and "Standard Oil" in the named states means Standard Oil Company of Indiana.¹³⁰

Furthermore, the Standard Oil Co. cases do not stand alone. Because a trademark user's interests in avoiding loss of sales and tarnishment of reputation are so intimately involved, absolute injunctions against concurrent use on competing goods in the same territory have been the rule rather than the exception when a conflict has developed between concurrent territorial users. In J. A. Dougherty's Sons v. Kasko Distillers Products Co.,¹³¹ for example,

128. See Handler & Pickett, "Trade-Marks and Trade Names," 30 Colum. L. Rev. 168, 184-89, 196-200 (1930).

129. 98 F.2d 1 (8th Cir. 1938). A proceeding has been initiated to modify this decree. Standard Oil Co. v. Standard Oil Co., 239 F. Supp. 97 (E.D. Mo. 1965).

130. 98 F.2d at 7. In Standard Oil Co. v. Standard Oil Co., 252 F.2d 65 (10th Cir. 1958) the Tenth Circuit similarly affirmed an absolute injunction against use of "Sohio" in marketing operations in Standard of Indiana's trade territory.

131. 35 F. Supp. 561 (E.D. Pa. 1940); accord, Cohn-Goldwater Mfg. Co. v. Wilk Shirt Co., 147 F.2d 767 (2d Cir. 1945); Hemmeter Cigar Co. v. Congress Cigar Co., 118 F.2d 64 (6th Cir. 1941); Blanchard & Co. v. Charles Gilman & Son, 145 U.S.P.Q. 62 (D. Mass. 1965); Layne-Western Co. v. Fry, 174 F. Supp. 621 (W.D. Mo. 1959), rev'd on other grounds, 282 F.2d 97 (8th Cir. 1960); Oakford Co. v. Kroger Co., 157 F. Supp. 453 (S.D. Ill. 1957); cf. Farbenfabriken Bayer, A.G. v. Sterling Drug, Inc., 307 F.2d 210 (3d Cir. 1962), cert. den., 372 U.S. 929 (1963).

the senior user was absolutely enjoined from using "Country Gentleman" on whisky in Pennsylvania and the junior user was absolutely enjoined from using "Country Gentleman" on whisky in territories served by the senior user or within his normal area of expansion. The Justice Department accordingly failed to controvert, or even to acknowledge, the fact that the doctrine of concurrent territorial rights nurtures noncompetitive divisions of trade territory that are immune from challenge under the antitrust laws.¹³²

It could, of course, be contended that the courts and not the Justice Department are wrong and that qualified decrees should be employed more frequently to prevent the noncompetitive consequences of concurrent territorial use by sellers of competing goods. The difficulty with this solution is that it palliates the consequences of concurrent territorial use without affecting its incidence. Furthermore, a qualified decree may neither prevent purchaser confusion nor satisfy either trademark user. In a number of cases qualified decrees have actually resulted in years of further litigation.¹³³ Although the qualified decree is a legitimate technique, it is by no means a panacea.

One commentator has suggested that the doctrine of concurrent territorial rights indicates a judicial preference for encouragement of unfettered competition by junior users in lieu of encouragement of large-scale production and expansion by senior users.¹³⁴ If this is true, the judicial logic is patently specious. Where junior use originates in a territory unexploited by the senior user, there is obviously no competition between the senior user and the junior user at that time. Furthermore, once a market overlap becomes possible, the doctrine of concurrent territorial rights places an additional obstacle in the way of the development of competition by arming the junior user with legal remedies for trademark infringement to ward off sorties by the senior user under his original mark. The net result is that the doctrine of concurrent territorial rights actually discourages both large-scale production and expansion and market competition. It is submitted,

132. This was not necessarily because the disadvantages of the Hanover and Rectanus doctrine were overlooked. See Diggins, "Trade-Marks and Restraints of Trade," 32 Geo. L.J. 113, 120 & n. 25 (1944). Compare Hall, "Possible Monopoly Implications in the Trade-Mark Bill," 32 Geo. L.J. 171, 174 (1944).

133. E.g., John B. Stetson Co. v. Steven L. Stetson Co., 14 F. Supp 74 (S.D.N.Y. 1936), mod., 85 F.2d 586 (2d Cir. 1936), cert. den., 299 U.S. 605 (1936), contempt proceedings, 128 F.2d 981 (2d Cir. 1942); 133 F.2d 129 (2d Cir. 1943).

134. Goble, "Where and What a Trade-Mark Protects," 22 Ill. L. Rev. 379, 382-83 (1927).

however, that the deficiencies of the doctrine are not due to judicial obtuseness but are inherent in judicial demarcation of territorial trademark rights. If businessmen who wish to adopt valid trademarks have no means of ascertaining what marks are in use, the limitations of human ingenuity make it inevitable that multiple good faith adoptions of similar marks will occur. When courts are asked to resolve the subsequent conflicts, it is consonant with fundamental principles of equity that good faith junior users should not be penalized for the law's failure to provide them with a meaningful opportunity to avoid concurrent use. The scope of territorial trademark rights with respect to competing goods is fertile ground for legislative innovation.

II. IMPACT OF THE LANHAM ACT ON TERRITORIAL TRADEMARK RIGHTS

A. Background of the Lanham Act

1. State Legislation

State legislation has had virtually no influence on territorial trademark rights. The trademark registration statutes which exist in every state¹ are uniformly restricted to procedural and remedial provisions² with the exception of the Texas Trademark Act, which follows the common-law decisions extending rights throughout a state by making registration constructive notice of a claim of trademark rights throughout Texas.³ Indeed, a majority of state registration statutes expressly provide that registration does not prevent acquisition of common-law rights by other persons,⁴ and courts considering statutes without this express provision have generally reached the same conclusion.⁵ The anti-dilution statutes in force in several states⁶ are equally innocuous. These statutes prohibit dilution of the distinctive quality of a trademark and likelihood of injury to the reputation of a trademark user so that in

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1. See 53 Trademark Rep. 1008-11 (1963).
 2. See Sacks & Stokes, "Statutory Treatment of the Model State Trademark Bill in the Areas of Service Marks and Conflicting Federal Registrations," 27 Geo. Wash. L. Rev. 353, 354-55 (1959).
 3. Tex. Rev. Civ. Stat. Ann. art. 851-C, §§ 5, 14 (1962); see generally Pravel, "New Texas Trademark Act," 44 J. Pat. Off. Soc'y 486 (1962).
 4. E.g., Conn. Gen. Stat. Ann. § 35-11k (1963); Ill. Ann. Stat. ch. 140, § 21 (Smith-Hurd 1955). This is a key provision of the Model State Trademark Bill sponsored by the National Association of Secretaries of State, the Council of State Governments, and the United States Trademark Association. See generally Groen, "Recent Changes in State Trademark Statutes," 47 Trademark Rep. 679 (1957); March, "Judicial Interpretations of the Uniform State Trademark Law," 47 Trademark Rep. 687 (1957). Registration statutes derived from the Model Bill are presently in force in twenty-seven states including Texas. See 53 Trademark Rep. 1008-11 (1963).
 5. E.g., *Allen v. Standard Crankshaft & Hydraulic Co.*, 210 F. Supp. 844 (W.D.N.C. 1962), aff'd on other grounds, 323 F.2d 29 (4th Cir. 1963); *Hot Shoppes, Inc. v. Hot Shoppe, Inc.*, 203 F. Supp. 777 (M.D.N.C. 1962); see generally, Broman, "State Trade-Mark Registration Statutes," 39 Trademark Rep. 673 (1949).
 6. E.g., Conn. Gen. Stat. Ann. § 35-11i(c) (1963); Ga. Code Ann. § 106-115 (1956); Ill. Ann. Stat. ch. 140, § 22 (Smith-Hurd 1955); Mass. Gen. Laws Ann. ch. 110, § 7A (1954); N.Y. Gen. Bus. Law § 368-d.

order to qualify for protection a mark must possess distinctiveness or be known by reputation within the state.⁷ Insofar as territorial trademark rights with respect to competing goods are concerned, the anti-dilution statutes accordingly do little more than codify the common-law decisions extending territorial rights to areas where a trademark user's mark is advertised⁸ or known by reputation.⁹ California and Montana have a unique statute providing that "any person who has first adopted and used a trade-mark, whether within or beyond the limits of this State, is its original owner."¹⁰ The statute could be construed to give the initial user of a mark anywhere in the United States superior rights in California and Montana, but it is not surprising that the reported cases in which out-of-state users have utilized the statute have all concerned bad faith junior users.¹¹ It is extremely unlikely that the statute would ever be applied to deprive good faith junior users of their marks because the statute provides no mechanism,¹² and, indeed, no state has ever provided one, by which local businessmen can discover whether or not a mark is presently in use elsewhere in the United States. Furthermore, the statute's declaration that the initial user is merely the "original owner" of a mark leaves the courts free to hold that the original user of a mark in Portland, Maine, who commences use in Montana or California after good faith local use by another, has forfeited his "original ownership" by delay.¹³ The insubstantiality of the California and

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7. *Sterling Brewing, Inc. v. Cold Spring Brewing Corp.*, 100 F. Supp. 412 (D. Mass. 1951).
 8. *Pep Boys—Manny, Moe, & Jack v. Pilavin*, 77 U.S.P.Q. 265 (D. Mass. 1948); accord, *Tiffany & Co. v. Boston Club, Inc.*, 231 F. Supp. 836 (D. Mass. 1964).
 9. *Food Fair Stores, Inc. v. Food Fair, Inc.*, 83 F. Supp. 445 (D. Mass. 1948), aff'd, 177 F.2d 177 (1st Cir. 1949); accord, *Great Scott Food Mkt., Inc. v. Sunderland Wonder, Inc.*, 203 N.E.2d 376 (Mass. Sup. Ct. 1965).
 10. Cal. Bus. & Prof. Code § 14270; Mont. Rev. Codes Ann. § 85-104 (1947). Compare *Gallo v. Safeway Brake Shops, Inc.*, 140 So. 2d 912 (La. App. 1962).
 11. See *Stork Restaurant v. Sahati*, 166 F.2d 348 (9th Cir. 1948); *Derringer v. Plate*, 29 Cal. 293 (1865); *Evans v. Shockley*, 58 Cal. App. 427, 209 Pac. 42 (1922). The Montana statute has never been construed in a reported decision.
 12. The California statute permits registration of marks used in California, Cal. Bus. & Prof. Code § 14230, whereas the Montana statute permits registration of marks used anywhere in the country, Mont. Rev. Codes Ann. § 85-102 (1947). Neither statute, however, requires registration in order to perfect senior rights acquired by out-of-state use against good faith local users.
 13. Compare *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 419-20 (1916).

Montana statute is evinced by Utah's repeal of a similar provision¹⁴ in favor of an innocuous trademark registration statute which expressly provides that registration does not affect rights "acquired in good faith at any time at common law."¹⁵

The lackluster existence of the California and Montana statute indicates that the doctrine of concurrent territorial rights can not be obviated by a legislative coup de grace which ignores the problem that the Supreme Court sought to resolve. The judicial conscience will not brook forfeiture of the advertising expenditures and good will of good faith concurrent users because of lack of temporal priority alone. If there is no way in which businessmen can find out what marks are already in use, judges are loathe to penalize them for making an incorrect guess. On the other hand, a trademark registration statute which provides fair notice concerning marks that are in use should substantially reduce these judicial inhibitions. If businessmen can find out what marks are in use, the noncompetitive consequences of the Hanover and Rectanus cases supply justification for preferring the interests of the senior user when an overlap in territorial markets develops. State registration statutes, however, have never created a sufficiently meaningful file of reliable information concerning marks in use in the United States to justify penalizing businessmen who adopt marks conflicting with those in use elsewhere.¹⁶ Indeed, Texas is the only state to penalize businessmen who fail to check the registry concerning marks in intrastate use.¹⁷ State trademark registries would become more adequate if registration were mandatory but the Bar and powerful commercial interests have adamantly opposed any steps in this direction because of the time, expense, and duplication involved.¹⁸ This upshot is that only a federal registration statute can alter the balance of interests that lies in the heart of the Hanover and Rectanus cases.

14. Utah Code Ann. § 70-1-6 (1953), repealed, Utah Sess. Laws 1955, ch. 159, § 21.

15. Utah Code Ann. § 70-3-15 (1959).

16. Several commentators have questioned whether state registration statutes perform any useful function. 4 Callmann, *Unfair Competition and Trade-Marks* 2090 n. 59.1 (Supp. 1963); Pollack, "State Trade-Marks and Marks of Ownership," 14 *Ohio St. L.J.* 381 (1953). But see Derenberg, "The Problem of Trademark Dilution and the Antidilution Statutes," 44 *Calif. L. Rev.* 439-40 (1956).

17. *Tex. Rev. Civ. Stat. Ann.* art. 851-C §§ 5, 14 (1962).

18. See, e.g., Broman, "State Trade-Mark Registration Statutes," 39 *Trademark Rep.* 673 (1949); Liddy, "The Problem of State Trade-Mark Registrations," 39 *Trademark Rep.* 667 (1949); Perry, "State Trade-Mark Legislation," 37 *Trademark Rep.* 283 (1947).

2. Pre-Lanham Act Federal Legislation

The first federal trademark legislation was enacted in 1870.¹⁹ Because the Constitution does not mention trademarks, the legislation was based on article 1, section 8 of the Constitution which empowers Congress

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;²⁰

Both this statute and a related law providing criminal penalties for the counterfeiting of registered marks²¹ were declared unconstitutional in the celebrated Trade-Mark Cases of 1879.²² The Supreme Court found no warrant for trademark legislation in the congressional power to protect authors and inventors because

The ordinary trade-mark has no necessary relation to invention or discovery. . . . It requires no fancy or imagination, no genius, no laborious thought. It is simply founded on priority of appropriation. We look in vain in the statute for any other qualification or condition.²³

The Court intimated, however, that federal trademark legislation could be based upon the commerce power²⁴ if scrupulously limited to commerce subject to the control of Congress. Congress took this advice so literally that the Act of 1881 merely permitted registration with the Commissioner of Patents of common-law trademarks used in commerce with foreign nations or the Indian tribes.²⁵ The bizarre Act of 1881 was replaced in 1905 by a statute which extended registrability to common-law trademarks used in interstate commerce as well as to secondary-meaning marks used in any commerce subject to control of Congress for ten years prior to 1905.²⁶ The Act of 1905 remained the major federal trademark

19. Act of July 8, 1870, ch. 230, §§ 77-84, 16 Stat. 210-12.

20. U.S. Const. art. I, § 8, cl. 8.

21. Act of Aug. 14, 1876, ch. 274, 19 Stat. 141.

22. *United States v. Steffens*, 100 U.S. 82 (1879).

23. *Id.* at 94.

24. U.S. Const. art. I, § 8, cl. 3.

25. Act of March 3, 1881, ch. 138, 21 Stat. 502. A supplementary statute made clear that the Act of 1881 applied to marks in use on the date of enactment. Act of Aug. 5, 1882, ch. 393, 22 Stat. 298.

26. Act of Feb. 20, 1905, ch. 592, 33 Stat. 724. The Act of 1905 repealed all inconsistent laws except insofar as they applied to existing registrations under the Act of 1881. Act of Feb. 20, 1905, ch. 592 § 30, 33 Stat. 731. Renewals of 1881 registrations were to be treated as registrations under the Act of 1905. Act of Feb. 20, 1905, ch. 592, § 12, 33 Stat. 727.

legislation previous to the Lanham Act despite the enactment in 1920 of a statute intended to enable users of secondary-meaning marks that were unregistrable under the Act of 1905²⁷ to obtain trademark rights in foreign countries in which protection was contingent on registration in the home country.²⁸ Consonant with its limited objective the Act of 1920 permitted registration of virtually any mark which had been in "bona fide" use in commerce for one year.²⁹

The immediate consequence of the Trade-Mark Cases was the invalidation of the first federal trademark legislation, but the long-run effect, perpetuated by judicial dicta,³⁰ was to raise doubts concerning the constitutionality of federal legislation which altered the common law of trademarks.³¹ The Act of 1905 reflected this doubt in its procedural composition: registration provided standing to sue in federal court,³² the ability to enforce an injunction in any United States court,³³ and prima facie evidence of trademark rights,³⁴ but there was scant correlation between the right to use and the right to register a mark. The common law governed the acquisition of trademark rights, whereas registrability turned on the narrower wording of the statute. Furthermore, the attainment of registration was in no way determinative of the right to use. Aside from affording slightly greater opportunity for actual notice of a registrant's use,³⁵ registration had no effect on the acquisition of concurrent territorial rights.³⁶ One writer commented:

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27. Acquisition of secondary meaning within the ten years prior to 1905 was the sine qua non of registrability. Act of Feb. 20, 1905, ch. 592, § 5, 33 Stat. 726.
 28. Act of March 19, 1920, ch. 104, 41 Stat. 533; see 4 Callmann, *Unfair Competition and Trade-Marks* 2057-58 (2d ed. 1950).
 29. Act of March 19, 1920, ch. 104, § 1(b), 41 Stat. 533-34.
 30. E.g., *American Steel Foundries v. Robertson*, 269 U.S. 372, 381 (1926) (dictum).
 31. See Derenberg, *Trade-Mark Protection and Unfair Trading* 10-11 (1936).
 32. Act of Feb. 20, 1905, ch. 592, § 17, 33 Stat. 728-29. This has been singled out as the chief value of a 1905 registration. See Martin, "Incentives to Register Given by the New Trade-Mark Act," 36 *Trademark Rep.* 213, 214 (1946).
 33. Act of Feb. 20, 1905, ch. 592, § 20, 33 Stat. 729.
 34. Act of Feb. 20, 1905, ch. 592, § 16, 33 Stat. 728.
 35. *Theodore Rectanus Co. v. United Drug Co.*, 226 Fed. 545, 553-54 (6th Cir. 1915) (dictum); aff'd on other grounds, 248 U.S. 90 (1918).
 36. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918) (Act of 1881); *Griesdieck Western Brewery Co. v. Peoples Brewing Co.*, 149 F.2d 1019 (8th Cir. 1945) (Act of 1905). The converse was not true. Concurrent territorial use of registered marks was one of several situations that deprived the federal register of meaning and consequently discouraged registration.

"[I]n doubtful cases the common law and not the Federal Act prevails. Every registered right must, without exception, yield to a better common law right."³⁷

A procedural federal trademark statute may have been feasible when, as the Supreme Court noted in the Trade-Mark Cases, "a very large amount of commerce, perhaps the largest. . . ." was intrastate;³⁸ but the helter-skelter development of interstate commerce after 1879 soon outmoded the procedural Act of 1905.³⁹ It was the devitalizing dogma that Congress was powerless to alter the common law of trademarks, rather than adequacy, which perpetuated the statute.⁴⁰ Although a Senate committee favorably reported a bill to revise the trademark laws in 1924,⁴¹ and similar bills were introduced in four succeeding Congresses with House passage attained three times,⁴² it was not until the latter 1930's that a climate of opinion conducive to actual enactment of new legislation began to crystalize. In 1936 Frank I. Schechter published an influential appeal for substantive federal legislation.⁴³ The next year a committee report of the A.B.A. Section of Patent, Trademark, and Copyright Law declared that substantive federal trademark legislation was both necessary and desirable.⁴⁴ When Congressman Lanham introduced the committee's recommendations as H.R. 9041⁴⁵ in 1938, the high road to legislative action was in sight.

The road proved to be a long one.⁴⁶ The Lanham Bill was not signed into law until July 5, 1946, with the effective date deferred for a year in order to afford time to consider expedient

37. Derenberg, note 31 supra, at 19. The Act of 1905 expressly provided: "That nothing in this Act shall prevent, lessen, impeach, or avoid any remedy at law or in equity which any party aggrieved by any wrongful use of any trade-mark might have had if the provisions of this Act has not been passed." Act of Feb. 20, 1905, ch. 592, § 23, 33 Stat. 730.

38. United States v. Steffens, 100 U.S. 82, 96 (1879).

39. See generally Schechter, "Fog and Fiction in Trade-Mark Protection," 36 Colum. L. Rev. 60 (1936). Compare IV Public Papers and Addresses of Franklin D. Roosevelt 205-221 (Rosenman ed. 1938).

40. See Derenberg, note 31 supra, at 13 n.23 & 20 n.80; Schechter, note 39 supra. For post-Lanham Act acceptance of congressional disability to change the common-law of trademarks see Browne, "Territorial Scope and Effect of Federal Trademark Registrations," 44 Trademark Rep. 1357, 1359-60 (1954).

41. See Robert, The New Trade-Mark Manual 233 (1947).

42. See Carter, "Legislative History of the New Trade-Mark Act," 36 Trademark Rep. 121-22 (1946).

43. Schechter, note 39 supra; see, e.g., Derenberg, note 31 supra, at 12-13.

44. 1937 Comm. Rep., A.B.A. Section PTC Law at 23-24.

45. 75th Cong., 3d Sess. (1938).

46. S. Rep. No. 1333, 79th Cong., 2d Sess. at 6-7 (1946).

amendments.⁴⁷ The Acts of 1881, 1905, and 1920 were repealed on the effective date of the Lanham Act.⁴⁸ 1881 and 1905 registrations were continued in effect for their unexpired terms and upon expiration could be renewed under the Lanham Act.⁴⁹ In contrast, registrations under the Act of 1920 were to expire within six months after the effective date of the Lanham Act or twenty years from the date of registration, whichever was later, and could only be renewed if renewal was required to support foreign registration.⁵⁰

B. The Substantive Clauses of the Lanham Act

The A.B.A. committee reported which preceded Congressman Lanham's introduction of H.R. 9041⁵¹ urged consideration of the following "substantive changes" in federal trademark legislation:

1. Registration might be made constructive notice so as to prevent any one acquiring rights in the same mark, at least in interstate commerce, subsequent to such registration.
2. The words "owner of a trade-mark" might be defined.
3. The presumption of ownership might be made conclusive after the trade-mark has been on the register unassailed for a certain time.
4. As a corollary, the right to petition for cancellation of a registered trade-mark might be limited. . . .⁵²

47. Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 444; see 1944 Senate Hearings at 144 (remarks of Congressman Lanham). Though an amendatory bill was introduced within six months after the act became effective, S. 1919, 80th Cong., 1st Sess (1947), the noncontroversial features of the proposed amendments were not enacted until 1962. 15 U.S.C. ch. 22 (Supp. IV, 1963); see Hoge, "The Lanham Act's House-keeping Amendments," 52 Trademark Rep. 1245 (1962). The establishment in 1958 of a Trademark Trial and Appeal Board in the Patent Office has been the only other noteworthy revision of the statute. § 17, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1067 (1964); see Law, "The Trademark Trial and Appeal Board," 50 Trademark Rep. 1019 (1960).
48. Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 444-45.
49. Act of July 5, 1946, ch. 540, § 46(b), 60 Stat. 445. 1905 registrations and 1881 registrations renewed under the Act of 1905 have twenty year terms as do Lanham Act registrations. See Vandenburg, Trademark Law and Procedure 352 (1959). Renewal under the Lanham Act is for the same term. § 9, 60 Stat. 431 (1946), as amended, 15 U.S.C. § 1059 (1964). Renewal is accomplished by filing a verified application with the Patent Office setting forth the goods in connection with which the mark is still in use in commerce or showing that nonuse is excusable. A specimen of the current style of the mark must be attached. *Ibid.*
50. Act of July 5, 1946, ch. 540, § 46(b), 60 Stat. 445.
51. 75th Cong., 3d Sess. (1938).
52. 1937 Comm. Rep. A.B.A. Section PTC Law at 28. There were other recommendations not germane to this monograph. *Id.* at 29.

Virtually the same proposals had been advanced as "procedural" amendments to the Act of 1905 several years earlier,⁵³ but the substantive characterization was more accurate because the committee envisioned a statutory scheme in which the consequences of registration would annul certain common-law principles and in which registration would be immune from attack except as provided in the federal statute itself.⁵⁴

There were several reasons for these recommendations. In 1934 organizations specializing in state trademark registration had attempted to capitalize on the insignificance of the Act of 1905 by launching a campaign for compulsory registration statutes in several states. The proposed legislation generally required registration in the enacting state as a condition of trademark protection and provided that marks unregistered by the senior user within six months of enactment could be registered by any applicant.⁵⁵ The prospect that forty-eight disparate state laws might otherwise fragment trademark rights galvanized the Bar into action. New federal legislation containing substantive provisions was advanced in order to remove any need for state action and in order to lessen the significance of state law in general.⁵⁶ Another motivation behind the proposals derived from the function of a trademark registration statute. The registry maintained under the Act of 1905 was never a meaningful source of information concerning marks in use because the benefits of registration were so slight as to compare unfavorably with the time and expense required to obtain it.⁵⁷ The A.B.A. committee believed that the integrity of the federal registry would be enhanced by substantive provisions which affected the right to use and provided incentives to register.⁵⁸

53. 1935 Comm. Rep., A.B.A. Section PTC Law at 9-13.

54. See, e.g., Schechter, note 39 *supra*, at 72 & n. 32. The A.B.A. proposals concerning assignment and licensing were also substantive in this sense. They are treated separately in this monograph because of convenience and because they were drastically modified as a result of the hearings on the Lanham Bill.

55. See Rogers, "The Lanham Act and the Social Function of Trade-Marks," 14 Law & Contemp. Prob. 173, 178 (1949).

56. 1937 Comm. Rep., note 52 *supra*, at 23. The congressional declaration of intent appended to the Lanham Act states: "The intent of this chapter is to regulate commerce within the control of Congress. . . to protect registered marks used in such commerce from interference by State, or territorial legislation. . . ." § 45, 60 Stat. 444 (1946), as amended, 15 U.S.C. § 1127 (1964).

57. See Martin, "Incentives to Register Given by the New Trade-Mark Act," 36 Trademark Rep. 213-14 (1946).

58. See *ibid.* The defects of the Act of 1905 so galled supporters of the registry concept that the major proposed revisions of the federal trademark laws up to and including the initial version of the Lanham Bill required deposit in the Patent Office of all marks used in interstate

The Lanham Bill was recast countless times during the long debate which preceded enactment, yet the recommendations of the A.B.A. committee proved durable.⁵⁹ The Lanham Act contains no definition of trademark "ownership" so that the right to register continues to depend basically on prior adoption and use of a mark in accordance with common-law principles,⁶⁰ and the evidentiary effect of registration can be regarded as substantive because it alters the burden of proof,⁶¹ but otherwise the substantive clauses reflect the A.B.A. recommendations:⁶² registration is made

(Footnote continued)

commerce regardless whether registration was sought or even possible. E.g., H.R. 9041, tit. III, 75th Cong., 3d Sess. (1938); see Derenberg, Trade-Mark Protection and Unfair Trading 731-32 (1936). The provision was eventually discarded as unduly burdensome. E.g., Brief of the United States Trademark Association, 1938 House Hearings at 64.

59. Edward S. Rogers, the co-chairman of the committee, helped guide the bill through Congress. See Rogers, note 55 *supra*, at 180; Shniderman, "Trade-Mark Licensing—A Saga of Fantasy and Fact," 14 Law & Contemp. Prob. 248, 249, 250 (1949).
60. See *In re Deister Concentrator Co.*, 48 C.C.P.A. (Patents) 952, 289 F.2d 496 (1961). An applicant for registration must swear that he is the "owner" of the mark, § 1(a)(1), 60 Stat. 427 (1946), as amended, 15 U.S.C. § 1051(a)(1)(1964), and a deliberate falsehood renders registration subject to cancellation at any time. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964); *Bart Schwartz Int'l Textiles, Ltd. v. F.T.C.*, 48 C.C.P.A. (Patents) 933, 289 F.2d 665 (1961). It remains an arguable proposition whether state or federal law controls the determination of "ownership," compare *S. C. Johnson & Son v. Johnson*, 175 F.2d 176, 178 (2d Cir.), *cert. den.*, 338 U.S. 860 (1949) with *Time, Inc. v. T.I.M.E., Inc.*, 123 F. Supp. 446, 453 (S.D. Cal. 1954) but there is discernible tendency to apply general federal standards sub silentio. See *Aluminum Fabricating Co. v. Season-All Window Corp.*, 160 F. Supp. 41 (S.D.N.Y. 1957), *aff'd*, 259 F.2d 314 (2d Cir. 1958); *Dudad Lure Co. v. Creme Lure Co.*, 143 U.S.P.Q. 358 (Tm. Bd. 1964). "Use in commerce" is a separate prerequisite of federal registration, § 1 (a)(1), 60 Stat. 427 (1946), 15 U.S.C. § 1051(a)(1) (1964); *R. J. Moran Co. v. Gordon*, 101 U.S.P.Q. 206 (Comm'r 1954). However, this embraces "all the commerce which may lawfully be regulated by Congress," § 45, 60 Stat. 433 (1946), 15 U.S.C. § 1127 (1964), so that the requirement is easily met. A single instance of sale or transportation of trademarked goods across state lines has been found sufficient. *Maternally Yours, Inc. v. Your Maternity Shop*, 234 F.2d 538 (2d Cir. 1956) (sale); *New England Duplicating Co. v. Mendes*, 190 F.2d 415 (1st Cir. 1951) (transportation).
61. § 7(b), 60 Stat. 430 (1946), 15 U.S.C. § 1057(b) (1964). Cf. *Palmer v. Hoffman*, 318 U.S. 109 (1943); *Cities Serv. Oil Co. v. Dunlap*, 308 U.S. 208 (1939).
62. This is not to say that the substantive provisions coincide with the details of the initial A.B.A. proposals. See generally Martin, note 57 *supra*.

constructive notice of a claim of trademark rights;⁶³ the grounds for cancellation of registration are restricted after a five-year period;⁶⁴ after a mark has been on the register for five years certain incontestable rights may be obtained.⁶⁵

The substantive clauses of the Lanham Act apply solely to registrations on the Principal Register⁶⁶ established by the Act. Registrations on the Supplemental Register, which continues the limited function of the Act of 1920,⁶⁷ are excluded from coverage.⁶⁸ The benefits of registration on the Principal Register, with the exception of the opportunity to acquire an incontestable right to use and a limited immunity from cancellation,⁶⁹ also apply to 1881 and 1905 registrations.⁷⁰ In order to avail themselves of the expected provisions 1881 and 1905 registrants must republish their registrations under the Lanham Act, i.e., file an affidavit with the Commissioner of Patents, notice of which is published in the Official Gazette of the Patent Office, setting forth the goods on which the mark is presently in use in commerce and stating that the registrant claims the benefits of the Lanham Act for his mark.⁷¹ If 1881 and 1905 registrants so choose, their registrations can be renewed under the Lanham Act without republication.⁷²

The 1881 and 1905 registrations to which the substantive clauses apply are primarily common-law trademarks,⁷³ but section

63. § 22, 60 Stat. 435 (1946), 15 U.S.C. § 1072 (1964).

64. § 14, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064 (1964).

65. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964).

66. §§ 1-22, 60 Stat. 427-35 (1946), as amended, 15 U.S.C. §§ 1051-72 (1964).

67. See Robert, *The New Trade-Mark Manual* 63-65 (1947).

68. § 26, 60 Stat. 436 (1946), 15 U.S.C. § 1094 (1964). The supplemental register was established by §§ 23-28, 60 Stat. 435-36 (1946), as amended, 15 U.S.C. §§ 1091-1096 (1964).

69. Act of July 5, 1946, ch. 540, § 46(b), 60 Stat. 445; § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(d) (1964); § 15, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1065 (1964).

70. Act of July 5, 1946, ch. 540, § 46(b), 60 Stat. 445.

71. § 12(c), 60 Stat. 432 (1946), as amended, 15 U.S.C. § 1062(c) (1964).

72. Act of July 5, 1946, ch. 540, § 46(b), 60 Stat. 445. 1881 and 1905 registrations that are merely renewed remain unqualified for an incontestable right to use and limitation of the grounds of cancellation until republished. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(d) (1964); § 15, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1065 (1964).

73. The Act of 1881 did not provide for registration of any secondary-meaning marks. The Act of 1905 merely permitted registration of secondary-meaning marks used exclusively in commerce for ten years prior to February 20, 1905. Act of Feb. 20, 1905, ch. 592, § 5, 33 Stat. 726. Although the "ten year proviso" was slightly liberalized in 1920, Act of March 19, 1920, ch. 104, § 9, 41 Stat. 535, it was legitimately, if somewhat ingenuously, said of the clause: "Everybody knows

2 of the Lanham Act permits registration of most secondary-meaning marks on the Principal Register.⁷⁴ Although section 2(e) forbids registration of marks that are "merely descriptive or deceptively misdescriptive," "primarily geographically descriptive or deceptively misdescriptive," or "primarily merely a surname," the ambit of these prohibitions is narrower than their counterparts in the Act of 1905.⁷⁵ For example, if geographical terms are used arbitrarily, e.g., "The Atlantic" for a magazine,⁷⁶ or if a term has ordinary meanings apart from use as a personal name and is used on goods unrelated to those ordinary meanings, e.g., "Douglas," which is a personal name but also refers to a Scottish clan, a fir tree, and a squirrel, for poultry feed,⁷⁷ or if a word is suggestive rather than merely descriptive, e.g., "Audio Fidelity" for phonograph records,⁷⁸ registration may be available without proof of secondary meaning.⁷⁹ Moreover, section 2(f) authorizes registration of virtually every mark that would otherwise fall within the prohibitions of section 2(e) if secondary meaning can be established.⁸⁰ The Commissioner of Patents can accept as prima facie evidence of secondary meaning:

(Footnote continued)

that secondary meaning can be acquired otherwise than by exclusive use from 1895 to 1905." 1935 Comm. Rep. A.B.A. Section PTC Law at 11.

74. § 2(e) & (f), 60 Stat. 429 (1946), 15 U.S.C. § 1052(e) & (f) (1964).
75. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 825-26 (1955).
76. Cf., *Atlantic Monthly Co. v. Frederick Ungar Pub. Co.*, 197 F. Supp. 524 (S.D.N.Y. 1961). But see *Ex parte The London Gramophone Corp.*, 98 U.S.P.Q. 362 (Comm'r 1953).
77. *Ex parte Omaha Cold Storage Co.*, 111 U.S.P.Q. 189 (Comm'r 1956).
78. *Audio Fidelity, Inc. v. London Records, Inc.*, 51 C.C.P.A. (Patents) 1429, 332 F.2d 577 (1964).
79. See generally Leeds, "Trademarks—the Rationale of Registrability," 26 Geo. Wash. L. Rev. 653, 662-64 (1958).
80. The major exceptions are marks that run afoul of public policy. E.g., *In re Deister Concentrator Co.*, 48 C.C.P.A. (Patents) 952, 289 F.2d 496 (1961) (no trademark rights will be recognized in product configurations in the public domain). Section 2 expressly prohibits registration, regardless of secondary meaning, if a mark "(a) Consists of or comprises immoral, deceptive, or scandalous matter, or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute. (b) Consists of or comprises the flag or coat of arms or other insignia of the United States, or of any State or municipality, or of any foreign nation, or any simulation thereof. (c) Consists of or comprises a name, portrait, or signature identifying a particular living individual except by his written consent, or the name, signature, or portrait of a deceased President of the United States during the life of his widow, if any, except by the written consent of the widow." § 2(a), (b), & (c), 60 Stat. 428 (1946), 15 U.S.C. § 1052(a), (b), & (c) (1964).

proof of substantially exclusive and continuous use thereof as a mark by the applicant in commerce for the five years next preceding the date of filing of the application for its registration.⁸¹

An averment in the application may be accepted as proof of substantially exclusive and continuous use for the five year period.⁸² Use for five years is not even necessary if secondary meaning can be demonstrated without resort to the section 2(f) presumption.⁸³ Relevant evidence includes the duration, extent, and nature of use, advertising expenditures, and affidavits, letters, or statements from the trade or the public or from both.⁸⁴

C. Analysis of the Substantive Clauses

1. Evidentiary Advantages

The Act of 1905 stated that a certificate of registration was prima facie evidence of trademark ownership⁸⁵ and the courts treated registration as prima facie evidence of the validity of a claim of trademark rights.⁸⁶ It was never authoritatively determined, however, whether registration shifted the burden of proof as well as the burden of going forward with the evidence.⁸⁷ Section 7(b) of the Lanham Act makes an unexpired registration⁸⁸ prima facie evidence of the validity of registration, ownership of a mark, and the exclusive right to use a mark on the goods specified in the certificate.⁸⁹ Essentially, this means that registration

81. § 2(f), 60 Stat. 429 (1946), 15 U.S.C. § 1052(f) (1964).

82. See Vandenburg, Trademark Law and Procedure 92 (1959). The Commissioner may, of course, require additional evidence, 37 C.F.R. § 2.41(b) (1960), see generally Beran, "Trademark or Mere Unregistrable Matter—Where Do You Draw the Line," 52 Trademark Rep. 953 (1962); Hancock, "Evidence under Section 2(f) of the Trade-Mark Act of 1946," 42 Trademark Rep. 877 (1952), but the applicant does not have to establish exclusive use. See McCormick & Co. v. Summers, 141 U.S.P.Q. 258 (Tm. Bd. 1964).

83. Ex parte Fox River Paper Corp., 99 U.S.P.Q. 173-74 (Comm'r 1953) (dictum).

84. 37 C.F.R. § 2.41(a)(1960); see In re Hollywood Brands, Inc., 41 C.C.P.A. (Patents) 1001, 214 F.2d 139 (1954).

85. Act of Feb. 20, 1905, ch. 592, § 16, 33 Stat. 728.

86. E.g., Barbasol Co. v. Jacobs, 160 F.2d 336 (7th Cir. 1947).

87. National Nu Grape Co. v. Guest, 164 F.2d 874 (10th Cir. 1947), cert. den., 333 U.S. 874 (1948); accord, House of Westmore, Inc. v. Denney, 151 F.2d 261 (3d Cir. 1945); Gort Girls Frocks, Inc. v. Princess Pat Lingerie, Inc., 73 F. Supp. 364, 366 (S.D.N.Y. 1947) (dictum).

88. An expired registration has no effect. Imperial Sugar Co. v. Imperial Prods., 139 U.S.P.Q. 344 (Tm. Bd. 1963).

89. § 7(b), 60 Stat. 430 (1946), 15 U.S.C. § 1057(b) (1964). Note that registration is not made evidence of the validity of the claim of trademark rights. See Leeds, "The Circular Trend in Trademarks," 47 A.B.A.J.

creates a presumption that a mark is dissimilar to other marks registered for similar goods,⁹⁰ that a mark has secondary meaning if registered under section 2(f),⁹¹ and that the registrant has acquired rights in the mark,⁹² and consequently has the exclusive right to use the mark in connection with the goods specified⁹³ in the certificate.⁹⁴ Though not conclusive,⁹⁵ the presumption shifts both the burden of going forward with the evidence and the burden of proof.⁹⁶

(Footnote continued)

- 256, 257 (1961). The courts, however, still tend to read in this presumption. E.g., *Sylvania Elec. Prods., Inc. v. Dura Elec. Lamp Co.*, 247 F.2d 730 (3d Cir. 1957).
90. But see *In re Knapp-Monarch Co.*, 49 C.C.P.A. (Patents) 779, 296 F.2d 230 (1961).
91. If the mark was not registered under § 2(f), this presumption naturally does not exist. *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 201 F. Supp. 861 (S.D.N.Y. 1962), aff'd on other grounds, 312 F.2d 125 (2d Cir. 1963).
92. This amounts to prima facie evidence of use as of the filing date of the application for registration. *Harvey Aluminum, Inc. v. American Screen Prods. Co.*, 49 C.C.P.A. (Patents) 1230, 305 F.2d 479 (1962); accord, *American Throwing Co. v. Famous Bathrobe Co.*, 45 C.C.P.A. (Patents) 737, 250 F.2d 377 (1957). Registration may also be treated as prima facie evidence of continuing use of a mark. *Drexel Enterprises, Inc. v. Richardson* 312 F.2d 525 (10th Cir. 1962); accord, *Friedman v. Sealy, Inc.*, 274 F.2d 255 (10th Cir. 1959); *Gillette Co. v. Kempel*, 45 C.C.P.A. (Patents) 920, 254 F.2d 402 (1958); *Sapphire Corp. v. Robert Hosiery Mills, Inc.*, 136 U.S.P.Q. 308 (Tm. Bd. 1962). But see *In re Continental Distilling Corp.*, 45 C.C.P.A. (Patents) 863, 254 F.2d 139 (1958); *Leeds*, note 89 supra, at 256.
93. The presumption may be extended to the same class of goods as those named, *In re Helene Curtis Indus., Inc.*, 49 C.C.P.A. (Patents) 1367, 305 F.2d 492 (1962); but see *American Liberty Ins. Co. v. American Liberty Life Ins. Co.*, 136 U.S.P.Q. 248 (N.D. Ga. 1962), but not to merely related goods. *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293 (S.D.N.Y. 1959), aff'd, 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960).
94. *Iowa Farmers Union v. Farmers' Educ. & Co-op Union*, 247 F.2d 809, 817 (8th Cir. 1957); accord, *Curtis-Stephens-Embry Co. v. Pro-Tek-Toe Skate Stop Co.*, 199 F.2d 407, 413 (8th Cir. 1952).
95. See, e.g., *Camloc Fastener Corp. v. OPW Corp.*, 164 F. Supp. 15 (S.D.N.Y. 1958), aff'd per curiam, 271 F.2d 415 (2d Cir. 1959).
96. *Aluminum Fabricating Co. v. Season-All Window Corp.*, 259 F.2d 314 (2d Cir. 1958); accord, *Dymo Indus., Inc. v. Tapeprinter, Inc.*, 326 F.2d 141 (9th Cir. 1964); *Tigrett Indus. Inc. v. Top Value Enterprises, Inc.*, 217 F. Supp. 313 (W.D. Tenn. 1963); *R.C.W., Supervisor, Inc. v. Cuban Tobacco Co.*, 220 F. Supp. 453 (S.D.N.Y. 1963); *Simmonds Aero-cessories, Ltd. v. Elastic Stop Nut Corp.*, 154 F. Supp. 615 (D.N.J. 1957), rev'd on other grounds, 257 F.2d 485 (3d Cir. 1958). The presumption has been said to be easily overcome when a mark is composed of descriptive words. *Shaw-Barton, Inc. v. John Baumgarth Co.*, 313 F.2d 167 (7th Cir.), cert. den., 374 U.S. 831 (1963); see *Dell*

Notwithstanding the evidentiary advantages afforded by section 7(b) a registrant will not be able to enjoin a concurrent user unless likelihood of confusion exists,⁹⁷ and a difference in trade territories has been held to negate the possibility of confusion.⁹⁸ Thus, section 7(b) is of little consequence as a curb on concurrent territorial use until a registrant expands his markets so as to come into contact with a junior user.

2. Constructive Notice

Section 22 makes registration constructive notice of a registrant's claim of trademark rights. Constructive notice commences on the date of registration on the Principal Register or, with regard to 1881 and 1905 registrations, the effective date of the Lanham Act, July 5, 1947.⁹⁹ Previous federal registration statutes has no analogous provisions,¹⁰⁰ although publication of applications for registration in the Official Gazette of the Patent Office did afford occasion for actual notice of asserted trademark rights.¹⁰¹ The following excerpt from the 1939 Congressional hearings on the Lanham Bill evinces the purpose of section 22:

Mr. Frazer. As a matter of information, is not section 22 suplusage, except as to the supplemental register, in view of section 7(b) on page 5? That section provides:

The certificates of registration of a trademark upon the principal register provided by this Act shall be presumptive evidence of the validity of the trade-mark and of the registrant's exclusive right thereto.

Mr. Rogers. May I suggest in that connection, that the Supreme Court in the case of Rectans v. United Drug Co. [sic.] —quite unnecessarily, but they said that registration in the Patent Office is not notice; that the actual notice had to be shown.

(Footnote continued)

- Pub. Co. v. Stanley Publications, Inc., 9 N.Y.2d 126, 172 N.E.2d 656, 211 N.Y.S.2d 393 (1961) criticized in Derenberg, "The Fourteenth Year," 51 Trademark Rep. 777, 838-40 (1961).
97. § 32(1), 60 Stat. 437 (1946), as amended, 15 U.S.C. § 1114(1) (1964).
98. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); see Curtis-Stephens-Embry Co. v. Pro-Tek-Toe Skate Stop Co., 199 F.2d 407 (8th Cir. 1952).
99. § 22, 60 Stat. 435 (1946), 15 U.S.C. § 1072 (1964).
100. United Drug Co. v. Theodore Rectanus Co., note 36 *supra*; Griesedieck Western Brewery Co. v. Peoples Brewing Co., 149 F.2d 1019 (8th Cir. 1945) (Act of 1905).
101. Theodore Rectanus Co. v. United Drug Co., note 35 *supra*; see 2 Nims Unfair Competition and Trade-Marks 731 (4th ed. 1947).

Now the purpose of all registration and recording acts is notice and, frankly, this paragraph was put in to make it notice, as it ought to be.

Mr. Lanham. In the light of that decision?

Mr. Rogers. In the light of that decision.

Mr. Thomson. That would mean there could not be any honest concurrent user; after the registration has issued to one party, no other party could claim any honest concurrent user, or use beginning after that date, if it is notice to him.

Mr. Rogers. I think that we all agree that is as it should be.¹⁰²

It is not surprising that section 22 has been referred to as the most important section in the Lanham Act.¹⁰³ Those making statements during the legislative hearings and numerous commentators¹⁰⁴ have taken the position that the notice of registered marks imputed by section 22 precludes junior users from acquiring territorial rights vis-vis a registrant if the junior users initiate use after constructive notice commences.¹⁰⁵ If section 22 is considered discretely, this would not seem an ineluctable result for a junior user's knowledge of prior rights was not necessarily sufficient "bad faith" to bar acquisition of concurrent territorial rights under the Hanover and Rectanus doctrine. An improper motive was also requisite unless the senior user's mark was known in the junior user's territory or that territory was within the senior user's zone of imminent expansion.¹⁰⁶ In Hanover Star Milling Co. v. Metcalf, for instance, the Supreme Court declared:

102. 1939 House Hearings at 125. For similar comments during other hearings see Halliday, "Constructive Notice and Concurrent Registration," 38 Trademark Rep. 111, 117-20 (1948).

103. 1 Seidel, Dubroff, & Gonda, Trademark Law and Practice 694 (1963).

104. E.g., 4 Callmann, Unfair Competition and Trade-Marks 2071-72 (2d ed. 1950); Robert, The New Trade-Mark Manual 129-30 (1947); Browne "Territorial Scope and Effect of Federal Trademark Registrations," 44 Trademark Rep. 1357, 1360-61 (1954); Diggins, "The Lanham Trademark Act," 37 Trademark Rep. 305, 316-17 (1947). But see Bonyng, "The Effect of Registration in Trademark Litigation," 50 Trademark Rep. 902, 912-13 (1960).

105. One case held that the Act of 1905 gave similar nationwide rights to a registered mark, Standard Brewery Co. v. Interboro Brewing Co., 229 Fed. 543 (2d Cir. 1916), petition for cert. dismissed, 246 U.S. 677 (1918), but it was not followed. E.g., United States Printing & Lithograph Co. v. Griggs, Cooper & Co., 279 U.S. 156 (1929) (Holmes, J.); accord, Griesedieck Western Brewery Co. v. Peoples Brewing Co., note 100 supra.

106. See text in Chapter I accompanying notes 26-34.

[W]here two parties independently are employing the same mark upon goods of the same class, but in separate markets wholly remote the one from the other, the question of prior appropriation is legally insignificant, unless at least it appear that the second adopter has selected the mark with some design inimical to the interests of the first user, such as to take the benefit of the reputation of his goods, to forestall the extension of his trade, or the like.¹⁰⁷

Nevertheless, the legislative history of section 22 plus those sections of the Lanham Act which declare that registration is evidence of the "exclusive right to use" a registered mark¹⁰⁸ indicate that Congress intended that the imputation of constructive notice of prior rights would be sufficient to bar subsequent acquisition of concurrent territorial rights by junior users on competing goods.¹⁰⁹

This generalized statement of section 22's effect is misleading. Because the Lanham Act is based on the commerce power, the constructive notice provision can only preclude acquisition of concurrent territorial rights if a junior use affects commerce.¹¹⁰ Furthermore, it should be borne in mind that only a person who in good faith believes that he was the first user of a mark is entitled to obtain unrestricted registration and the full benefit of the constructive notice provision.¹¹¹ If a nonregistrant

107. *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 415 (1916).

108. § 7(b), 60 Stat. 430 (1946), 15 U.S.C. § 1057(b) (1964); § 33(a) & (b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115 (a) & (b) (1964).

109. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, note 98 *supra*, at 362-63; see *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619 (5th Cir. 1963).

110. Compare *Nielsen v. American Oil Co.*, 203 F. Supp. 473 (D. Utah 1962) with *Peter Pan Restaurants, Inc. v. Peter Pan Diner, Inc.*, 150 F. Supp. 534 (D.R.I. 1957). The argument has been made that any intrastate use that commences after federal registration by a senior user is necessarily inimical to the rights of the registrant and consequently subject to regulation under the commerce clause. See Browne, "Territorial Scope and Effect of Federal Trademark Registrations," 44 *Trademark Rep.* 1357, 1360-63 (1954). See *contra* March, "Territorial Scope of the Trade-Mark Act of 1946," 38 *Trademark Rep.* 955, 966-68 (1948). Browne's view was endorsed in *Dawn Donut Co. v. Hart's Food Stores, Inc.*, note 98 *supra*; see Derenberg, "The Twelfth Year," 49 *Trademark Rep.* 1019, 1071-72 (1959). If the constructive notice provision is found to be inapplicable because a junior use does not affect commerce, a registrant may still qualify for territorial protection under the common-law rules, e.g., if the junior user was in bad faith. See March, *supra*, at 967-68.

111. § 1(a) (1), 60 Stat. 427 (1946), as amended, 15 U.S.C. § 1051(a) (1) (1964). A junior user with a distinct marketing area who adopted his mark in good faith may be able to obtain concurrent registration despite later knowledge of senior use. *Ibid.* See text at note 285 *infra* for discussion of concurrent registration.

was actually the senior user with respect to the goods concerned, a registration on the Principal Register, or an 1881 or 1905 registration, is initially subject to cancellation by the senior user in Patent Office¹¹² or judicial proceedings.¹¹³ If five years have elapsed since registration on the Principal Register or republication, however, a prior user can bring a Patent Office cancellation proceeding only if a registrant knew that he was a junior user when he filed an application alleging exclusive rights.¹¹⁴ Marks protected from Patent Office cancellation remain cancellable in judicial proceedings until an incontestable right to use is obtained. Thereafter, as in the Patent Office, a registrant must generally be shown to have made a false claim of exclusive rights for judicial cancellation to be granted.¹¹⁵

Even assuming that a registrant is a senior user or that registration can no longer be challenged on the ground of lack of senior use, a registrant may not be able to enjoin a junior user who started use after section 22 became applicable. Subsection 32(1) (a) of the Lanham Act provides that trademark infringement does not exist unless concurrent use "is likely to cause confusion, or to cause mistake, or to deceive."¹¹⁶ In the leading case of

112. § 14, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064 (1964); e.g., *Fleishmann Distilling Corp. v. Heidelberg Brewing Corp.*, 115 U.S.P.Q. 183 (Comm'r 1957). See Appendix for discussion of Patent Office cancellation proceedings.
113. § 37, 60 Stat. 440 (1946), 15 U.S.C. § 1119 (1964); e.g., *Douglas Lab. Corp. v. Copper Tan, Inc.*, 108 F. Supp. 837 (S.D.N.Y. 1952), modified on other grounds, 210 F.2d 453 (2d Cir.), cert. den., 347 U.S. 968 (1954) (supplemental register registration).
114. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964); compare *Bart Schwartz Int'l Textiles, Ltd. v. F.T.C.*, 48 C.C.P.A. (Patents) 933, 289 F.2d 665 (1961) with *Dunleavy v. Koepfel Metal Furniture Corp.*, 122 U.S.P.Q. 395 (Tm. Bd. 1959). 1881 and 1905 registrations that are not republished remain cancellable at any time for lack of prior use regardless of the registrant's good or bad faith. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(d) (1964), e.g., *Henry A La Pensee, Inc. v. Societe A Responsabilite*, 44 C.C.P.A. (Patents) 892, 243 F.2d 181 (1957).
115. E.g., *Travelodge Corp. v. Siragusa*, 228 F. Supp. 238 (N.D. Ala. 1964); *John Morrell & Co. v. Reliable Packing Co.*, 295 F.2d 314, 316 (7th Cir. 1961) (dictum). See text accompanying note 170 *infra* for discussion of the incontestable right to use.
116. § 32(1)(a), 60 Stat. 437 (1946), as amended, 15 U.S.C. § 1114(1)(a) (1964). § 32(1)(a) originally provided that infringement existed where a use was "likely to cause confusion or mistake or to deceive purchasers as to the source of origin. . . Act of July 5, 1947, ch. 540, § 32(1)(a), 60 Stat. 437 (1946). The 1962 amendments to the Lanham Act deleted "purchasers" as an explicit referent of confusion, mistake, or deception in order to make clear that a probability of purchaser confusion, mistake, or deception was sufficient to constitute infringement. 2 U.S. Code, Cong., & Ad. News 2847, 2850-51 (1962).

Dawn Donut Co. v. Hart's Food Stores, Inc.¹¹⁷ the Second Circuit accordingly held that a registrant can not capitalize on the effect of the constructive notice provision until there is a probability that purchasers will confuse the concurrent uses. This essentially means that relief is not available despite the applicability of section 22 unless a junior user's area of use lies within a registrant's zone of imminent expansion or a registrant's mark has become known by reputation or through advertising in the junior user's bailiwick.¹¹⁸ Dawn was followed by the Fifth Circuit in American Foods, Inc. v. Golden Flake, Inc.,¹¹⁹ where relief was limited to the overlap between the registrant's and the junior user's selling and advertising zones in spite of the fact that the junior user was apparently employing the mark in other areas as well. Both the Second and Fifth Circuit recognized, however, that section 22 entitles a registrant to territorial protection whenever likelihood of purchaser confusion develops with respect to a use initiated after constructive notice commenced. Thus in Dawn the denial of an injunction was without prejudice to a later application by the registrant when he could establish an extension of his business operation, or presumptively his reputation or advertising, into the junior user's marketing area.¹²⁰

Dawn's melding of section 22 with subsection 32(1) (a) seems readily defensible. Although Sterling Brewing, Inc. v. Cold Spring Brewing Corp.,¹²¹ the first case to discuss section 22, declared that the constructive notice provision entitled the owner of a re-published 1905 registration who operated exclusively in the Midwest to enjoin a junior user in New England where the registered mark was neither known nor advertised, Sterling did not even attempt to reconcile this interpretation of section 22 with subsection

117. 267 F.2d 358 (2d Cir. 1959). See Fairway Foods, Inc. v. Fairway Mkts., 227 F.2d 193 (9th Cir. 1955).

118. The Second Circuit summarized the pivotal findings of fact as follows: "The district court found that in view of the plaintiff's inactivity for about thirty years in exploiting its trademarks in defendant's trading area at the retail level either by advertising directed at retail purchasers or by retail sales through authorized licensed users, there was no reasonable expectation that plaintiff would extend its retail operations into defendant's trading area." 267 F.2d at 364-65.

119. 312 F.2d 619 (5th Cir. 1963); see Pikle-Rite Co. v. Chicago Pickle Co., 171 F. Supp. 671 (N.D. Ill. 1959); Youthform Co. v. R. H. Macy & Co., 153 F. Supp. 87 (N.D. Ga. 1957).

120. See Elcon Mfg. Co. v. Elcon Mfg. Co., 132 F. Supp. 769 (E.D.N.Y. 1955), a pre-Dawn decision in which a federal judge granted a preliminary injunction to a registrant whose use had eventually expanded into a junior user's trade territory.

121. 100 F. Supp. 412 (D. Mass. 1951).

32(1) (a).¹²² There is an argument that "likelihood of confusion" exists if similar marks are used on competing goods regardless of market contact between the parties,¹²³ but this interpretation is undercut by the plain words of the statute. Subsection 32(1) (a) states that infringement consists of using "in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark" where "such use is likely to cause confusion, or to cause mistake, or to deceive,"¹²⁴ and section 45 defines a "colorable imitation" as a look-alike-mark.¹²⁵ In short, an identical or confusingly similar mark is an element of infringement but infringement also requires a probability that concurrent use will cause purchaser confusion,¹²⁶ a requirement, not necessarily supplied by the bare fact that the concurrent use involves competing goods. The *Dawn* interpretation means in at least one respect that the territorial relief available under the Lanham Act may be more restricted than that available at common law. As construed in *Dawn*, subsection 32(1) (a), like the common-law, would permit relief where a registrant is about to expand into a junior user's trade territory or the registrant's mark is advertised or known by reputation in the junior user's market when the latter initiates use, but subsection 32(1) (a) would not sanction relief solely because a junior user had deliberately copied a senior user's mark, whereas some common-law decisions do allow relief in these circumstances.¹²⁷ Again, however, the limitations of the Lanham Act test for trademark infringement derive from the way that Congress deliberately wrote the statute and not from the ingenuity of the Second Circuit in *Dawn*.¹²⁸ Furthermore, since trademark registration is not ordinarily considered to preclude reliance on common-law rights, registrants remain free to

122. See *id.* at 418. This may be because the court was "out to get" the defendant who adopted his mark with full knowledge of the prior use on competing goods in the Midwest but was immune from liability under Massachusetts law.

123. E.g., 45 Minn. L. Rev. 1060, 1063-65 (1961).

124. § 32(1)(a), 60 Stat. 437 (1946), as amended, 15 U.S.C. § 1114(a) (1) (1964).

125. § 45, 60 Stat. 444 (1946), as amended, 15 U.S.C. § 1127 (1964).

126. See 100 U. Pa. L. Rev. 1075, 1077-78 (1952).

127. E.g., *Lincoln Restaurant Corp. v. Wolfies Restaurant, Inc.*, 291 F.2d 302 (2d Cir.) (alternative holding) cert. den., 368 U.S. 889 (1961); *cf.*, *Flexitized, Inc. v. National Flexitized Corp.*, 335 F.2d 774 (2d Cir. 1964), cert. den., 380 U.S. 913 (1965).

128. The Lanham Act similarly omits dilution from the definition of infringement. *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293, 299 (S.D.N.Y. 1959), aff'd on other grounds, 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960).

to rely on those common-law rights to the extent that they outstrip those available under the Lanham Act.¹²⁹

The result of the Dawn case has been characterized as "impractical,"¹³⁰ and in a sense it is. The defendant was put on notice that the plaintiff has a superior right to use the common mark, but the defendant was not ordered to abandon use forthwith. Although this could be taken as an invitation to gamble that the plaintiff would never be in a position to exercise his superior rights, surely a prudent defendant would not do so. Even if the registrant's chances of territorial expansion seemed remote, the ever-present possibility that the registered mark could be assigned to a more dynamic firm or licensed to a local user in the defendant's territory¹³¹ should have persuaded the defendant to take advantage of his period of grace to effect an orderly transition to a new mark. When all is said and done, Dawn represents a reasonable interpretation of the Lanham Act that was not unforeseeable.¹³² Moreover, Dawn laid to rest another possible accommodation between the Lanham Act and the common-law doctrine of concurrent territorial rights that would have been far more objectionable in view of the noncompetitive potentialities of that doctrine. Section 45 of the Lanham Act states that nonuse of a mark for two years is a prima facie abandonment of rights,¹³³ and the suggestion had been made that the failure of a registrant to equate his market with the territorial scope of the constructive notice provision within two years might constitute abandonment of a claim to trademark rights in the unexploited areas.¹³⁴ Dawn, however, summarily rejected this contention and held that continuous use of a registered mark

129. Cf. Polaroid Corp. v. Polaroid, Inc., 319 F.2d 830 (7th Cir. 1963); see "Dilution: Trademark Infringement or Will-O'-the-Wisp?" 77 Harv. L. Rev. 520, 524-25 (1964).

130. Derenberg, "The Sixteenth Year," 53 Trademark Rep. 785, 849 (1963). The same author discussed the case more fully in "The Twelfth Year" 49 Trademark Rep. 1019, 1070-72 (1959).

131. Dawn involved a relatively static licensor. 267 F.2d 358, 360 (2d Cir. 1959).

132. Compare 1954 Summary of Proceedings, A.B.A. Section PTC Law at 21 with "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 859 (1955).

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134. Bonyge, "The Effect of Registration in Trademark Litigation," 50 Trademark Rep. 902, 912-13 (1960); 100 U. Pa. L. Rev. 1075, 1079 (1952). Bonyge also noted a possible conflict between § 2(d), which provides for concurrent registration, and the constructive notice provision. This suggestion ignores the legislative history of the Lanham Act which indicates that § 2(d)'s sole function is to permit the register to reflect common-law concurrent uses that develop before the constructive notice provision becomes applicable. 1944 Senate Hearings 45-56 (comments of Henry J. Savage).

anywhere in the nation was sufficient to retain the benefits of the constructive notice provision in areas of nonuse.¹³⁵

Another possible restrictive interpretation of section 22 would limit imputation of notice to registered common-law trademarks. The Sixth Circuit's opinion in Anheuser-Busch, Inc. v. Bavarian Brewing Co.,¹³⁶ affirming a decree that confined protection of a registered secondary-meaning mark to the registrant's trade territory, has, for instance, been interpreted as indicating that the constructive notice provision does not confer nationwide rights to secondary-meaning marks.¹³⁷ However, Anheuser-Busch is actually consistent with Dawn for there was no evidence that the registrant intended to expand his area of use or that his mark was known outside his area of operations.¹³⁸ Section 22 on its face applies to all marks registered on the Principal Register and rightly so. The user of a secondary-meaning mark has as great an interest in developing new markets as the user of a common-law trademark.¹³⁹

3. Incontestability

The Lanham Act makes it possible for the registration and use of marks to become free from challenge on certain grounds. This limited immunity or "incontestability"¹⁴⁰ is a function of three different sections of the Lanham Act.

135. 267 F.2d 358, 363 (2d Cir. 1959). Nor should a registrant be chargeable with laches if he does not sue a concurrent user in a remote trade territory. Under the Dawn theory he has no remedy until there is a likelihood of confusion so that he should not be penalized for deferring suit until that time.
136. 264 F.2d 88 (6th Cir. 1959) noted in 25 Mo. L. Rev. 100 (1960). See also International Breweries, Inc. v. Anheuser-Busch, Inc., 230 F. Supp. 662 (M.D. Fla. 1964).
137. Bonyng, note 134 *supra*, at 909-10, 912.
138. "Bavarian" was found to describe a type of beer in most of the United States. If "Bavarian" was so descriptive as to amount to a generic product name, the court erred in granting the registrant any relief. Trademark rights cannot be acquired in a generic name; see Restatement (Second), Torts § 720, comment d (Tent. Draft No. 8, 1963), and an erroneously issued registration may be canceled at any time. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964); see Derenberg, "The Twelfth Year," 49 Trademark Rep. 1019, 1073-74 (1959).
139. In Nielsen v. American Oil Co., 203 F. Supp. 473 (D. Utah 1962) the American Oil Co. successfully invoked section 22 on behalf of the "American" brand of gasoline.
140. The word was coined in the early days of the Lanham Bill before the concept was whittled down as a result of congressional hearings. Ooms & Frost, "Incontestability," 14 Law & Contemp. Prob. 220, 221 (1949). See generally Williamson, "Trade-Marks Registered Under the Lanham Act Are Not 'Incontestable,'" 37 Trademark Rep. 404 (1947).

to rely on those common-law rights to the extent that they outstrip those available under the Lanham Act.¹²⁹

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a. Cancellation Restrictions

Under the Act of 1905 Patent Office cancellation proceedings¹⁴¹ could be brought at any time. In one case, for instance, cancellation took place more than twenty years after registration.¹⁴² The most frequent grounds of cancellation were that the mark was merely descriptive, geographical, or a personal name, or that the cancellation petitioner was the prior user with superior rights to the mark.¹⁴³ Section 14 of the Lanham Act imposes a statute of limitations upon these common grounds for cancellation in order to give greater security to trademark rights.¹⁴⁴ If five years has elapsed since registration on the Principal Register or republication of an 1881 or 1905 registration,¹⁴⁵ the right to register can no longer be challenged on the ground that the mark is merely descriptive,¹⁴⁶ geographical, or a surname or on the ground that the petitioner was the prior user of the mark.¹⁴⁷ On the other hand, cancellation proceedings can still be brought at any time for the following reasons:¹⁴⁸ (1) the mark has become the common descriptive name of an article or substance; (2) the mark has been abandoned;¹⁴⁹ (3) registration was fraudulently obtained;¹⁵⁰ (4)

141. See Appendix for a discussion of cancellation proceedings under the Lanham Act.
142. *White House Milk Prods. Co. v. Dwinell-Wright Co.*, 27 C.C.P.A. (Patents) 1194, 111 F.2d 490 (1940).
143. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 829 (1955).
144. § 14, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064 (1964). § 14 applies to Patent Office proceedings which result in restriction as well as cancellation of registration. *United States Steel Corp. v. National Copper & Smelting Co.*, 131 U.S.P.Q. 397 (Tm. Bd. 1961).
145. If an inter partes Patent Office proceeding is commenced within the five-year period and the party in the position of a plaintiff relies on a Principal Register or republished registration, the statute of limitations does not apply to a request for cancellation filed after the expiration of the five-year period by the party in the position of a defendant. *Sunbeam Corp. v. Duro Metal Prods. Co.*, 106 U.S.P.Q. 385 (Comm'r 1955). See Appendix for discussion of inter partes Patent Office proceedings.
146. *Seiler's Inc. v. Hickory Valley Farm, Inc.*, 139 U.S.P.Q. 460 (Tm. Bd. 1963).
147. *Dunleavy Co. v. Koeppl Metal Furniture Corp.*, 122 U.S.P.Q. 395 (Tm. Bd. 1959). See generally, Ooms & Frost, note 140 *supra*, at 225-26. 1881 and 1905 registrations that have not been republished remain subject to cancellation proceedings at any time. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(d) (1964).
148. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964).
149. *Hy-Cross Hatchery, Inc. v. Osborne*, 49 C.C.P.A. (Patents) 1163, 303 F.2d 947 (1962). Modification of a mark may amount to an abandonment. *Hewitt Soap Co. v. Lanolin Plus Cosmetics, Inc.*, 101 U.S.P.Q. 295 (Comm'r 1954).
150. Intentional fraud is requisite. *Bart Schwartz Int'l Textiles, Ltd. v. F.T.C.*, 48 C.C.P.A. (Patents) 933, 289 F.2d 665 (1961).

registration was improper in view of certain absolute prohibitions in section 2 of the Lanham Act;¹⁵¹ or (5) the mark has been used by or with the permission of the registrant to misrepresent the source of goods.

A proviso to section 14 authorizes the Federal Trade Commission to bring cancellation proceedings against marks on the Principal Register for any of the grounds to which the five-year statute of limitations is inapplicable.¹⁵² The terms of the authorization thus exclude registrations under prior acts whether or not republished¹⁵³ and cancellation of Principal Register registrations because of junior use or because the registered mark is merely descriptive,¹⁵⁴ geographical, or a surname.¹⁵⁵ Although trademark users have been apprehensive over the existence of any F.T.C. ability to bring cancellation proceedings,¹⁵⁶ the proviso to section 14 is substantially a dead letter.¹⁵⁷ To the extent that the F.T.C. polices trademark abuses, the agency prefers to proceed under the broad language of section 5 of the Federal Trade Commission Act.¹⁵⁸

151. Section 2 prohibits registration if a mark "(a) Consists of or comprises immoral, deceptive, or scandalous matter; or matter which may disparage or falsely suggest a connection with persons, living or dead, institutions, beliefs, or national symbols, or bring them into contempt, or disrepute. (b) Consists of or comprises the flag or coat of arms or other insignia of the United States, or of any State or municipality, or of any foreign nation, or any simulation thereof. (c) Consists of or comprises a name, portrait, or signature identifying a particular living individual except by his written consent, or the name, signature, or portrait of a deceased President of the United States during the life of his widow, if any, except by the written consent of the widow." § 2(a), (b), & (c), 60 Stat. 428 (1946), 15 U.S.C. § 1052(a), (b), & (c) (1964).
152. § 14, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064 (1964).
153. F.T.C. v. Elder Mfg. Co., 84 U.S.P.Q. 429 (Comm'r 1950).
154. A descriptive word is distinguishable from a common descriptive name in that a descriptive word generally identifies characteristics of goods whereas a common descriptive name identifies the generic class within which particular goods fall. Ex parte L.R. Nelson Mfg. Co., 94 U.S.P.Q. 119 (Comm'r 1952).
155. See *Bart Schwartz Int'l Textiles, Ltd. v. F.T.C.*, 48 C.C.P.A. (Patents) 933, 289 F.2d 665 (1961).
156. See, e.g., *Derenberg*, "The Status of Existing Trademark Registrations Under the New Trademark Act of 1946," 3 *Food Drug Cosm. L.Q.* 267, 278 (1948).
157. See *Stoughton*, "Cancellation of Trademarks," 50 *Trademark Rep.* 890, 891-92 (1960).
158. § 5, 38 Stat. 719 (1914), as amended, 15 U.S.C. § 45(a)(1) (1964); e.g., *Waltham Watch Co. v. F.T.C.*, 318 F.2d 28 (7th Cir.), *cert. den.*, 375 U.S. 944 (1963). In its petition for certiorari the Waltham Watch Company contended that § 14 of the Lanham Act defined FTC jurisdiction over trademarks and precluded a cease and desist order under § 5. ATRR 116:A-10,11 (10/1/63).

Indeed, neither the F.T.C. nor the Justice Department opposed deletion of the proviso during 1954 hearings on Lanham Act amendments.¹⁵⁹ The amendments failed to pass, however, and in 1961 the Commission obtained cancellation of a registration because the registrant had fraudulently sworn that he had no knowledge that anyone else had the right to use the word claimed as a mark in commerce.¹⁶⁰ The Commission apparently resorted to section 14 because the registrant had filed his registration with the Bureau of Customs in order to block importation of Italian spun rayon cloth bearing the generic Italian term "fiocco,"¹⁶¹ but it seems doubtful that its "victory" restored the Commission's faith in section 14. The Court of Customs and Patent Appeals held that the F.T.C. could not cancel a mark because of mere descriptiveness and that an applicant for registration had no duty to ascertain whether a word had a descriptive or generic meaning in a foreign language. Cancellation was ordered simply because the particular applicant knew that the word was used generically by Italian exporters when he swore that no one else had a right to use the word in commerce.¹⁶²

In appraising the significance of the statute of limitations in section 14, it must be borne in mind that the section is solely concerned with the right to register.¹⁶³ Although section 14 may bar Patent Office cancellation of registration because of a mark's descriptiveness, the courts remain free despite section 14 to consider the descriptive nature of a mark in determining the right to use.¹⁶⁴ Furthermore, section 37 of the Lanham Act, which permits a court to order cancellation of registration "in any action involving a registered mark,"¹⁶⁵ affords the same remedy as a Patent Office

159. 1954 Senate Hearings at 92-94.

160. *Bart Schwartz Int'l Textiles, Ltd. v. F.T.C.*, note 155 *supra*.

161. *Id.* at 936, 289 F.2d 665, 668 (1961).

162. This aspect of the *Schwartz* case is discussed in Derenberg, "The Fourteenth Year," 51 *Trademark Rep.* 777, 821-22 (1961).

163. *Hammermill Paper Co. v. Gulf States Paper Corp.*, 52 C.C.P.A. (Patents) 797, 337 F.2d 662 (1964).

164. *Cf. John Morrell & Co. v. Reliable Packing Co.*, 295 F.2d 314 (7th Cir. 1961) criticized in Derenberg, "The Fifteenth Year," 52 *Trademark Rep.* 877, 927-28 (1962).

165. § 37, 60 Stat. 440 (1946), 15 U.S.C. § 1119 (1964). "Actions involving a registered mark" include an infringement suit brought by a registrant, *Avon Shoe Co. v. David Crystal, Inc.*, 279 F.2d 607 (2d Cir.), *cert. den.*, 364 U.S. 909 (1960), a treble damage action under the anti-trust laws in which a registered mark is interposed as a defense, *Bascom Launder Corp. v. Telecoin Corp.*, 204 F.2d 331 (2d Cir.), *cert. den.*, 345 U.S. 994 (1953), and an action for a declaratory judgment as to the validity of a registered mark, *Simmonds Aerocessories Ltd. v. Elastic Stop Nut Corp.*, 257 F.2d 485 (3d Cir. 1958). See generally *Stoughton*, note 157 *supra*, at 892-93.

proceeding¹⁶⁶ but section 14 applies only to the latter. Thus a court may order cancellation of registration after the five-year period on a ground not available to a cancellation petitioner. In Allen v. Standard Crankshaft & Hydraulic Co.,¹⁶⁷ for instance, a court asserted the existence of the power to cancel registration because the plaintiff was the prior user despite the expiration of the five-year period. The Patent Office Trademark Trial and Appeal Board has refused cancellation in a similar case.¹⁶⁸ Although it may initially seem anomalous that courts should be able to cancel registrations under section 37 on grounds that are barred in the Patent Office by section 14, this result is necessitated by the fact that section 14 does not affect the right to use a mark. There would be an unwarranted disparity between the right to use and the right to register if a court which determined that a registrant had no right to use a mark could not cancel registration. Indeed, the principal difficulty concerning section 37 is that judges are reluctant to order the Commissioner to rectify the register. In Oakford Co. v. Kroger Co.,¹⁶⁹ for instance, the court applied the doctrine enunciated in the Hanover and Rectanus cases to sanction concurrent territorial use but declined to direct the Commissioner to conform the register to the decree.

b. Incontestable Right to Use

If a registered mark has been in continuous use in commerce for five consecutive years after registration on the Principal Register or republication¹⁷⁰ and within one year after expiration of a five-year period the registrant files an affidavit with the Commissioner specifying that neither has there been a final Patent Office or judicial decision adverse to the registrant's right to register or to use his mark nor is any such proceeding pending,¹⁷¹ section

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166. Simmonds Aerocessories, Ltd. v. Elastic Stop Nut Corp., note 165 *supra*; accord, Sylvania Elec. Prods. Inc. v. Dura Elec. Lamp Co., 247 F.2d 730 (3d Cir. 1957); Nancy Ann Storybook Dolls, Inc. v. Dollcraft Co., 197 F.2d 293 (9th Cir.), cert. den., 344 U.S. 877 (1952).
167. 210 F. Supp. 844, 854 (W.D.N.C. 1962), aff'd on other grounds, 323 F.2d 29 (4th Cir. 1963). See text accompanying note 193 *infra*, for discussion of the Standard Crankshaft case.
168. Southern California Engineering Co. v. General Ionics Corp., 126 U.S.P.Q. 472 (Tm. Bd. 1960).
169. 157 F. Supp. 453 (S.D. Ill. 1957).
170. There is no magic in the five years immediately following registration or republication. Any consecutive five-year period will do. 37 C.F.R. § 2.167(f) (1960).
171. 37 C.F.R. § 2.167 (1960). The affidavit also must specify the goods referred to in the registration on which the mark has been in continuous use. Ibid.

15 of the Lanham Act makes the right to use the mark "incontestable" in judicial proceedings.¹⁷² This means that within the limitations of section 15 an incontestable right to use is a good defense¹⁷³ to a prayer for cancellation in an action involving a registered mark¹⁷⁴ and, except as modified by section 33(b), to an infringement suit brought against a registrant.¹⁷⁵ Section 15 is subject to the same exceptions as section 14¹⁷⁶ and, like section 14, imposes a statute of limitations on contentions that a registrant was not the initial user¹⁷⁷ or that a mark is unprotectable because merely descriptive,¹⁷⁸ geographical, or a surname.¹⁷⁹

In addition to incorporating the exceptions to section 14, section 15 states that an incontestable right to use cannot be raised as a defense where the other party obtained a valid right to use a mark or trade name under state or territorial law prior to the publication of a registrant's application for registration or prior to republication of an 1881 or 1905 registration.¹⁸⁰ This exception was intended to ensure that an incontestable right to use would

172. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964).

173. Section 15 is defensive in effect. It insulates trademark rights from certain challenges but does not enlarge them. *Rand McNally & Co. v. Christmas Club*, 105 U.S.P.Q. 499 (Comm'r 1955), aff'd on other grounds, 44 C.C.P.A. (Patents) 861, 242 F.2d 776 (1957); see *Cambridge Rubber Co. v. Sun Valley Mfg. Co.*, 137 U.S.P.Q. 385 (Tm. Bd. 1963).

174. See *John Morrell & Co. v. Reliable Packing Co.*, 295 F.2d 314, 316 (7th Cir. 1916) (dictum) (discussing related section 33(b)). But see *Allen v. Standard Crankshaft & Hydraulic Co.*, 210 F. Supp. 844 (W.D.N.C. 1962), aff'd on other grounds, 323 F.2d 29 (4th Cir. 1963).

175. *Herbert Prods., Inc. v. Oxy-Dry Sprayer Corp.*, 1 Misc. 2d 71, 145 N.Y.S.2d 168 (Sup. Ct. N.Y. County 1955); see *Borg-Warner Corp. v. York-ShIPLEY, Inc.*, 127 U.S.P.Q. 42 (N.D. Ill. 1960), modified on other grounds, 293 F.2d 88 (7th Cir.), cert. den., 368 U.S. 939 (1961). See note 209 infra and accompanying text for discussion of section 33(b).

176. § 15 incorporates the principal exceptions to § 14 by reference, § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964), and unnecessarily repeats the exception with regard to terms that are common descriptive names. § 15(4), 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1065(4) (1964); see Robert, *The New Trade-Mark Manual* 138 (1947).

177. See Ooms & Frost, "Incontestability," note 140 supra, at 225-26 (1949).

178. *Seiler's, Inc. v. Hickory Valley Farm, Inc.*, 139 U.S.P.Q. 460 (Tm. Bd. 1963); accord, *Eastern Metals Research Co. v. Hunter Spring Co.*, 119 U.S.P.Q. 448 (Tm. Bd. 1958); see *Pure Oil Co. v. Paragon Oil Co.*, 117 U.S.P.Q. 321 (N.D. Ohio 1958).

179. See generally Derenberg, "The Status of Existing Trademark Registrations Under the New Trademark Act of 1946," 3 *Food, Drug, Cosm. L.Q.* 270, 278-81 (1948).

180. § 15, 60 Stat. 433 (1946), 15 U.S.C. § 1065 (1964); *Herbert Prods., Inc. v. Oxy-Dry Sprayer Corp.*, 1 Misc. 2d 71, 145 N.Y.S.2d 168 (Sup. Ct. N.Y. County 1955).

not enlarge a registrant's rights against other lawful users.¹⁸¹ In substance, the state rights exception removes the statute of limitations otherwise imposed by section 15 on a claim that a registrant was a junior user in those states in which territorial rights were acquired by another before publication or republication.¹⁸² Reference to the dates of publication and republication for this purpose is mystifying. The legislative history suggests that these dates were chosen because publication and republication put concurrent users on notice of a registrant's claim of adverse trademark rights.¹⁸³ This rationale, however, ignores the distinction between publication and republication, which merely offer an opportunity for actual notice of asserted trademark rights,¹⁸⁴ and section 22 of the Lanham Act,¹⁸⁵ which imputes constructive notice of trademark registrations to persons without actual notice. Section 22 applies to Principal Register registrations on the date of registration, not on the date of publication,¹⁸⁶ and to 1881 and 1905 registrations on July 5, 1947, not the date of republication.¹⁸⁷ Thus, if a registrant on the Principal Register acquires an incontestable right to use his mark, the state rights exception does not exclude from incontestability areas in which other persons acquired state rights between the date of publication and the date of registration, although section 22 does not bar acquisition of concurrent rights during this interval. An incontestable right to use would consequently be a defense to an infringement suit brought by a person who acquired state rights through initiation of good faith use during the period between publication and registration of the incontestable mark on the Principal Register if it were not for another section of the Lanham Act. Subsection 33(b)(5)¹⁸⁸ removes

181. The exception first appeared in a version of the Lanham Bill prepared by a coordinating committee sponsored by the National Association of Manufacturers. H.R. 5461, § 15, 77th Cong., 1st Sess. (1941). A statement by the coordinating committee introduced into the record of the congressional hearings offers what evidence there is of intent. See 1941 House Hearings at 132.

182. *Herbert Prods., Inc. v. Oxy-Dry Sprayer Corp.*, note 180 *supra*.

183. See 1941 House Hearings at 133-34.

184. *Theodore Rectanus Co. v. United Drug Co.*, note 35 *supra*.

185. § 22, 60 Stat. 435 (1946), 15 U.S.C. § 1072 (1964).

186. *Nielsen v. American Oil Co.*, 203 F. Supp. 473 (D. Utah 1962).

187. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, note 98 *supra*.

188. § 33(b)(5), 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b)(5) (1964). The interplay between § 33(b)(5) and the states rights exception was commented on in *Travelodge Corp. v. Siragusa*, 228 F. Supp. 238 (N.D. Ala. 1964) (alternative holding). § 33(b)(5) did not correct the discrepancy until the 1962 amendments to the Lanham Act. Formerly, § 33(b)(5) also referred to the date of publication as the time at which a concurrent user's territorial rights were defined. § 33(b)

an incontestable right to use as a defense to an infringement suit in those areas in which a good faith concurrent user engaged in continuous use prior to registration of the incontestable mark. The state rights exception is also largely superfluous insofar as the 1881 or 1905 registrants are concerned. Section 22 precludes acquisition of rights adverse to those of a registrant after July 5, 1947, regardless of republication or incontestability,¹⁸⁹ and section 49¹⁹⁰ saves all rights acquired in good faith prior to that date. Finally, subsection 33(b)(6)¹⁹¹ removes the incontestable right to use as a defense to an infringement suit in those areas in which a concurrent user who obtained registration prior to republication of the 1881 or 1905 registration engaged in continuous use prior to republication.

Although devoid of major import the state rights exception remains a source of potential mischief.¹⁹² In Allen v. Standard Crankshaft & Hydraulic Co.,¹⁹³ for instance, the exception was utilized to justify judicial cancellation of an incontestable mark. The case involved an infringement suit by the registrant of "arc-plated" against the registrant of "arcwell." Both the plaintiff's and defendant's marks were incontestable but the court determined that the plaintiff was the initial user in North Carolina and declared that the state rights exception to section 15 stripped the defendant's mark of all incontestable rights and rendered his registration subject to judicial cancellation.¹⁹⁴ This construction of the state

(Footnote continued)

- (5), 60 Stat. 439 (1946), 15 U.S.C. § 1115(b)(5) (1958); see Statement on Behalf of the National Trademark Coordinating Committee, 1954 Senate Hearings at 47.
189. Dawn Donut Co. v. Hart's Food Stores, Inc., note 98 *supra*; see Dig-gins, "The Lanham Trademark Act II," 37 Trademark Rep. 419, 432-33 (1947).
190. Act of July 5, 1946, ch. 540, § 49, 60 Stat. 446.
191. § 33(b)(6), 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b)(6) (1964). § 33(b)(6) is only literally applicable if the republished mark has become incontestable, *ibid.*, but the policy of the subsection seems equally relevant before incontestability is achieved. Cf. Forstmann Woolen Co. v. Murray Sices Corp., 10 F.R.D. 367 (S.D.N.Y. 1950).
192. E.g., Letter from the Rochester Patent Group, 1941 House Hearings at 237; see "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 830-31 (1955).
193. 210 F. Supp. 844 (W.D.N.C. 1962), aff'd on other grounds, 323 F.2d 29 (4th Cir. 1963).
194. Although the district judge in the Allen case spoke of the plaintiff's "right to have the defendant's mark cancelled," Allen v. Standard Crankshaft & Hydraulic Co., 210 F. Supp. 844, 854 (W.D.N.C. 1962), it appears that the decree enjoined the defendant from using his mark without a formal direction to the Commissioner to cancel the defendant's registration. See Allen v. Standard Crankshaft & Hydraulic

rights exception does not seem justified by the reciprocal relationship between section 14 and 15. These sections were intended to create greater security for trademark rights by limiting the time within which prior and concurrent users could assert conflicting claims in both the Patent Office and the courts.¹⁹⁵ Section 16 of the Lanham Act, for instance, states that a later applicant for registration cannot assert superior rights in Patent Office interference proceedings if a registrant has acquired an incontestable right to use his mark in judicial proceedings.¹⁹⁶ After the attainment of an incontestable right to use, the parallel function of sections 14 and 15 suggests that judicial as well as Patent Office cancellation of registration should generally be restricted to cases falling within the exceptions common to both sections.¹⁹⁷ Ordinarily, the state rights exception to section 15 should merely authorize the courts to order territorial restriction of registration in order to reflect

(Footnote continued)

Co., 323 F.2d 29, 35-36 (4th Cir. 1963). Since court-ordered abandonment of a trademark is a more severe sanction than cancellation of registration, the terms of the decree do not palliate the court's construction of the state rights exception.

195. E.g., *Time, Inc. v. T.I.M.E., Inc.*, 123 F. Supp. 446, 453 (S.D. Cal. 1954) (dictum) (§ 15); *Dunleavy Co. v. Koeppel Metal Furniture Corp.*, 122 U.S.P.Q. 395 (Tm. Bd. 1959) (§ 14); see *Ooms & Frost*, note 177 supra, at 225-26, 232-33.
196. § 16, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1066 (1964). An interference proceeding is an inter partes Patent Office proceeding to determine which of two rival claimants, at least one of whom is an applicant for registration, is entitled to a Principal Register registration. See Appendix. As a practical matter, marks that have been registered or republished for over five years have a similar immunity from interference proceedings. When an interference is declared between an application and a registration, the applicant will not be permitted to register his mark unless he can obtain cancellation of the registered mark, 37 C.F.R. § 2.96 (Supp. 1964), and a registration will not generally be cancelled in an interference proceeding unless it could be cancelled in a cancellation proceeding. See *Sunkist Growers, Inc. v. Redbanks Orchard Co.*, 102 U.S.P.Q. 409 (Comm'r 1954); *Vandenburgh, Trademark Law and Procedure* 298-99 (1959). Therefore, the grounds, on which registrations which have been registered or republished for more than five years are subject to interference, are the same grounds on which incontestable registrations are subject to cancellation, i.e., the exceptions to § 14.
197. The total cancellation in *Allen*, for instance, was justified by the fact that the defendant made a claim of exclusive rights in his application which he knew to be false—a ground of cancellation common to both sections 14 and 15. See *Allen v. Standard Crankshaft & Hydraulic Co.*, note 194 supra.

the extent to which the state rights exception is applicable.¹⁹⁸ The state rights exception should only justify cancellation of a registration if the registrant and a person claiming superior state rights base their claim of trademark rights on use in the same state, and the registrant has never acquired territorial rights in other states.¹⁹⁹

c. The Conclusive Evidence Rule

Section 33(b) of the Lanham Act²⁰⁰ complements section 15 by providing that registration furnishes conclusive evidence of a registrant's exclusive right to use a mark in commerce once an incontestable right to use is achieved. Section 33(b) could have been interpreted as referring to the use of incontestability as a sword rather than as a shield. In that event an incontestable right to use would have entitled a registrant to enjoin any concurrent use which produced likelihood of purchaser confusion except as expressly provided in section 33(b) itself.²⁰¹ Instead, the section has been construed to be a restatement in evidentiary terms of the statute of limitations imposed by section 15²⁰² so that other considerations continue to determine whether a registrant is entitled to affirmative trademark protection. In Cambridge Rubber Co. v. Sun Valley Manufacturing Co.,²⁰³ for instance, the Patent Office Trademark Trial and Appeal Board held that a registrant who had an incontestable right to use a mark could not oppose²⁰⁴ the registration of the same mark by a prior user, although the registrant was protected from cancellation. The defensive construction

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198. The Patent Office has no equivalent authority because of the absence of a state rights exception to § 14. Cf. United States Steel Corp. v. National Copper & Smelting Co., 131 U.S.P.Q. 397 (Tm. Bd. 1961).
199. It is difficult to tell from the opinion but this may have been the situation in Allen. See 210 F. Supp. 844 (W.D.N.C. 1962).
200. § 33(b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b) (1964). The conclusive evidence rule is limited to the goods specified in the affidavit required to obtain an incontestable right to use. Ibid.
201. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 829-30 (1955). See Williamson, "Trade-Marks Registered Under the Lanham Act Are Not 'Incontestable,'" 37 Trademark Rep. 404, 408-10 (1947) concerning the exceptions to § 33(b).
202. E.g., John Morrell & Co. v. Reliable Packing Co., 295 F.2d 314 (7th Cir. 1961); Rand McNally & Co. v. Christmas Club, 105 U.S.P.Q. 499 (Comm'r 1955), aff'd on other grounds, 44 C.C.P.A. (Patents) 861, 242 F.2d 776 (1957). The evidentiary effect of incontestability is of major importance to small business. See Taggart, "Trade-Marks and the Lanham Act," 38 Trademark Rep. 125, 142 (1948).
203. 137 U.S.P.Q. 385 (Tm. Bd. 1963).
204. An opposition proceeding is an inter partes Patent Office proceeding initiated by a person objecting to the issuance of a Principal Register registration. See Appendix.

of section 33(b) is of particular moment in infringement suits. Incontestability may be a good defense if a registrant is the defendant,²⁰⁵ but, where a registrant is the plaintiff, the courts determine his right to relief with slight regard for incontestability.²⁰⁶

Section 33(b) contains several exceptions which necessitate careful consideration of the relationship between section 33(b) and section 15. The former baldly states that a registration that has become incontestable is not conclusive evidence of the exclusive right to use where any of the following circumstances exist: (1) registration or the incontestable right to use was fraudulently obtained; (2) the mark has been abandoned; (3) the mark has been used by or with the permission of the registrant to misrepresent the source of goods; (4) the alleged infringing use is a good faith nontrademark use; (5) the infringing use was commenced without knowledge of the registrant's use prior to registration or republication by the registrant; (6) the infringing mark was used and registered prior to registration or republication of the incontestable mark; and (7) the incontestable mark has been or is being utilized to violate the antitrust laws.²⁰⁷ There has been dispute as to the significance of these exceptions²⁰⁸ but any consequence beyond removing an incontestable right to use as a defense to an infringement suit usually depends on other sections of the Lanham Act than section 33(b).²⁰⁹ Even so, not all the exceptions have the same effect on the conclusive evidence rule.

205. *Herbert Prod., Inc. v. Oxy-Dry Sprayer Corp.*, note 180 *supra*; see *Borg-Warner Corp. v. York-Shipley, Inc.*, 127 U.S.P.Q. 42 (N.D. Ill. 1960), modified on other grounds, 293 F.2d 88 (7th Cir.), cert. den., 368 U.S. 939 (1961).

206. See *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 312 F.2d 125 (2d Cir. 1963); *John Morrell & Co. v. Reliable Packing Co.*, 295 F.2d 314 (7th Cir. 1961); *Peterson Bros., Inc. v. Murphy*, 205 F. Supp. 432 (S.D. Fla. 1961); *Richard Hudnut v. Du Barry, Inc.* 127 U.S.P.Q. 486 (S.D. Cal. 1960), *aff'd*, 323 F.2d 986 (9th Cir. 1963). This was prophesied in Handler, "Trade-Marks and Anti-Trust Laws," 38 Trademark Rep. 387, 392 (1948).

207. § 33(b) 1-7, 60 Stat. 438-39 (1946), as amended, 15 U.S.C. § 1115(b) (1)-(7) (1964).

208. Compare Stoughton, "Incontestability Under the Lanham Act," 34 Women Law. J. 8, 9, 47 (No. 3 1948) with Robert, *The New Trade-Mark Manual* 139-48 (1947).

209. Section 33 deals with the significance of registration in infringement suits so that the exceptions to section 33(b) necessarily remove an incontestable right to use as a defense to an infringement suit *pro tanto* modifying section 15. The Senate and House conferees explicitly stated, however, that the exceptions to section 33(b) did not "modify the substantive law of trademarks. . . as set out in other sections of the act" aside from the implicit effect on section 15. 92 Cong. Rec. 7524 (1946) (remarks of Congressman Lanham); 92

Subsections 33(b) (1), (2), and (3) dispense with the conclusive evidence rule whenever registration was fraudulently obtained, the mark has been abandoned, or the mark was used by or with the permission of the registrant to misrepresent the source of goods.²¹⁰ These circumstances also constitute grounds for cancellation of registration²¹¹ and exceptions to an incontestable right to use²¹² so that whenever they exist registration has no evidentiary value.²¹³ This should also be true if a registered mark is shown to have become the common descriptive name of an article or registered contrary to the absolute prohibitions of section 2 of the Lanham Act, although section 33(b) does not reiterate these grounds for cancellation and exceptions to incontestability.²¹⁴

Subsection 33(b) (4)²¹⁵ excepts from the conclusive evidence rule use of a person's name in his own business other than as a trade or service mark²¹⁶ as well as good faith use of descriptive descriptive or geographical terms or devices in a geographical

(Footnote continued)

Cong. Rec. 7636 (1946) (remarks of Senator Hawkes). This should mean, for example, that the exceptions to section 33(b) do not ordinarily remove the incontestable right to use as a shield against judicial restriction or cancellation of registration as this is principally governed by sections 14 and 15. But see text accompanying notes 228-34 *infra*.

210. § 33(b) (1), (2), (3), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115 (b) (1), (2), (3) (1964). Subsection 33(b) (1) also makes reference to fraudulent acquisition of an incontestable right to use a mark.
211. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964).
212. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964).
213. This is not true where only an incontestable right to use was fraudulently obtained. Submission of a false affidavit under § 15 should not affect the status of registration as "prima facie" evidence, § 7(b), 60 Stat. 430 (1946), 15 U.S.C. § 1057(b) (1964), or even subsequent acquisition of an incontestable right to use on a proper affidavit. See Robert, note 208 *supra*, at 141.
214. It was unnecessary to repeat any of the exceptions to an incontestable right to use in § 33(b) since the latter only applies to the extent that an incontestable right to use exists. § 33(b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b) (1964); see "Developments in the Law—Trade-Marks and Unfair Competition," 60 Harv. L. Rev. 814, 829-30 (1955).
215. § 33(b) (4), 60 Stat. 438 (1946), 15 U.S.C. § 1115(b) (4) (1964).
216. A service mark is a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of another. § 45, 60 Stat. 443 (1946), as amended, 15 U.S.C. § 1127 (1964). Service marks are registrable on the Principal Register. § 3, 60 Stat. 429 (1946), 15 U.S.C. § 1053 (1964). See generally Isler, "Service Mark Registration Requirements," 37 J. Pat. Off. Soc'y 243 (1955).

or descriptive sense.²¹⁷ This "fair use" concept was initially advanced as a reasonable limitation on offensive employment of incontestable secondary-meaning marks.²¹⁸ The subsection was nevertheless subjected to severe criticism throughout the congressional hearings by those who believed that the exemption was too narrow²¹⁹ and should include use of generic terms.²²⁰ As enacted, subsection 33(b) (4) is appreciably broader than the original proposal,²²¹ and, while the subsection contains no reference to generic terms, barring an incontestable right to use in common descriptive names accomplishes the same result.²²²

If a mark was adopted without knowledge of the registrant's use and used continually prior to registration on the Principal Register or republication of the mark that has become incontestable, subsection 33(b) (5) removes the area of continuous antecedent use from the application of the conclusive evidence rule.²²³ Subsection 33(b) (6) similarly states that registration is not conclusive evidence in the area in which another person used a registered mark previous to registration on the Principal Register or republication of the mark that has become incontestable.²²⁴ Subsection 33(b) (6) was regarded as a necessary concomitant of the requirement

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217. Use as a trademark is not a fair use. See *Pure Foods, Inc. v. Minute Maid Corp.*, 214 F.2d 792 (5th Cir.), cert. den., 348 U.S. 888 (1954); *Q-Tips, Inc. v. Johnson & Johnson*, 206 F.2d 144 (3d Cir.), cert. den., 346 U.S. 867 (1953). But see *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 312 F.2d 125 (2d Cir. 1963).
218. 1941 House Hearings at 63-65 (remarks of Robert W. Byerly).
219. E.g., 1941 House Hearings at 63-74, 103-16.
220. Statement of Milton Handler, 1941 House Hearings at 224-25; 1944 Senate Hearings at 102-03 (remarks of Milton Handler).
221. Compare H.R. 102, § 32(2), 77th Cong., 1st Sess. (1941) with § 33(b) (4), 60 Stat. 438 (1946), 15 U.S.C. § 1115(b) (4) (1964).
222. § 15(4), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065(4) (1964). But see Handler, note 206 supra, at 391-92 (1948). In *Nissen Trampoline Co. v. American Trampoline Co.*, 193 F. Supp. 745 (S.D. Iowa 1961) a court ordered cancellation of Lanham Act registration because of the genericness of the registered term, although neither incontestability nor the conclusive evidence rule appear to have been involved.
223. § 33(b) (5), 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b) (5) (1964); compare *Hot Shoppes, Inc. v. Hot Shoppe, Inc.*, 203 F. Supp. 777 (M.D.N.C. 1962) with *Food Fair Stores, Inc. v. Lakeland Grocery Corp.*, 301 F.2d 156 (4th Cir.), cert. den., 371 U.S. 817 (1962). Modern day advertising may make the area of prior use extremely large. See *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293, 299-300 (S.D.N.Y. 1959) (dictum), aff'd on other grounds, 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960).
224. § 33(b) (6), 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b) (6) (1964).

in subsection 33(b) (5) that the privileged rights must be acquired in good faith. Otherwise, if there were several registrants of similar marks, each of whom may have known of the others' use, the first to obtain an incontestable right to use might gain disproportionate rights with respect to the others simply because the Patent Office processed his papers first.²²⁵ Subsection 33(b) (6) was accordingly conceived as removing the protection ordinarily afforded by the conclusive evidence rule with respect to concurrent users who obtained registration prior to registration on the Principal Register or republication of the mark that has become incontestable regardless of the concurrent users' knowledge of the mark that has become incontestable when they adopted their marks. This means that the constructive notice provided by section 22 should not preclude the availability of the subsection 33(b) (6) exception,²²⁶ although section 22 probably does bar resort to the subsection 33(b) (5) exception because of the latter's "without knowledge" requirement.²²⁷

The relationship of subsections 33(b) (5) and 33(b) (6) to section 15 has been subject to dispute. It has been assumed by at least one major commentator—Daphne Robert (Mrs. Leeds)—that subsection 33(b) (5) does not, and that subsection 33(b) (6) does, remove the incontestable right to use as a defense to a prayer for judicial restriction of registration on the theory that subsection 33(b) (5) dovetails with the state rights exception to section 15, whereas subsection 33(b) (6) creates a new exception to both sections 15 and 33(b).²²⁸ At first blush, it appears as though both of these assumptions are incorrect. This construction, for instance, overlooks the language in section 33(b) restricting application of the conclusive evidence rule to situations where "the right to use the registered mark has become incontestable."²²⁹ Since the state rights exception limits incontestability, neither section 33(b) nor subsection 33(b) (5) have relevance to the extent

225. 1941 House Hearings at 168-70, 192.

226. If the junior use was initiated in actual as well as constructive bad faith, however, attainment of registration would not protect the junior user because registration would be subject to cancellation at any time. § 14-15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064-65 (1964).

227. Cf. *Travelodge Corp. v. Siragusa*, 228 F. Supp. 238 (N.D. Ala. 1964) (alternative holding). See *contra* Vandenburg, *Trademark Law and Procedure* 55 (1959).

228. Robert, *The New Trade-Mark Manual* 140-43 (1947); see also Diggins, "The Lanham Trade-Mark Act," 37 *Trademark Rep.* 419, 432 (1947).

229. § 33(b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b) (1964).

that the state rights exception comes into play.²³⁰ Instead, subsection 33(b)(5) eliminates the conclusive evidence rule in areas in which bona fide concurrent use commences during the interval between publication of the senior user's application for registration on the Principal Register and issuance of registration despite the failure of the state rights exception to preserve these rights.²³¹ Moreover, contrary to Mrs. Leeds' position, there are indications in the legislative history that neither subsection 33(b)(5) nor subsection 33(b)(6) was intended to have any impact on section 15 beyond the removal of the incontestable right to use as an absolute defense to an infringement suit. Both the Senate and House conferees told their respective colleagues:

It is clear from the language of the act and from the congressional history of the act as it is found in the hearings and reports that the seven "defenses or defects" listed under paragraph (b) of section 33 are intended to relate to and to affect the weight of evidence to be given to the certificate of registration where the owner claims the benefit of the incontestable rule and where the opposite party can, by the weight of the evidence, establish any one of the things listed in the seven paragraphs in paragraph (b); but these seven paragraphs are not intended to enlarge, restrict, amend, or modify the substantive law of trademarks either as set out in other sections of the act or as heretofore applied by the courts under prior laws. [Emphasis supplied.]²³²

On the other hand, despite the sweeping language of this statement, its specific purpose was to explain to Congress the effect of subsection 33(b)(7), not subsections 33(b)(5) and (6), and it is difficult to believe that the statement is correct insofar as these subsections are concerned. Subsections 33(b)(5) and (6) are only literally applicable if a registered or republished mark has become incontestable but the policy of the subsections must be equally relevant prior to the attainment of incontestability. Otherwise, incontestability, which was meant to enhance trademark rights, would lessen a registrant's rights with respect to the concurrent users protected by the subsections.²³³ The applicability of the policy of subsections 33(b)(5) and (6) to registered marks that are not incontestable

230. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 829-31 (1955). But see *Travelodge Corp. v. Siragusa*, 228 F. Supp. 238 (N.D. Ala. 1964).

231. See notes 182-88 *supra* and accompanying text.

232. 92 Cong. Rec. 7524 (1946) (remarks of Congressman Lanham); 92 Cong. Rec. 7636 (1946) (remarks of Senator Hawkes).

233. Cf. *Forstmann Woolen Co. v. Murray Sices Corp.*, 10 F.R.D. 367 (S.D.N.Y. 1950).

means that the subsections must, in effect, constitute exceptions to the prima facie evidence rule of section 7(b) as well as to the conclusive evidence rule of section 33(b) and, for this reason, should also be considered exceptions to the immunity from judicial restriction of registration accorded by section 15 as Mrs. Leeds suggested. If these exceptions affected the conclusive evidence rule and the prima facie evidence rule but not section 15, persons falling within the exceptions could enjoin use of the incontestable mark within their enclaves but could not obtain a restriction of the registration of the incontestable mark to reflect the registrant's actual right to use. It is more consistent with the Lanham Act's purpose of reconciling the right to register with the right to use to consider that subsections 33(b) (5) and 33(b) (6) permit those who can bring themselves within the exceptions to both enjoin the registration of an incontestable mark and to obtain territorial restriction of the incontestable mark's registration.²³⁴

Subsection 33(b) (7) originated as a Senate amendment to the final House version of the Lanham Bill.²³⁵ The original Senate language created an exception to the conclusive evidence rule if "the mark has been or is being used in violation of the antitrust laws of the United States."²³⁶ The enacted provision includes a conference committee revision limiting the exception to a mark that "has been or is being used to violate the antitrust laws of the United States."²³⁷ This antitrust exception is tangible evidence of the Justice Department's hostility to the theory of incontestability²³⁸ and has been enroiled in controversy from the

234. Cf. *Conley v. Colgate-Palmolive Co.*, 125 U.S.P.Q. 2 (N.D. Cal. 1959).

235. S. Rep. No. 1333, 79th Cong., 2d Sess., at 2 (1946).

236. *Ibid.* (emphasis supplied).

237. § 33(b) (7), 60 Stat. 439 (1946), 15 U.S.C. § 1115(b) (7) (1964) (emphasis supplied).

238. E.g., Statement of the Department of Justice, 1944 Senate Hearings at 59-62. Justice Department fears that the Lanham Bill could be construed to license antitrust violations also led to a declaration in section 46(a) of the Lanham Act that "nothing contained in this Act shall be construed as limiting, restricting, modifying, or repealing any statute in force on the effective date of this Act which does not relate to trade-marks, or as restricting or increasing the authority of any Federal department or regulatory agency except as may be specifically provided in this Act." Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 445 (1946). The Justice Department characterized a prototype of this clause as "indefinite," "general," and an inadequate "safeguard against future interpretations of the bill. . . as permitting restraints of trade and the creation of monopolies." 1944 Senate Hearings at 65. This judgment seems to have been borne out by subsequent events. The subsection has received no relevant interpretation and is not even reported in the text of the 1964 edition

moment of conception.²³⁹ The principal issues are: (1) When is a mark used "to violate" the antitrust laws? (2) Was the antitrust exception intended to affect the capacity to sue for trademark infringement?²⁴⁰

In submitting the conference report to the House, Congressman Lanham answered the first question as follows:

If a trade-mark should be used the legal, causal, and efficient instrumentality to effect a contract, agreement, or arrangement which violates the antitrust laws [sic.] then the actual use of the mark to carry out such a scheme would constitute a use in violation of the antitrust laws; but if the mark is in no sense an essential legal element of the unlawful conduct, then the fact that the registrant may have violated the antitrust laws would not bring paragraph (7) of paragraph (b) of section 33 into operation.²⁴¹

The Senate conferees later told the Senate that this statement meant that use of a trademark "must have been a part of the process of violating the antitrust laws" for section 33(b) (7) to apply.²⁴² These indications of Congressional intention make it difficult to agree with commentators who have minimized the applicability of section 33(b) (7).²⁴³ A trademark would seem to be "part of the process of violating the antitrust laws" in numerous situations including those involving (1) patently unwarranted claims to trademark rights in commercially necessary language coupled with threats of infringement suits against competitors,²⁴⁴ (2) agreements by competitors to allocate markets and to require joint use

(Footnote continued)

of the United States Code. See notes accompanying 15 U.S.C. § 1051 (1964). See also "Quality Control and the Antitrust Laws in Trademark Licensing," 53 Trademark Rep. 1130, 1164-68 (1963).

239. E.g., Rogers, "The Lanham Act and the Social Function of Trade-Marks," 14 Law & Contemp. Prob. 173, 183-84 (1949).

240. Prior to the enactment of § 33(b) (7) a plaintiff's antitrust record had no effect on his ability to sue for trademark infringement. E.g., O. & W. Thum Co. v. Dickinson, 245 Fed. 609 (6th Cir. 1917), cert. den., 246 U.S. 664 (1918); see Nicoson, "Misuse of the Misuse Doctrine in Infringement Suits," 9 U.C.L.A.L. Rev. 76, 96 (1962). But see Folmer Graflex Corp. v. Graphic Photo Service, 41 F. Supp. 319 (D. Mass. 1941), new trial granted on other grounds, 45 F. Supp. 749 (D. Mass. 1942).

241. 92 Cong. Rec. 7524-25 (1946).

242. 92 Cong. Rec. 7873-74 (1946) (remarks of Senator Hawkes).

243. E.g., Diggins, "The Lanham Trade-Mark Act," 37 Trademark Rep. 419, 440 (1947); Handler, note 206 supra, at 395 (1948).

244. If several persons are involved in this conduct, it may constitute a conspiracy in restraint of trade violative of § 1 of the Sherman Act.

of a common mark so that remedies for trademark infringement can be utilized to police the division of territories,²⁴⁵ (3) a dominant corporation's receipt of a trademark assignment from a competitor along with a transfer of the good will associated with the mark where the transaction results in a probable substantial lessening of competition,²⁴⁶ (4) exploitation of a trademark's commercial value through tying clauses in trademark licenses which are unrelated to the licensor's duty to control the nature and quality of the goods sold by the licensee,²⁴⁷ and (5) possibly even discriminatory grant of trademark licenses.²⁴⁸

The number of instances in which trademarks may figure in antitrust violations makes the effect of subsection 33(b) (7) on tainted marks of considerable moment. The House conference committee report²⁴⁹ and Congressman Lanham's presentation of the report to the House²⁵⁰ maintain that the antitrust defense has exactly the effect that section 33(b) indicates; i.e., if a mark is used to violate the antitrust laws, the conclusive evidence rule does not apply in

(Footnote continued)

- § 1, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1964), see Timberg, "Trade-Marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 331 (1949). If a single individual is involved there could be an attempt to monopolize violative of section 2 of the Sherman Act, § 2, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 2 (1964), *Kellogg Co. v. National Biscuit Co.*, 71 F.2d 662 (2d Cir. 1934), or an "unfair method of competition" under § 5 of the Federal Trade Commission Act, § 5, 38 Stat. 719 (1914), as amended, 15 U.S.C. § 45(a)(1) (1964); *Christmas Club*, 25 F.T.C. 1116 (1937); *Albany Chem. Co.*, 3 F.T.C. 369 (1921).
245. See *Farbenfabriken Bayer, A.G. v. Sterling Drug, Inc.*, 307 F.2d 207 (3d Cir. 1962), cert. den., 372 U.S. 929 (1963).
246. See *Farm Journal, Inc.*, 53 F.T.C. 26 (1956). A trademark can not be validly assigned without the good will associated with the mark. § 10, 60 Stat. 431 (1946), as amended, 15 U.S.C. § 1060 (1964).
247. A tying arrangement exists where a vendor will sell one product only if a purchaser will agree to buy another independent product as well. The existence of a trademark license was summarily dismissed as a justification for otherwise illegal tying clauses in *Switzer Bros., Inc. v. Locklin*, 297 F.2d 39 (7th Cir. 1961), cert. den., 369 U.S. 851 (1962) where the tying clauses were not necessary to maintain the quality of the products on which the licensed mark was used. On the other hand, in *Susser v. Carvel Corp.* 332 F.2d 505 (2d Cir. 1964), cert. dismissed, 33 U.S.L. Week 3355 (1965), a divided Second Circuit held that a trademark licensor's duty of quality control removed tying clauses related to the integrity of the trademark product from the category of an antitrust violation. For discussion of a trademark licensor's duty of quality control see Chapter III infra.
248. See *K.S. Corp. v. Chemstrand Corp.*, 203 Supp. 230 (S.D.N.Y. 1962); *K.S. Corp. v. Chemstrand Corp.*, 198 F. Supp. 310 (S.D.N.Y. 1961).
249. H.R. Rep. No 2322, 79th Cong., 2d Sess., at 6 (1946).
250. 92 Cong. Rec. 7524 (1946).

judicial proceedings. The Senate conferees, however, used the following language in explaining the conference committee's handiwork to the Senate:

This exception means, and should mean, that a trade-mark owner who sues another user for infringement must come into court with clean hands, and if he is using the mark to violate the antitrust law he is subject to be contested and to have his violation used as a defense. [Emphasis supplied.]²⁵¹

[T]he Senate inserted [sic] this amendment to make it a defense to an infringement suit as well as to make it a ground of contestability if it should be shown that the registrant was using the mark itself to violate the antitrust law. [Emphasis supplied.]²⁵²

Although it is possible to read the comments of the Senate conferees as merely emphasizing that a defendant in an infringement suit can utilize subsection 33(b) (7) to preclude the plaintiff's assertion of the conclusive evidence rule,²⁵³ it seems that the Senators meant something more.²⁵⁴ In an effort to fathom the Senate conferees' oracular pronouncements several writers have noted that the other exceptions to the conclusive evidence rule are defenses to an infringement suit so that subsection 33(b) (7) must also constitute a defense.²⁵⁵ However, many of these writers have not given equivalent emphasis to the fact that the other exceptions to the conclusive evidence rule are not uniformly available to every defendant in every infringement suit. Although fraudulent registration, abandonment, or deceptive use of a mark can be raised by any defendant, "fair use," good faith concurrent use prior to registration of an incontestable mark, and use of a registered mark prior to registration or republication of an incontestable mark manifestly cannot be. This distinction may provide a solvent for fears that subsection 33(b) (7) would bar every suit for infringement of a mark subject to an antitrust defense if it is conceded that the subsection affords a defense.²⁵⁶

251. 92 Cong. Rec. 7636 (1946) (remarks of Senator Hawkes) (emphasis supplied).

252. 92 Cong. Rec. 7873 (1946) (remarks of Senator O'Mahoney) (emphasis supplied.)

253. See Robert, *The New Trade-Mark Manual* 210 (1947).

254. See Lockhart, "Violation of the Anti-Trust Laws as a Defense in Civil Actions," 31 *Minn. L. Rev.* 507, 566-67 (1947); Timberg, note 244 *supra*, at 359.

255. See Handler, note 206 *supra*, at 395; Lockhart, note 254 *supra*, at 567-68; Timberg, note 244 *supra*, at 359.

256. See Nicolson, note 240 *supra*, at 97 & n. 141; Note, "The Antitrust Defense in Trademark Infringement Actions," 45 *Va. L. Rev.* 94, 102-03, 106 (1959).

Section 33(a) states that registration is prima facie evidence of a registrant's exclusive right to use the mark on the goods specified in the certificate "but shall not preclude an opposing party from proving any legal or equitable defense or defect which might have been asserted if such mark had not been registered."²⁵⁷ On the other hand, section 33(b) declares that on attainment of an incontestable right to use registration is conclusive evidence of the exclusive right to use except with regard to seven enumerated defenses or defects, including use of a mark to violate the anti-trust laws.²⁵⁸ A possible inference from the wording of sections 33(a) and (b) is that equitable defenses available against an ordinary registration cannot be raised after attainment of an incontestable right to use unless enumerated in section 33(b).²⁵⁹ Though there is dictum to this effect,²⁶⁰ it seems reasonably clear today that equitable defenses not specified in section 33(b) can be asserted to bar reliance on the conclusive evidence rule.²⁶¹ This construction was not, however, assured when the Lanham Bill was under legislative consideration. Therefore, if subsection 33(b)(7) was meant to do more than waive the conclusive evidence rule, the language of the Senate conferees and the juxtaposition of sections 33(a) and (b) suggest that the subsection was merely intended to preserve the possibility of raising an antitrust defense to infringement suits where the maxim of clean hands would dictate the withholding of relief. Since at the time of the enactment of the Lanham Act there was no reported trademark infringement suit in which a defense of unclean hands had been sustained on the basis of a plaintiff's antitrust violations,²⁶² subsection 33(b)(7) must have been predicated on the contemporary assumption that the burgeoning "patent misuse" doctrine, which bars enforcement of patent rights during periods of misuse, would soon spill over into the

257. § 33(a), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(a) (1964).

258. § 33(b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b) (1964).

259. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 830 (1955).

260. *Apple Grower Ass'n v. Pelletti Fruit Co.*, 153 F. Supp. 948, 951 (N.D. Cal. 1957) (dictum); *Richard Hudnut v. DuBarry, Inc.*, 127 U.S. P.Q. 486, 489 (S.D. Cal. 1960) (dictum), aff'd on other grounds, 323 F.2d 986 (9th Cir. 1963).

261. *Polaroid Corp. v. Polaroid Electronics Corp.*, 182 F. Supp. 350 (E.D.N.Y. 1960), aff'd, 287 F.2d 492 (2d Cir.), cert. den., 368 U.S. 820 (1961), accord, *Lance, Inc. v. Ginsberg*, 210 F. Supp. 272 (E.D. Pa. 1962); *Gillette Co. v. Ed Pinaud, Inc.*, 178 F. Supp. 618 (S.D.N.Y. 1959).

262. The applicability of the maxim was, however, suggested on a motion to strike the defense in *Folmer Graflex Corp. v. Graphic Photo Service*, 41 F. Supp. 319 (D. Mass. 1941), new trial granted on other grounds, 45 F. Supp. 749 (D. Mass. 1942).

trademark field.²⁶³ Because a defense of "trademark misuse" would apply to all registered and unregistered marks,²⁶⁴ subsection 33(b) (7)'s humble office was to ensure that an incontestable right to use would not destroy the defense. Viewed in this light, the subsection's reference to past as well as to present antitrust violations is not a command to deny perpetually relief to marks involved in antitrust violations but a simple declaration that unpurged antitrust violations commenced prior to the effective date of the Lanham Act, as well as those initiated after July 5, 1947, can be raised as defenses when the registrant of an incontestable mark sues for infringement.

If subsection 33(b) (7) has been read correctly, it is one of the ironies of legal history that a statutory provision intended to preserve the availability of an anticipated defense appears to be the principal reason for the potential existence of that defense. A full-fledged trademark misuse doctrine did not develop shortly after 1946 and has not developed to this day,²⁶⁵ but there are indications that the very existence of subsection 33(b) (7) could result in evolution of the doctrine. In Forstmann Woolen Co. v. Murray Sices Corp.,²⁶⁶ for instance, Judge Medina theorized:

Plaintiff urges that its violation of the anti-trust laws is no defense in an action for infringement of its trade-mark, citing numerous cases. Defendant relies on 15 U.S.C.A. § 1115. That Section, enacted as part of the Lanham Act of 1946, provides, in substance, that a mark which has become incontestable under the provisions of the Lanham Act may not be enforced where "the mark has been or is being used to violate the anti-trust laws of the United States." Plaintiff's marks are registered under the Act of 1905, and no incontestability attaches thereto. Nevertheless, if a trade-mark owner's use of his incontestable mark is subject to the defense specified in § 1115 a fortiori, the plaintiff's mark, which lacks the status of incontestability, must be subject to the same defense.²⁶⁷

Judge Medina granted the plaintiff's motion to strike the antitrust defense from the answer, however, because the antitrust violation pleaded did not involve the plaintiff's trademark. Several subsequent

263. See Handler, note 206 *supra*, at 395-97; Ooms & Frost, note 139 *supra*, at 228-30 (1949); Note, "The Besmirched Plaintiff and the Confused Public: Unclean Hands in Trademark Infringement," 65 Colum. L. Rev. 109, 113-14 (1965).

264. See Handler, note 206 *supra*, at 395-96.

265. See Handler, "Trademarks—Assets or Liabilities," 48 Trademark Rep. 661, 674-76 (1958); ATRR 204:A-5 (6/8/65).

266. 10 F.R.D. 367 (S.D.N.Y. 1950).

267. 10 F.R.D. 367, 370.

cases which cite subsection 33(b) (7) or the Forstmann case for the proposition that an antitrust violation may bar an infringement suit are also on pleading or procedural points.²⁶⁸ An antitrust defense has yet to be sustained on the merits in an infringement suit.²⁶⁹

As soon as subsection 33(b) (7) was perceived to be the root of a trademark misuse doctrine, efforts were made to expunge the provision from the Lanham Act because of "the psychologically and legally undesirable effect of seemingly offering a weapon to unscrupulous competitors and infringers to avoid a judicial condemnation of their own conduct. . . ."²⁷⁰ Opinions expressed concerning the proposed amendment reflected continuing controversy over the effect of subsection 33(b) (7). Proponents of amendment assumed that the subsection either waived the conclusive evidence rule or legislated a defense to an infringement suit that would be unavailable after repeal.²⁷¹ The Justice Department concurred in the latter interpretation and opposed deletion of "an important weapon in enforcing the antitrust laws."²⁷² On the other hand, the report of the Senate Judiciary Committee endorsing deletion stressed that subsection 33(b) (7) was surplusage because violation of the antitrust laws could always be raised via a defense of unclean hands.²⁷³

Since subsection 33(b) (7) survived the 1962 amendments to the Lanham Act²⁷⁴ it would be well to hazard a guess as to the future. The current view that the conclusive evidence rule can only be raised as a defense to an infringement suit²⁷⁵ postdates

268. Sanitized, Inc. v. S.C. Johnson & Sons, Inc., 23 F.R.D. 230 (S.D.N.Y. 1959); Zenith Radio Corp. v. Marshall-Wells Co., 1959 Trade Cas. ¶ 69343 (N.D. Ill. 1959) (mem.); Forstmann Woolen Co. v. Alexander's Dept. Stores, 11 F.R.D. 405 (S.D.N.Y. 1951). See also Aerojet-General Corp. v. Aero-Jet Prods. Corp., 33 F.R.D. 357 (N.D. Ohio, 1963).
269. See Baker v. Simmons Co., 307 F.2d 458 (1st Cir. 1962); American Auto Ass'n v. Spiegel, 205 F.2d 771 (2d Cir.), cert. den., 346 U.S. 887 (1953); G. D. Searle & Co. v. Institutional Drug Distribs., Inc., 151 F. Supp. 715 (S.D. Cal. 1957).
270. Derenberg, "The Fourth Year," 41 Trademark Rep. 893, 919 (1951). Cf. National Dynamics Corp. v. John Surrey, Ltd., 144 U.S.P.Q. 184 (S.D.N.Y. 1964) for an example of abuse of an antitrust defense.
271. See Statement on Behalf of National Trademark Coordinating Committee, 1954 Senate Hearings at 47-48. Compare Att'y Gen. Nat'l Comm. Antitrust Rep. 260 (1955).
272. 1954 Senate Hearings at 94.
273. Sen. Rep. 2266, 83d Cong., 2d Sess. at 9 (1954); see Derenberg, note 270 supra, at 919. Compare Att'y Gen. Nat'l Comm. Antitrust Rep. 260 (1955).
274. See 4 Callmann, Trade-Marks and Unfair Competition, Supp., 1963, at 111-13 (2d ed. 1950).
275. E.g., John Morrell & Co. v. Reliable Packing Co., 295 F.2d 314 (7th Cir. 1961); Rand McNally & Co. v. Christmas Club, 105 U.S.P.Q. 499 (Comm'r 1955), aff'd on other grounds, 44 C.C.P.A. (Patents) 861, 242 F.2d 776 (1957).

much of the discussion concerning subsection 33(b)(7). Statements on the floor of Congress and most writers have assumed that the conclusive evidence rule could be utilized by a plaintiff and that the antitrust defense limited the ability to do so.²⁷⁶ The defensive interpretation of section 33(b) requires a compensating shift in analysis.

The defensive interpretation of section 33(b) should lead to the conclusion that 33(b)(7) is unrelated to a registrant's ability to obtain affirmative relief for trademark infringement. When a registrant is sued for trademark infringement, the antitrust defense simply reduces his registration to prima facie evidence of the exclusive right to use without constituting an independent ground for cancellation of registration or lifting the statute of limitations imposed by section 15 on certain grounds of judicial cancellation.²⁷⁷ The duration of subsection 33(b)(7)'s suspension of the conclusive evidence rule turns on interpretation of the function of the subsection. If the previously suggested interpretation is accepted, and the subsection is considered to merely leave the door open for a trademark misuse doctrine, the conclusive evidence rule would only be waived while an antitrust violation continued—in the event that a trademark misuse doctrine crystallized.²⁷⁸ The contrary view that subsection 33(b)(7) constitutes a mandatory statutory exception to the conclusive evidence rule would probably result in permanent suspension of section 33(b) once a mark had been used to violate the antitrust laws because the subsection's explicit reference to past as well as to present antitrust violations would permit plaintiffs to raise perpetually the same antitrust offense to ward off the conclusive evidence rule.²⁷⁹ This mechanistic interpretation of the antitrust defense would be objectionable in that it offers no reward for repentance by an antitrust violator but would not inflict an intolerable penalty for his illegal conduct. Waiver of the conclusive evidence rule as a defense to an infringement suit is a pinprick at best. Since subsection 33(b)(7) has no effect on the prima facie evidence rule or the constructive notice

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276. E.g., 92 Cong. Rec. 7636 (1946) (remarks of Senator Hawkes); 92 Cong. Rec. 7873 (1946) (remarks of Senator O'Mahoney); Lockhart, "Violation of the Anti-Trust Laws as a Defense in Civil Actions," 31 Minn. L. Rev. 507, 566-68 (1947).
277. *Cott Beverage Corp. v. Canada Dry Ginger Ale, Inc.*, 146 F. Supp. 300 (S.D.N.Y. 1956), appeal dismissed 243 F.2d 795 (2d Cir. 1957) (per curiam); see Robert, *The New Trade-Mark Manual* 144-47 (1947).
278. See text accompanying notes 255-64 *supra*. Compare Robert, note 277 *supra*, at 144.
279. Cf., Nicoson, note 240 *supra*, at 97 & n.141 (1962); "Antitrust Defense In Trademark Infringement Actions," 45 Va. L. Rev. 94, 102-03, 106 (1959).

provision, concurrent users should only be able to rebut defensive use of the prima facie evidence rule if they commenced good faith use prior to the commencement of constructive notice²⁸⁰ or if a registered secondary-meaning mark lacked secondary meaning in a particular area.²⁸¹ Moreover, in the latter instance the constructive notice provision would permit the registrant to expand the area in which his mark has secondary meaning insofar as persons who commenced use after constructive notice began are concerned.²⁸² Interpretation of subsection 33(b) (7) as legislating an inflexible antitrust defense is only indefensible if this is considered to be a mandatory defense to infringement suits by a registrant. Viewed in this light, the explicit reference to past as well as to present antitrust violations would lead to total loss of trademark protection whenever a mark had been used to violate the antitrust laws because defendants could repeatedly raise the same antitrust offense as a defense to infringement suits.²⁸³ In stark contrast, the patent misuse doctrine, which provided the inspiration for subsection 33(b) (7), merely deprives a patentee of legal protection for the duration of patent misuse.²⁸⁴ Taken as a rigid statutory defense to trademark infringement, subsection 33(b) (7) is an inexorable penalty offering no reward for repentance and no solace to a consuming public confused by unchecked appropriation of a condemned mark.

D. Concurrent Registration

The Act of 1905 neither authorized the Patent Office to consider the equitable principles applied by the courts²⁸⁵ nor altered the equitable doctrine permitting concurrent territorial rights if a junior user adopted a mark in good faith;²⁸⁶ yet registration for

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280. The common-law rule that concurrent territorial rights must be acquired in good faith would control unless a concurrent user who obtained registration prior to registration or republication of the incontestable mark is entitled to greater territorial rights under § 33(b) (6) regardless of good faith. § 33(b) (6), 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b) (6) (1964).
281. *Cf. Anheuser-Busch, Inc. v. Bavarian Brewing Co.* 264 F.2d 88 (8th Cir. 1959).
282. *Cf. Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959).
283. See Nicoson, note 240 *supra*, at 97 & n.141; "Antitrust Defense In Trademark Infringement Actions," 45 Va. L. Rev. 94, 102-03, 106 (1959).
284. *United States Gypsum Co. v. National Gypsum Co.*, 352 U.S. 457 (1957).
285. See Robert, *The New Trade-Mark Manual* 55-56 (1947).
286. *E.g., Griesdieck Western Brewery Co. v. Peoples Brewing Co.*, 149 F.2d 1019 (8th Cir. 1945).

goods of the "same descriptive properties" was denied to all except the first user.²⁸⁷ Section 2(d),²⁸⁸ which authorizes concurrent registration, was one of several sections of the Lanham Act intended to remedy the glaring discrepancy between the right to use and the right to register which discredited the registry maintained under the Act of 1905.²⁸⁹ Although section 2(d) is not a substantive provision of the Lanham Act because it has no direct effect on common-law concurrent territorial rights, section 2(d) interlocks with the substantive provisions and thus warrants discussion at this point.

Section 2(d) permits the Commissioner to issue concurrent registrations if he determines that confusion is unlikely because of distinctions "as to the mode or place of use of the marks or the goods in connection with which such marks are used,"²⁹⁰ but Patent Office practice has been to refuse concurrent registration unless there is a territorial distinction in the use of marks.²⁹¹ If there is no likelihood of purchaser confusion because of differences in goods or in modes of use of a mark, the Patent Office maintains that an unrestricted registration is available and that

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287. Act of Feb. 20, 1905, ch. 592, § 5, 33 Stat. 725-26; e.g., *Pennsylvania Petroleum Co. v. Pennzoil Co.*, 23 C.C.P.A. (Patents) 706, 80 F.2d 67 (1935); *California Packing Corp. v. Tillman & Bendel, Inc.*, 17 C.C.P.A. (Patents) 1048, 40 F.2d 108 (1930).
288. § 2(d), 60 Stat. 428 (1946), as amended, 15 U.S.C. § 1052(d) (1964).
289. See 1944 Senate Hearings at 45-46; 1939 House Hearings at 118-19 for § 2(d)'s meager legislative history. Other noteworthy provisions are § 19, which permits the Patent Office tribunals to apply principles of laches, estoppel, and acquiescence, § 19, 60 Stat. 434 (1946), 15 U.S.C. § 1069 (1964), and § 37, which empowers courts to direct the Commissioner of Patents to conform the register to their decisions, § 37, 60 Stat. 440 (1946), 15 U.S.C. § 1119 (1964). Despite substantial improvement in the situation the Lanham Act has been said to make the right to register "nearly but not completely coincident" with the right to use. Callmann, "Trademarks—the Right to Use vs. the Right to Register," 51 *Trademark Rep.* 1209 (1961). See also Lunsford, "The Right to Use and the Right to Register—the Trademark Anomaly," 43 *Trademark Rep.* 1 (1953).
290. § 2(d), 60 Stat. 428 (1946), as amended, 15 U.S.C. § 1052(d) (1964).
291. See *Baxter Laboratories, Inc. v. Don Baxter, Inc.*, 87 U.S.P.Q. 122 (Comm'r 1950), juris. retained, 38 C.C.P.A. (Patents) 786, 186 F.2d 511 (1951); *Ford Motor Co. v. Lincoln Radio & Television Corp.*, 99 U.S.P.Q. 60 (Comm'r 1953). These cases were decided under the original wording of this portion of § 2(d) which permitted concurrent registration if the Commissioner found confusion unlikely because of distinctions "as to the mode or place of use or the goods in connection with which such registrations may be granted. . . ." § 2(d), 60 Stat. 428 (1946), 15 U.S.C. § 1052(d) (1958). During 1954 hearings the Patent Office objected to amending this to read "or the goods in

concurrent registration is not required.²⁹² Section 37 of the Lanham Act permits a court to order issue of concurrent registration in these instances,²⁹³ but, as viewed by the Patent Office itself, a concurrent use proceeding is an inter partes proceeding²⁹⁴ to determine an applicant's right to a registration embracing part of the United States where another person is using the same or a similar mark on related goods in another part of the country. Section 2(d) prescribes the determinations that must be made by the Office in a concurrent use proceeding that is not based upon a judicial resolution of the right to use: confusion of purchasers must not be apt to result from concurrent use, and an applicant must have been found to have engaged in both lawful use in commerce and use prior to certain dates if applications to register confusingly similar uses have been filed by others.²⁹⁵

(Footnote continued)

- connection with which the marks are used" on the basis of its theory, see text accompanying note 292 *infra*, that a sufficient difference between goods to forestall likelihood of confusion would render concurrent use proceedings unnecessary and permit separate unrestricted registration. 1954 Senate Hearings at 19-20. Quaere: Should congressional enactment of the language opposed by the Patent Office affect its theory? See Derenberg, "The Thirteenth Year," 50 Trademark Rep. 773, 875 (1960). For pro and con on the merits of the Patent Office approach, compare "Trade-Marks, Unfair Competition, and the Courts: Some Unsettled Aspects of the Lanham Act," 43 Trademark Rep. 906, 914 (1953), with Derenberg, "The Seventh Year," 44 Trademark Rep. 991, 1008-10 (1954).
292. Rohn & Haas Co. v. C. P. Hall Co., 91 U.S.P.Q. 69 (Comm'r 1951); accord, Nebraska Consolidated Mills Co. v. Quaker Oats Co., 118 U.S.P.Q. 454 (Comm'r 1958). In the latter case the Assistant Commissioner specifically found that an unrestricted registration was possible.
293. E.g., Avon Shoe Co. v. David Crystal, Inc., 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960).
294. See Appendix for the distinction between ex parte and inter partes Patent Office proceedings.
295. A concurrent use proceeding will be instituted only if an application seeking concurrent territorial registration is pending in the Patent Office and the mark is registrable except for questions of concurrent registration. 37 C.F.R. § 2.99(a) (1960); e.g., Ex parte M. Wile & Co., 109 U.S.P.Q. 114 (Comm'r 1956). However, a Patent Office trademark examiner has discretion to allow amendment of a regular application in order to transform it into an application for concurrent registration, 37 C.F.R. § 2.73 (1960), and other Patent Office proceedings can be converted into concurrent use proceedings. Fair v. Twin City Wholesale Grocer Co., 98 U.S.P.Q. 16 (Comm'r 1953). As an alternative the Commissioner may restrict the territorial scope of an existing registration on the basis of evidence presented in another inter partes proceeding. Prince Dog & Cat Food Co. v.

Concurrent registrations are granted where marks would produce a likelihood of purchaser confusion if used in the same market but this probability is obviated by a difference in trade territories. Section 2(d) requires a specific finding by the Patent Office that confusion between concurrent uses is unlikely;²⁹⁶ a stipulation by the interested persons to that effect is not controlling.²⁹⁷ In close cases a probability of confusion is more apt to be found to exist if the marks have been in use a relatively short time,²⁹⁸ especially if the concurrent users have adjacent markets.²⁹⁹ On the other hand, experience in concurrent use of marks may preclude an inference of likelihood of purchaser confusion that might otherwise have been made.³⁰⁰

A person who has no legal right to use a mark obviously has no right to registration.³⁰¹ In the context of concurrent territorial use, the "lawful use" requirement means that a junior user who adopts his mark in constructive bad faith by virtue of section 22 of the Lanham Act, as well as a junior user in actual bad faith,

(Footnote continued)

Central Nebraska Packing Co., 128 U.S.P.Q. 405 (Tm. Bd. 1961), rev'd on other grounds, 49 C.C.P.A. (Patents) 1328, 305 F.2d 904 (1962).

296. Ex parte Chadbourne Hosiery Mills, Inc., 107 U.S.P.Q. 12 (Comm'r 1955).
297. Ford Motor Co. v. Lincoln Radio & Television Corp., 99 U.S.P.Q. 60 (Comm'r 1953).
298. See Flintkote Co. v. Merriam & Co., 88 U.S.P.Q. 390 (Comm'r 1951). See Derenberg, "The Fourth Year," 41 Trademark Rep. 893, 900-01 (1951); Hancock, "Notes from the Patent Office," 46 Trademark Rep. 53, 54 (1956).
299. Flintkote Co. v. Merriam & Co., 88 U.S.P.Q. 390 (Comm'r 1951); see Old Monastery Wine Co. v. St. Julian Wine Co., 110 U.S.P.Q. 241 (Comm'r 1956). The Flintkote case has been said to be too doctrinaire on this point. See 20 Geo. Wash. L. Rev. 246 (1951). The recent case of Coastal Chem. Co. v. Dust-A-Way, Inc., 139 U.S.P.Q. 208 (Comm'r 1963) seems to evidence a more flexible approach; but § 2(d) itself has been construed as requiring the Patent Office to apply the likelihood of confusion test more strictly than the courts. Avon Shoe Co. v. David Crystal, Inc., 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960); accord, Craddock-Terry Shoe Corp. v. Billy Boy Co., 133 U.S.P.Q. 218 (Tm. Bd. 1962).
300. Nebraska Consolidated Mills Co. v. Quaker Oats Co., 118 U.S.P.Q. 454 (Comm'r 1958).
301. E.g., Ex parte Crown Beverage Corp., 102 U.S.P.Q. 312 (Comm'r 1954); see Carmo Shoe Mfg. Co. v. Markoulis, 121 U.S.P.Q. 46 (Tm. Bd. 1959). The converse is not necessarily true even under the Lanham Act. E.g., Salem Commodities, Inc. v. Miami Margarine Co., 44 C.C.P.A. (Patents) 932, 244 F.2d 729 (1957); see note 289 supra.

is not entitled to concurrent registration.³⁰² The Patent Office also takes the position that an extension of trade territory by a junior user after notice of senior use will not ordinarily be considered in determining the territory for which a junior user will be granted concurrent registration. In Coastal Chemical Co. v. Dust-A-Way, Inc.,³⁰³ the Commissioner declared:

The first user in commerce which can lawfully be regulated by Congress is entitled to registration for the entire country less the area in which the other user can establish actual use prior to notice of adverse use.³⁰⁴

The principal exception to this proposition occurs where a junior user obtains an unrestricted registration an appreciable period of time before the senior user applies for registration. In these circumstances, the Patent Office maintains that it increases the incentives to register if the junior user is allowed concurrent registration for the entire country with the exception of those states in which the senior user engaged in use prior to notice of the junior use.³⁰⁵ These rules-of-thumb are not inflexible, however, and the Patent Office may "balance the equities" in apportioning territorial rights.³⁰⁶

In the absence of a judicial determination of the right to use, concurrent registration can only be issued to a person who used his mark prior to the filing date of the earliest application by another to register a confusingly similar use on the Principal Register,³⁰⁷ or prior to July 5, 1947, if a concurrent user has an unexpired 1881 or 1905 registration.³⁰⁸ In the early days of the Lanham Act the Patent Office tended to restrict the scope of concurrent registration to the area of use at the time that the earliest relevant application was filed.³⁰⁹ This approach was supported

302. See Coastal Chem. Co. v. Dust-A-Way, Inc., note 299 supra. A use that violates regulatory legislation is also not a "lawful use." Cf., Coahoma Chem. Co. v. Smith, 113 U.S.P.Q. 413 (Comm'r 1957), aff'd on other grounds, 46 C.C.P.A. (Patents) 801, 264 F.2d 916 (1959); accord, In re Taylor, 133 U.S.P.Q. 490 (Tm. Bd. 1962).
303. 139 U.S.P.Q. 208 (Comm'r 1963).
304. 139 U.S.P.Q. 208, 210.
305. Coastal Chem. Co. v. Dust-A-Way, Inc., note 299 supra.
306. Haas Bros. v. Charles Jacquin et Cie., 143 U.S.P.Q. 37 (Comm'r 1964).
307. This includes applications which have matured into registrations. See Frontier Ref. Co. v. Frontier Oil Ref. Corp., 118 U.S.P.Q. 176 (Comm'r 1958).
308. An expired registration is not considered in concurrent use proceedings. Fair v. Twin City Wholesale Grocer Co., 98 U.S.P.Q. 16 (Comm'r 1953).
309. E.g., Ex parte Chadbourn Hosiery Mills, Inc., 107 U.S.P.Q. 12 (Comm'r 1955); Flintkote Co. v. Merriam & Co., 88 U.S.P.Q. 390 (Comm'r 1951).

by a few commentators who made a deduction that section 2(d) was intended to regulate the acquisition of concurrent territorial rights from the language barring concurrent registration to a person whose use commenced after the filing of an application for registration by a senior user.³¹⁰ If the filing of an application did not also preclude the acquisition of subsequent concurrent territorial rights, they apparently reasoned, a variance between the right to use and the right to register would continue to exist despite the avowed purpose of section 2(d). With all due respect to this approach, reading section 2(d) as governing concurrent territorial rights is even more incongruous. This substantive interpretation reduces the constructive notice provision to surplusage because section 22 makes registration constructive notice and filing of an application to which section 2(d) refers necessarily precedes registration.³¹¹ Furthermore, under a substantive interpretation section 2(d) as originally written³¹² would have barred acquisition of concurrent rights after the filing of an application under the act of 1881 in 1890, or under the Act of 1905 in 1910, in irreconcilable conflict with the clear intent of Congress that the Lanham Act should not impair rights acquired in good faith prior to July 5, 1947.³¹³

The flaws in a substantive interpretation of section 2(d) require acknowledgment of the fact that the section was poorly drafted.³¹⁴ Although valid at common law, all good faith concurrent uses which were initiated after the filing of an application but before the operability of the constructive notice provision were inexplicably denied registrability.³¹⁵ The most signal aspect of the variance between the right to use and the right to register perpetuated by section 2(d) was, however, removed by the 1962

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310. E.g., Diggins, "The Lanham Trade-Mark Act," 37 Trademark Rep. 305, 317 (1947).
311. There are clear statements in the legislative history that § 22 was intended to reduce concurrent territorial use, e.g., 1939 House Hearings at 125. This is not true with respect to § 2(d). See 1944 Senate Hearings at 45-46; 1939 House Hearings at 118-19.
312. Act of July 5, 1946, ch. 540, § 2(d), 60 Stat. 428; Ex parte Stauffer Chem. Co., 80 U.S.P.Q. 180 (Comm'r), reconsideration den., 81 U.S.P.Q. 170 (Comm'r 1949).
313. Act of July 5, 1946, ch. 540, § 49, 60 Stat. 446. The effect of the constructive notice provision on concurrent territorial rights is consonant with this intent. Section 22 applies to 1881 and 1905 registrations only as of July 5, 1947. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).
314. See Halliday, "Constructive Notice and Concurrent Registration," 38 Trademark Rep. 111, 121 (1948).
315. See Vandenburg, "Concurrent Registration of Trademarks," 29 J. Pat. Off. Soc'y 720, 726-27 (1947).

amendments to the Lanham Act. The amendments conformed section 2(d) and the constructive notice provision by making concurrent registration available to junior uses initiated in good faith prior to July 5, 1947, regardless of the filing of an earlier application under the Acts of 1881 or 1905.³¹⁶ A discrepancy between the right to use and the right to register continues to exist with respect to good faith concurrent uses begun during the interval between the filing of an application for registration on the Principal Register and issue of a registration to the applicant but other aspects of the Lanham Act can be utilized to correct the situation. Section 2(d) itself gives the Patent Office discretion to issue concurrent registration if a court "has finally determined that more than one person is entitled to use the same or similar marks in commerce."³¹⁷ At least subsequent to the 1962 amendments to the Lanham Act, this language permits the Patent Office to compensate for the lack of coalescence between section 2(d) and section 22 whenever a court has sanctioned concurrent use that commenced after the filing of an application for registration.³¹⁸ Furthermore, if a court order concurrent registration in addition to recognizing lawful concurrent use, section 37 compels the Patent Office to comply.³¹⁹

E. Evaluation of the Impact of the Lanham Act on Territorial Trademark Rights

The most important section of the Lanham Act from the standpoint of concurrent territorial use is clearly the constructive notice provision. By imputing knowledge of a registered mark to subsequent users, section 22 enhances a registrant's ability to

316. § 2(d), 60 Stat. 428 (1946), as amended, 15 U.S.C. § 1052(d) (1964); see Hoge, "The Lanham Act's Housekeeping Amendments," 52 Trademark Rep. 1245, 1251 (1962).

317. § 2(d), 60 Stat. 428, as amended, 15 U.S.C. § 1052(d) (1964).

318. Prior to the 1962 amendments this clause began with the words "and concurrent registrations may be similarly granted by the Commissioner. . . ." § 2(d), 60 Stat. 428 (1946), 15 U.S.C. § 1052(d) (1958). Derenberg argued that the term "similarly" made the restrictions on concurrent registration in § 2(d) applicable to registration based on a court decree. See Derenberg & Merchant, "Problems in Registration Procedure," 37 Trademark Rep. 799, 801 (1947). While the Patent Office seemed to take a contrary position even prior to the 1962 amendments, see *Alfred Dunhill, Inc. v. Dunhill Tailored Clothes, Inc.*, 49 C.C.P.A. (Patents) 730, 741 n. 8, 293 F.2d 685, 693 n. 7, cert. den., 369 U.S. 864 (1961); *Ex parte Crown Beverage Corp.*, 102 U.S.P.Q. 312 (Comm'r 1954), the deletion of "similarly" by those amendments should remove whatever doubt previously existed.

319. § 37, 60 Stat. 440 (1946), 15 U.S.C. § 119 (1964); *Ex parte Westgate Sea Prods. Co.*, 84 U.S.P.Q. 368, 371-72 (Comm'r 1950) (dictum).

expand the geographical scope of his business operations under his existing trademarks. Restriction of the grounds of cancellation and acquisition of an incontestable right to use generally supplement section 22 by making registration, on which the constructive notice provision hinges, more secure. It is accordingly highly significant that during the hearings on the Lanham Bill the Justice Department never leveled a specific attack at section 22.³²⁰ Indeed, through criticism of the recognition of the principle of concurrent territorial rights in the concurrent registration provisions,³²¹ the Anti-trust Division might be said to have inferentially supported the constriction of concurrent territorial rights that section 22 was meant to bring about. This is not to say that some of the claims concerning the effect of section 22 were not extravagant or that the Justice Department was justified in its attack on section 2(d).

Both during the legislative hearings and in published articles certain individuals have steadfastly maintained that section 22 both precludes acquisition of any rights by junior users who inaugurate use after constructive notice begins and prevents persons who began use prior to registration by another from expanding their territorial rights.³²² The first proposition was sustained by the Second Circuit in Dawn Donut Co. v. Hart's Food Stores, Inc.,³²³ the second is questionable, although supported by the Patent Office interpretation of the concurrent registration provisions in Coastal Chemical Co. v. Dust-A-Way, Inc.³²⁴ In Coastal, the Commissioner announced that a senior user was ordinarily entitled to concurrent registration "for the entire country less the area in which the other user can establish actual use prior to notice of adverse use. . . ."³²⁵ but, because a junior user had sought and obtained an unrestricted registration 38 months before the senior user filed an application, the junior user was granted concurrent registration for every state except those in which the senior user established adverse rights prior to notice of the junior use.

320. But see 1944 Senate Hearings at 41-42 (remarks of Elliott H. Moyer). The Antitrust Division's general opposition to the need for revision of the trademark laws, of course, encompassed § 22. E.g., Statement of the Department of Justice, *id.* at 58-71.

321. *Id.* at 38-39 (remarks of Bartholemew Diggins); Statement of the Department of Justice, *id.* at 63-64.

322. E.g., 1943 House Hearings at 49-50 (remarks of Wallace J. Martin); 1941 House Hearings at 169 (remarks of Wallace J. Martin); Martin, "Incentives to Register Given by the New Trade-Mark Act," 36 Trade-mark Rep. 213, 216 (1946).

323. 267 F.2d 358 (2d Cir. 1959).

324. 139 U.S.P.Q. 208 (Comm'r 1963).

325. *Id.* at 210.

The Coastal theory concerning the effect of notice on concurrent territorial rights is unworkable and illustrates the implausibility of the contention that section 22 forecloses acquisition of fresh territorial rights by concurrent users who obtained initial rights before registration by another. If mere notice of conflicting rights precluded either a senior or a junior user from gaining new territorial rights, their legal positions would be frozen on the date notice was received and there could theoretically be blocks of territory in which neither party could acquire rights. It will not do to say that notice will generally be provided solely by section 22 so that only a nonregistrant will lose the ability to increase his rights. The dispatch of letters advising concurrent users of their lack of rights is a commonplace of trademark practice³²⁶ which would undoubtedly become even more popular if the Coastal theory represented the law; and, assuming that both a senior and junior user are aware of each other's existence, Coastal produces an absurd result in territory untapped by either party prior to notice of the other's existence. Commercial life is not static and one or the other will eventually expand his area of use. Once this dynamic user presses into an unoccupied area in which he is allegedly deprived of rights because of his notice of another use on competing goods, how will the courts react to the fact of expansion? Should another concurrent user who also has no rights in the area be able to enjoin the expansion? Logic says no and Dawn supports this by denying relief to even a person with superior rights if concurrent use does not produce likelihood of purchaser confusion. But if no one can sue to stop this expansion what is the point in saying that a person with knowledge of conflicting use can not obtain further rights? Furthermore, once expansion has taken place and the public has become familiar with the mark, it would impair the identification function of trademarks to deny the expander relief against other concurrent users in his new territory, and, if he obtains relief as he should, he will in substance have obtained additional rights through expansion regardless of the Coastal theory.

The unreality of the Patent Office position is further underscored by its radical deviation from sensible common-law principles. At common law a senior user's knowledge of junior use had no affect on his potential territorial rights unless it resulted in laches or acquiescence in a junior user's expansion into an area in which the senior user had originally had rights.³²⁷ Moreover, the Hanover and Rectanus concept of a good faith junior user determined whether

326. E.g., Tillman & Bendel Inc. v. California Packing Corp., 63 F.2d 498 (9th Cir.), cert. den., 290 U.S. 638 (1933).

327. E.g., Jacobs v. Iodent Chem. Co., 41 F.2d 637 (3d Cir. 1930).

concurrent territorial rights could be acquired at all, but, once this threshold question was answered affirmatively, the extent of those rights depended primarily on precedence in the penetration of a market. Thus, in J. A. Dougherty's Sons v. Kasko Distillers Products Corp.³²⁸ the court limited a senior user to the following relief against a good faith junior user:

The plaintiff [the senior user] is entitled to a decree enjoining the defendant [the junior user] from using the trade-mark "Country Gentleman" in those areas outside of Pennsylvania where the plaintiff is using the same or may do so in the normal course of sales expansion. . . .³²⁹

The language of the United States Supreme Court in American Trading Co. v. H. E. Heacock Co.³³⁰ is also instructive. The plaintiff in American Trading was associated with the International Silver Co., one of two concurrent users of "Rogers" for silverware in the United States. Plaintiff distributed the International Silver Co.'s products in the Philippines and obtained registration of the "Rogers" mark there. When a competitor sought to import silverware manufactured by Wm. A. Rogers, Ltd., the other user in the United States, plaintiff obtained relief under Philippine law which was sustained by the Supreme Court in the following terms:

[I]t is unnecessary to consider the respective rights of the International Silver Company and Wm. A. Rogers, Limited, in relation to the use of their marks in the States of the Union. These rights have been the subject of numerous judicial decisions. It is sufficient to say that when petitioners entered the trade within the Philippine Islands in 1925, they found a field already occupied and were bounded to respect the rights there established. Nor do we find any ground for holding that the respondent is estopped from seeking relief by reason of its relation to the International Silver Company. Respondent manifestly had acquired an interest in the local trade which was entitled to protection, and it has sought and obtained that protection in accordance with the law governing that trade.³³¹

It is easy to comprehend why mere notice of another use should not bar further expansion of territorial markets by a person who has already acquired concurrent territorial rights. The doctrine of concurrent territorial rights is noncompetitive because the rights acquired by each concurrent user raise legal barriers to

328. 35 F. Supp. 561 (E.D. Pa. 1940).

329. Id. at 565.

330. 285 U.S. 247 (1932).

331. Id. at 260-61 (sustaining the validity of a Philippine trademark registration statute relied on by the plaintiff).

the expansion of markets under the same mark by the others. This may be justified at common law by the desirability of protecting the identification function of trademarks if there is actual market conflict between concurrent users and by the desirability of avoiding forfeiture of a junior user's good will if he did not have fair notice of the senior use when he adopted his mark; but there are no concomitant justifications for precluding a good faith junior user, or a senior user, from extending his concurrent territorial rights where this does not involve a clash with a concurrent user. It would merely restrain trade without countervailing benefit to permit one concurrent user to enjoin another in an area where the plaintiff's mark is not used, advertised, or known, and it would result in unwarranted forfeiture of a defendant's good will to allow a concurrent user who was the last to reach such a market to summarily oust his predecessor. The judges were right in considering that later-acquired knowledge of concurrent use did not petrify a senior user's or a good faith junior user's ability to acquire additional rights at common law once the applicability of the noncompetitive doctrine of concurrent territorial rights was established.

The common-law concept that notice of concurrent use does not inhibit extension of previously-gained territorial rights is easily engrafted on section 22, and properly so in the light of its proponents' statements that section 22 was intended to operate within the interstices of the Hanover and Rectanus doctrine.³³² Indeed, this interpretation may already have been adopted by the Second Circuit. In Avon Shoe Co., Inc. v. David Crystal, Inc.³³³ Judge Hincks commented:

It is true that the Lanham Act indeed prevents a junior user from claiming good faith when his use begins subsequent to a prior user's registration under the Act. But that provision is inapplicable here. For the defendant's use commenced more than two years prior to the effective date of that Act.³³⁴

The principal difficulty with respect to this interpretation of section 22 arises with respect to incontestability and the conclusive evidence rule. Subsection 33(b) (5)³³⁵ excepts from the conclusive evidence rule, and by implication from section 15, only the area in which a good faith junior user used his mark prior to registration or republication by another of the mark that has become

332. See note 102 supra and accompanying text.

333. 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960).

334. Id. at 611.

335. 60 Stat. 439 (1946), as amended, 15 U.S.C. § 1115(b) (5) (1964).

incontestable. If an incontestable right to use were a defense to an infringement suit and to a prayer for a cancellation in the area in which a good faith junior user broadens his use following registration or republication by another of a mark that has become incontestable, it would be difficult to maintain that the junior user could obtain rights in this territory. The impact of subsection 33(b)(5) is, however, negated where any of the exceptions to section 15 can be established because section 33(b) is only applicable "if the right to use the registered mark has become incontestable. . . ." ³³⁶ One of the exceptions to section 15 is that a registered mark "has been abandoned." ³³⁷ The relevance of this exception is demonstrated by the following excerpt from Hanover Star Milling Co. v. Metcalf:³³⁸

Allowing to the Allen & Wheeler firm and corporation [the senior user] the utmost that the proofs disclose in their favor, they have confined their use of the "Tea Rose trademark to a limited territory, leaving the south-eastern States untouched. . . . If, during the long period that has elapsed since the last specified sale of Allen & Wheeler "Tea Rose"—this was "in the later 70's"—that flour has been sold in other parts of the United States, excluding the south-eastern States, no clearer evidence of abandonment by non-user of trade-mark rights in the latter field could reasonably be asked for. [Emphasis supplied.]³³⁹

Hanover suggests that subsection 33(b)(5) should be inapplicable because of abandonment of a registrant's rights derived from registration in those areas in which a good faith junior user engages in unobstructed and substantial expansion of his use following registration or republication by another of a mark that has become incontestable.³⁴⁰

A similar analysis should be employed with respect to a senior user who neglects to obtain registration before it is obtained by a good faith concurrent user. Because nonregistrant senior users are thereby penalized for exploiting open markets, it is a

336. § 33(b), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b) (1964).

337. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964).

338. 240 U.S. 403 (1916).

339. *Id.* at 419.

340. This interpretation is consistent with Dawn Donut Co. v. Hart's Food Stores, Inc., 367 F.2d 358 (2d Cir. 1959). Dawn held that use by a registrant anywhere in the nation retained the benefit of the constructive notice provision in areas of nonuse. The above discussion is based on the assumption that section 22 does not bar extension of concurrent territorial rights by a person who obtained these rights before constructive notice began. The abandonment referred to is of the territorial rights that might otherwise be derived from § 33(b)(5).

euphemism for a restraint of trade to characterize a rule foreclosing further aggrandizement of territorial rights by the nonregistrant senior user as "an incentive to register." Small penalties might be appropriate for a failure to register but an arbitrary delimitation of territorial rights throughout the length and breadth of the United States is not. Indeed, nonregistrant senior users are treated even more harshly by section 15 and 33(b) than good faith junior users. Their rights are protected solely by the state rights exception to section 15 which cuts off rights as of the date of publication or republication of the registrant's mark that has become incontestable.³⁴¹ This unnecessarily harsh and noncompetitive result should be compensated for by considering that a registrant's territorial rights derived from registration are abandoned in those areas in which a nonregistrant senior user engages in unobstructed and substantial expansion of his use following publication or republication by another of a mark that has become incontestable.

The Justice Department's attack on the concurrent registration provisions was as out of focus as some of the claims concerning the import of section 22. During the hearings on the Lanham Bill the Antitrust Division maintained that the concurrent registration provisions could be "utilized to establish and police divisions of territory. . .by registrations in the Patent Office."³⁴² This was anomalous for the concurrent registration provisions reflected the common-law doctrine of concurrent territorial rights³⁴³ and a major theme of the Justice Department's opposition to the proposed legislation was the adequacy of the common law to protect "legitimate rights" of trademark users.³⁴⁴ Insofar as the Justice Department objected to the principle of concurrent territorial rights, its quarrel was with the common law, not the Lanham Bill, but the Antitrust Division was probably primarily concerned with the practice of concurrent territorial use. The effect that issue of concurrent registrations can have on the incidence of concurrent use is necessarily conditioned by the fact that territorial restrictions in a registration curtail only the advantages derived from registration and not the capacity to use a mark.³⁴⁵ Since several

341. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964).

342. 1944 Senate Hearings at 64.

343. See Derenberg & Merchant, "Problems in Registration Procedure," 37 Trademark Rep. 799, 802 (1947); Legislative Note, "Possible Monopoly Implications in the Trade-Mark Bill," 32 Geo. L.J. 171, 174, 181 (1944).

344. E.g., 1944 Senate Hearings at 59.

345. In re National Distillers & Chem. Corp., 49 C.C.P.A. (Patents) 854, 863, 297 F.2d 941, 948 (1962) (concurring opinion); Alfred Dunhill, Inc. v. Dunhill Tailored Clothes, 49 C.C.P.A. (Patents) 730, 738 N.5, 293 F.2d 685, 691 n.4, cert. den., 369 U.S. 864 (1961).

of these substantive advantages, like the constructive notice provision and incontestability, penalize junior users by inhibiting subsequent acquisition and enforcement of concurrent territorial rights, concurrent registration may weaken registration as a deterrent to concurrent territorial use by limiting the territorial scope of the substantive provisions of the Lanham Act; but this would not necessarily encourage concurrent territorial use over and above that probable at common law. The Justice Department's forebodings could only have been realized if the Patent Office had interpreted section 2(d) as permitting concurrent registration in circumstances in which concurrent territorial rights would not have been recognized at common law.

Whatever might have occurred, the Patent Office has taken its cue from the legislative hearings and administered the statute so as to avoid the consequences foreseen by the Justice Department.³⁴⁶ Section 2(d) requires a formal Patent Office proceeding before concurrent registration can be issued regardless of any understanding among the persons affected,³⁴⁷ and the Patent Office has stubbornly adhered to the spirit of the requirement. From the first, concurrent registration has been treated as an "extraordinary remedy for extraordinary circumstances" that is not routinely granted.³⁴⁸ A person must have engaged in substantial use of his mark and must have acquired common-law rights for concurrent registration to be available.³⁴⁹ Moreover, even though a right to concurrent registration may be unquestionable, the Patent Office has disregarded private agreements concerning the appropriate territorial scope of concurrent registration to what some believe is an extreme degree.³⁵⁰ Although the 1962 decision of the Court

346. See Hancock, "Notes from the Patent Office," 45 Trademark Rep. 272, 273 (1955); Timberg, "Trade-Marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 352-53 (1949).

347. E.g., *Ex parte Chadbourn Hosiery Mills, Inc.*, 107 U.S.P.Q. 12 (Comm'r 1955). The original conception of concurrent registration was exactly the opposite. In 1925 it was proposed that "plural registrations" should be permitted only if the interested parties filed written consents in the Patent Office. See Derenberg, "The First Year," 38 Trademark Rep. 831, 849-50 (1948).

348. See Leeds, "Trademarks from the Government Point of View," 44 Calif. L. Rev. 489, 494-96 (1956); Hancock, "Notes from the Patent Office," 46 Trademark Rep. 53 (1956), 45 Trademark Rep. 272 (1955).

349. Compare *B-1 Beverage Co. v. Rock Creek Ginger Ale Co.*, 110 U.S.P.Q. 381 (Comm'r 1956) with *Old Monastery Wine Co. v. St. Julian Wine Co.*, note 299 *supra*, see Hancock, "Notes from the Patent Office," 46 Trademark Rep. 53-54 (1956); Leeds, "Trademarks from the Government Viewpoint," 44 Calif. L. Rev. 489, 494-96 (1956).

350. E.g., *Ex parte Chadbourn Hosiery Mills, Inc.*, note 347 *supra*; see Derenberg, "The Ninth Year," 46 Trademark Rep. 1017, 1073-75 (1956).

of Customs and Patent Appeals in In re Nat'l Distillers & Chem. Corp.³⁵¹ indicated that agreements among interested persons should be given greater weight in ordinary registration proceedings, the transfer value may not be great insofar as concurrent registration proceedings are concerned. Section 2(d) itself bars consent as a basis for concurrent registration and the Commissioner continues to look askance at stipulations concerning the territorial scope of concurrent registration.³⁵²

Another possible basis for the Justice Department's aversion to section 2(d) may have been a largely unarticulated concern that issue of concurrent registration on the basis of a private agreement for concurrent use would impair the Justice Department's ability to attack the underlying agreement. Since the Patent Office can only authorize concurrent registration if marks are in "concurrent lawful use,"³⁵³ it can plausibly be contended that issue of concurrent registration on the basis of an agreement for concurrent territorial use would constitute an administrative determination that the agreement did not violate the antitrust laws.³⁵⁴ However it is doubtful that this determination would have any impact on antitrust liability. Congressional approval of a pervasive scheme of regulation may preclude antitrust proceedings with regard to matters entrusted to an administrative agency, but Patent Office regulation of territorial allocations by competitors is hardly pervasive.³⁵⁵ This is made explicit by section 46(a) of the Lanham Act which provides that:

[N]othing contained in this Act shall be construed. . . as restricting or increasing the authority of any Federal department or regulatory agency except as may be specifically provided by this act.³⁵⁶

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351. 49 C.C.P.A. (Patents) 854, 297 F.2d 941 (1962).
352. Coastal Chem. Co. v. Dust-A-Way, Inc., note 299 supra. In Haas Bros. v. Charles Jacquin et Cie, 143 U.S.P.Q. 37 (Comm'r 1964) the Commissioner adopted the terms of a stipulation concerning the scope of concurrent registration but only after an affirmation of his power to disregard the agreement and a careful review of the facts.
358. § 2(d), 60 Stat. 428 (1946), as amended, 15 U.S.C. § 1052(d) (1964).
354. Though the requirement of "lawful use" was not one of the last minute Senate amendments intended to harmonize the Lanham Bill with the antitrust laws, concurrent use pursuant to an agreement violative of the antitrust laws would certainly not be "lawful." See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 899-900 (1955).
355. Compare Pan American World Airways, Inc. v. United States, 371 U.S. 296 (1963) (preclusion) with California v. Federal Power Comm'n, 369 U.S. 482 (1962) (nonpreclusion).
356. Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 445.

Voluntary judicial deference to a Patent Office determination of "lawful concurrent use" also seems improbable in view of the Patent Office's lack of sophistication in antitrust matters.³⁵⁷

The Justice Department's disapproval of the concurrent registration provisions can not in fairness be taken as a strong endorsement of the right to territorial expansion accorded a registrant by section 22 with respect to persons who adopted their marks after constructive notice began. It should be acknowledged that the objections raised to incontestable rights,³⁵⁸ particularly with respect to generic and descriptive terms,³⁵⁹ would also be relevant to the broad territorial rights derived from section 22. The Justice Department essentially contended that facilitating the acquisition of greater exclusivity in trademark rights through federal legislation would be detrimental to small business.³⁶⁰ Although "small business" is a difficult concept to define,³⁶¹ the context makes reasonably clear what the Justice Department had in mind. The Lanham Bill was strongly supported by the National Association of Manufacturers³⁶² and the United States Trademark Association.³⁶³ Since both of these organizations have a sizable number of large manufacturers among their membership, the Justice Department would appear to have championed the cause of manufacturers who produce goods for regional or local markets as well as the myriad of local businesses that retail goods and services.³⁶⁴

The plea on behalf of local business was more substantial. A company that has developed a regional or multistate marketing system³⁶⁵ should possess sufficient financial resources to be able to afford trademark advice and protection.³⁶⁶ A multistate or regional business should also possess sufficient commercial sophistication

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357. See Diggins, "The Lanham Trademark Act," 37 Trademark Rep. 305, 322 (1947).
358. See, e.g., 1944 Senate Hearings at 40 (remarks of Elliott H. Moyer).
359. See, e.g., Statement of the Department of Justice, *id.* at 59-62, *id.* at 136 (remarks of Elliott H. Moyer).
360. Statement of the Department of Justice, *id.* at 59.
361. See Adelman, "Small Business—A Matter of Definition," 16 A.B.A. Antitrust Section 18 (1960).
362. See 1941 House Hearings at 129-32.
363. See *id.* at 124-26.
364. See Carretta, "Some Competitive Practices with which Small Business Must Contend," 24 Law & Contemp. Prob. 169 (1959); e.g., 1944 Senate Hearings at 39, 41-42 (remarks of Elliott H. Moyer).
365. Local firms located on or near state lines excepted. See 1941 House Hearings at 184.
366. Cf. Harnish, "The New Trade-Mark Law," 32 Mass. L.Q. 27, 32 (1947). A fair amount of general information can be obtained at nominal cost from the government either by writing one's elected

to be chargeable with the legal consequences of failure to search for conflicting registrations in the Patent Office before adopting a mark and the legal consequences of failure to register that mark. A thriving but modest interstate business has actually far more to gain than to lose from the substantive provisions of the Lanham Act. Under the common law a smaller business with a "magic" trademark was not only subject to depredations by minor league buccaneers who commenced simulated bona fide uses in separate territories in order to cash in on the potentialities of the mark, but was also subject to virtual encirclement by commercial giants with the same disguised purpose and greater resources. The common law stacked the cards in favor of big business. Because the extent of territorial rights turned on the extent of use, only the largest firms were able to establish broad territorial rights quickly enough to head off most potential concurrent users.³⁶⁷ Small firms, which could least afford it, were more likely to be ambushed by good faith concurrent users as they slowly expanded their markets. By their inroads on the common law, the substantive provisions of the Lanham Act placed small business on a more equal plane with big business. For the price of registration a small company can obtain the same legal opportunity to expand its markets under a mark that a big company can. Furthermore, registration serves as a protective shield with which to ward off sorries by commercial giants.³⁶⁸ On the other hand, it cannot be denied that the nationwide rights derived from registration place local business on a procrustean bed. Even today how many of the local drug stores, grocery stores, or haberdasheries that place their labels on a few items can realistically be expected to check the federal registry first, and then obtain registration? Moreover, registration is not available without use in commerce, and local firms are unlikely to be acquainted with the subtleties of token use.³⁶⁹

(Footnote continued)

representatives, e.g., 1941 House Hearings at 185 (remarks of Congressman Lanham), or the Government Printing Office. E.g., Watson, *Small Business and Trade-Marks* (Economic-Small Business-Series No. 68 G.P.O. 1949).

367. See Hopkins, *Trademarks, Tradenames, and Unfair Competition* 25 (4th ed. 1924).
368. See *A. Smith Bowman Distillery, Inc. v. Schenley Distillers, Inc.*, 198 F. Supp. 822 (D. Del. 1961); *Borg-Warner Corp. v. York-Shipley, Inc.*, 127 U.S.P.Q. 42 (N.D. Ill. 1960), modified, 293 F.2d 88 (7th Cir.), cert. den., 368 U.S. 939 (1961); *Conley v. Colgate-Palmolive Co.*, 125 U.S.P.Q. 2 (N.D. Cal. 1959).
369. See, e.g., 1941 House Hearings at 73-74, 181-87 (remarks of Louis Robertson).

An obvious rejoinder to the Justice Department's concern over the effect of the Lanham Act on local business is that this effect is de minimus when compared with the benefit accruing to multistate enterprise. Certainly the advertising expenditures invested in trademarks in multistate use would ordinarily be greater than those in local use. By the same token, forcing a multistate firm to adopt a new mark should impose a greater financial burden than requiring a local firm to do so.³⁷⁰ Furthermore, the Lanham Act is not devoid of features which cushion its impact on local business. The constructive notice provision's lack of effect of concurrent uses initiated before constructive notice commenced aids established local businesses.³⁷¹ The act's limitation to interstate commerce, albeit "all commerce which may lawfully be regulated by Congress,"³⁷² has some,³⁷³ if not a great deal, of cushioning effect,³⁷⁴ and the "fair use" exception to the conclusive evidence rule is also of moment: a registered trademark can infringe a local trade name, and the "fair use" exception removes the conclusive evidence rule as a defense with respect to some of the most common local trade names; namely, trade names composed of the names of those engaged in the business or their privies.³⁷⁵

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370. Disparity in size between interstate and local firms may mean that the relative burden on the local firm is greater than a dollars-and-cents comparison would indicate. Nevertheless, economic waste is minimized by placing the burden on the smaller firm.
371. See text accompanying notes 332-41 *infra*.
372. § 45, 60 Stat. 443 (1946), as amended, 15 U.S.C. § 1127 (1964). See generally Dunner, "The Effect of the Lanham Act of Intrastate Activities," 40 J. Pat. Off. Soc'y 379 (1958).
373. Compare *Peter Pan Restaurants, Inc. v. Peter Pan Diner, Inc.*, 150 F. Supp. 534 (D.R.I. 1957) with *John R. Thompson Co. v. Holloway*, 141 U.S.P.Q. 355 (N.D. Tex. 1964).
374. See *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959) (bakery marketing goods within a 45 mile radius of Rochester, N.Y., subject to the constructive notice provision); *Nielsen v. American Oil Co.*, 203 F. Supp. 473 (D. Utah 1962) (gasoline station selling to interstate travelers in commerce); *Drop Dead Co. v. S. C. Johnson & Sons, Inc.* 326 F.2d 87, 94 (9th Cir. 1963) (alternative holding), *cert. den.*, 377 U.S. 907 (1964) (\$7000 in sales affects commerce); *cf. In re Gastown, Inc.*, 51 C.C.P.A. (Patents) 876, 326 F.2d 780 (1964).
375. § 33(b) (4), 60 Stat. 438 (1946), 15 U.S.C. § 1115(b) (4) (1964); see *John R. Thompson Co. v. Holloway*, 141 U.S.P.Q. 355 (N.D. Tex. 1964). The fair use exception does not apply to trademark use. See *Pure Foods, Inc. v. Minute Maid Corp.*, 214 F.2d 792 (5th Cir.), *cert. den.*, 348 U.S. 888 (1954); *Q-Tips, Inc. v. Johnson & Johnson*, 206 F.2d 144 (3d Cir.), *cert. den.*, 346 U.S. 867 (1953). But see *Jean Patou, Inc. v. Jacqueline Cochran, Inc.*, 312 F.2d 125 (2d Cir. 1963).

With all due regard for the foregoing, it is the Lanham Act definition of trademark infringement that seems to offer the greatest safeguard for local interests.³⁷⁶ As this definition was construed in *Dawn Donut Co. v. Hart's Food Stores, Inc.*,³⁷⁷ a federal registrant, although entitled to superior rights with respect to all persons who started use after constructive notice began, cannot enjoin such local concurrent users unless the registered mark is known in the locality or the local use lies within the registrant's zone of imminent expansion. The *Dawn* interpretation tempers the literal significance of the substantive provisions of the Lanham Act with the commercial reality that not every registrant will be able to capitalize on his nationwide trademark rights and ensures that local interests will only be sacrificed to those of a dynamic federal registrant. Stagnant registrants will have a right without a remedy. Admittedly, *Dawn* may lead to some unfortunate consequences. Some local firms will doubtless increase advertising investments in their trademarks and trade names in blissful ignorance that continued use of these trade identifiers is due to the temporary license extended by the *Dawn* interpretation. When the federal registrant subsequently invades the hitherto peaceful local preserve, the courts will be faced with the bitter fruit of compromise. It is to be hoped that judicial statesmanship will avoid undue hardship, not by denying the registrant his opportunity to expand, but by permitting the local user to adjust his infringing use in a way,³⁷⁸ or over a period of time,³⁷⁹ that will minimize his losses.³⁸⁰

The foregoing discussion has particular relevance to registered secondary-meaning marks.³⁸¹ Secondary-meaning marks are potent advertising devices since they consist of familiar,

376. § 32(1) (a), 60 Stat. 437 (1946), as amended, 15 U.S.C. § 1114(1) (a) (1964).

377. 267 F.2d 358 (2d Cir. 1959).

378. See *Hot Shoppes, Inc. v. Hot Shoppe, Inc.*, 203 F. Supp. 777 (M.D.N.C. 1962).

379. *Elcon Mfg. Co. v. Elcon Mfg. Co.*, 132 F. Supp. 769 (E.D.N.Y. 1955); see *Victory Chain, Inc. v. Rosenberg*, 10 Misc. 2d 382, 174 N.Y.S. 2d 46 (Sup. Ct. Chenango County 1958).

380. The Lanham Act states: "The several courts vested with jurisdiction of civil actions arising under this chapter shall have power to grant injunctions, according to the principles of equity and upon such terms as the court may deem reasonable, to prevent the violation of any right of the registrant of a mark registered in the Patent Office." (Emphasis supplied.) § 34, 60 Stat. 439 (1946), 15 U.S.C. § 1116 (1964).

381. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 831 (1955).

easy-to-remember terms.³⁸² For this reason the acquisition of a secondary-meaning mark can seriously affect competitors' advertising programs. Because of the Pure Oil Company's "Pure" mark, for instance, none of their competitors can sell "Pure" products.³⁸³ Despite the importance of secondary-meaning marks, the Patent Office can permit registration upon a mere averment without requiring proof of secondary meaning³⁸⁴ and other users who do not religiously scan the Official Gazette of the Patent Office may not be aware of a registrant's claim of exclusive rights until incontestable rights have been obtained.³⁸⁵ The upshot will probably be a more rigorous application of the Dawn rationale to registered secondary-meaning marks. Although an incontestable right to use may make registration a good defense to a prayer for cancellation, attempts by the registrant to utilize registration as the basis for an infringement suit will require cogent proof of the geographical extent of secondary meaning in order to establish likelihood of purchaser confusion.³⁸⁶

382. This is not to say that secondary meaning marks are the best trademarks from the standpoint of legal protection. See "Selection and Adoption of Trademarks," 53 Trademark Rep. 687, 706-08 (1963).

383. See *Pure Oil Co. v. Paragon Oil Co.*, 117 U.S.P.Q. 321 (N.D. Ohio 1958).

384. 37 C.F.R. § 2.41(b) (1960).

385. See 1941 House Hearings at 66-67 (remarks of Wallace H. Martin); *id.* at 73-74 (remarks of Louis Robertson).

386. See *Anheuser-Busch, Inc. v. Bavarian Brewing Co.*, 264 F.2d 88 (6th Cir. 1959). Anheuser is discussed in Bonyngé, "The Effect of Registration in Trademark Litigation," 50 Trademark Rep. 902, 909-10 (1960).

III. ASSIGNMENT AND LICENSING OF TRADEMARKS

An assignment transfers the assignor's exclusive right to the use of a mark, whereas a license permits a privileged use of a mark by another subject to the licensor's quality control.¹ Both are inconsistent with the original legal conception of a trademark as an identification of the source of goods. If a mark is considered to denote a particular person, it is patently deceptive to allow another to sell goods under its aegis.² Notions concerning assignment and license are consequently premised upon a view that a trademark primarily identifies not the source of goods, but like goods, from, or controlled by, a single anonymous source.³

The Lanham Act put the assignment and licensing of trademarks upon a new footing. The governing legal principles were simplified and clarified so that employment of those methods of transferring trademark rights was greatly facilitated. The Department of Justice bridled at this endeavor because of fears that consensual allocation of territorial trademark rights might gain a resultant immunity from antitrust liability.⁴ Evaluation of the Antitrust Division's position requires an appreciation of the general treatment of territorial allocations under the antitrust laws and the nature and background of the Lanham Act provisions dealing with the assignment and licensing of trademarks.

A. General Treatment of Territorial Allocations Under the Antitrust Laws

Section 1 of the Sherman Act is the principal antitrust yardstick by which territorial allocations are measured. Section 1 states that

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. . . .⁵

1. See Restatement (Second), Torts § 756A, comment c (Tent. Draft No. 8, 1963).
2. Cf. *Messer v. The Fadettes*, 168 Mass. 140, 46 N.E. 407 (1897); see Taggart, "Statutory New Concepts of Trade-Mark Ownership," 38 Trade-mark Rep. 125 (1948).
3. See Brown, "Advertising and the Public Interest," 57 Yale L.J. 1165, 1185-87 (1948).
4. See 1944 Senate Hearings at 63-64.
5. § 1, 26 Stat. 209 (1890), as amended, 15 U.S.C. § 1 (1964).

Although the Supreme Court may have initially flirted with the idea that every contract, combination, or conspiracy that restrained trade was ineluctably condemned by this uncompromising phraseology, the Court concluded early in the history of the Sherman Act that only unreasonable restraints of trade fell within the statute's ambit.⁶ As an antidote to the sweeping inquiry prerequisite to a wholly factual determination of reasonableness,⁷ the Court has also held that

[T]here are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use. This principle of per se unreasonableness not only makes the type of restraints which are proscribed by the Sherman Act more certain to the benefit of everyone concerned, but it also avoids the necessity for an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable. . . .⁸

The validity of restraints outside the per se category continues to be tested by a broad factual evaluation, often referred to as a rule of reason inquiry, which seeks to ascertain whether conceded inter partes restraints strengthen or inhibit the competitive process, limit the supply of goods or services or produce socially useful economic efficiency gains. Restraints which have overall deleterious effects are not condoned.⁹ The crux of the essentially tentative dichotomy between restraints that are per se illegal and those that are tested by the rule of reason lies in the evidence that must be considered by a court.¹⁰ Per se illegality may be announced on the basis of evidence concerning the nature and the factual

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6. *Standard Oil Co. v. United States*, 221 U.S. 1 (1911). For contrasting views as to the initial interpretation of the statute compare Handler, *Antitrust in Perspective* 4-12 (1957) with Bork, "The Rule of Reason and the Per Se Concept," 74 *Yale L.J.* 775, 785-96 (1965).
 7. Cf. Dirlam & Kahn, *Fair Competition* 268-75 (1954).
 8. *Northern Pac. Ry. v. United States*, 356 U.S. 1, 5 (1958).
 9. See Handler, note 6 *supra*, at 26-28; Loevinger, "The Rule of Reason in Antitrust Law," 50 *Va. L. Rev.* 23, 33-34 (1964). There is currently a lively debate over the extent to which a per se rule or a rule of reason inquiry should be based on economic considerations alone. See Symposium, "The Goals of Antitrust," 65 *Colum. L. Rev.* 363 (1965).
 10. Loevinger, note 9 *supra*, at 32-34. But see Massel, *Competition and Monopoly* 88-91 (1963).

setting of a defendant's conduct.¹¹ On the other hand, if this evidence does not warrant a conclusion that there is a pernicious effect on competition without redeeming virtue, evidence concerning probable competitive effects must also be weighed.¹² In procedural terms this means that whenever a defendant's conduct falls within a per se category, the defendant has the burden of going forward with evidence to negate the implication of unmitigated anticompetitive effect; where a non-per se offense is involved, the burden of going forward with evidence with respect to both the nature of the defendant's conduct and its competitive effect rests upon the plaintiff.¹³

Whatever the test applied, if a territorial allocation violates section 1 of the Sherman Act, it will also offend the broad proscription of "unfair methods of competition" in section 5 of the Federal Trade Commission Act.¹⁴ Section 5, which embraces both incipient and consummated Sherman Act offenses,¹⁵ paradoxically resulted in part from a movement to supplement the general language of the Sherman Act with more specific antitrust standards.¹⁶ Far from performing this original purpose, section 5 instead vests additional general antitrust authority in the Federal Trade Commission, an administrative agency whose orders are subject to judicial review. Insofar as this administrative blank check embraces territorial allocations, the Commission has a general predisposition to follow the distinctions between application of the rule of reason and a per se approach charted under section 1 of the Sherman Act.¹⁷

"The general objective of the antitrust law is promotion of competition in open markets,"¹⁸ and this objective is implemented in no small part through the prohibition of agreements which unduly

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11. E.g., *Northern Pac. Ry. v. United States*, 356 U.S. 1 (1958); see Att'y Gen. Nat'l Comm. Antitrust Rep. 11 (1955); Loevinger, note 9 *supra*, at 33; Oppenheim, "Antitrust Booms and Boomerangs," 59 *Nw. L. Rev.* 33, 35-37 (1964).
 12. E.g., *White Motor Co. v. United States*, 372 U.S. 253 (1963); see Att'y Gen. Nat'l Comm. Antitrust Rep. 11 (1955); Loevinger, note 9 *supra*, at 33-34.
 13. See Packer, Book Review, 67 *Yale L.J.* 1141, 1142-43 (1958).
 14. § 5, 38 Stat. 719 (1914), as amended, 15 U.S.C. § 45(a) (1) (1964).
 15. See *F.T.C. v. Cement Institute*, 333 U.S. 683 (1948).
 16. See Handler, note 6 *supra*, at 29-31.
 17. See *Sandura Co.*, Dkt. 7042, 1961-63 F.T.C. Complaints, Orders, Stipulations ¶ 15945 (1962), *rev'd*, 339 F.2d 847 (6th Cir. 1964); *Snap-On Tools Corp.*, 59 F.T.C. 1035 (1961), *rev'd*, 321 F.2d 825 (7th Cir. 1963). See generally Oppenheim, "Harmonization of Section 5 of the Federal Trade Commission Act with the Sherman and Clayton Acts," 17 *A.B.A. Antitrust Section* 231, 236-37 (1960).
 18. Att'y Gen. Nat'l Comm. Antitrust Rep. 1 (1955).

impair rivalry among sellers.¹⁹ Intentionally anticompetitive conduct is condemned out of hand yet in many cases conduct is equivocal, or at least evidence of subjective intent is lacking. In these situations the economic relationship between the parties to restrictive agreements is a material factor in determining whether the agreements have an anticompetitive effect. Agreements among competing sellers, called horizontal agreements because they involve persons on the same level of manufacture or distribution, may strike at the heart of competition and are often invalidated by the antitrust laws. The validity of agreements between buyers and sellers, so-called vertical agreements, also depends on the effect of the agreements on competing sellers—with judicial approbation being more likely because this effect is indirect. Finally, agreements between persons who have no discernible economic relationship may be placed in a catchall conglomerate category²⁰ that is usually treated most tolerantly under the antitrust laws.

Although the pertinent Supreme Court cases have concerned competitors with substantial market power and involve more than bare allocation of markets, there is little doubt that horizontal division of markets is ordinarily a per se offense.²¹ The unique circumstances which have led two district judges to apply the rule of reason to horizontal territorial allocations merely emphasize their customary per se illegality. United States v. National Football League,²² which upheld National Football League bylaws forbidding telecasts of outside games when the home team was playing at home, turned on the sui generis nature of professional football, including the need to protect the gate receipts of the weaker teams. When the same federal district court later held that the terms of the earlier decree forbade the League to sell the pooled television

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19. Bork, "The Rule of Reason and the Per Se Concept," 74 Yale L.J. 775 (1965).
 20. Cf. Bock, *Mergers and Markets* 30 (2d ed. 1962).
 21. United States v. Consolidated Laundries Corp., 291 F.2d 563 (2d Cir. 1961); see Kayson & Turner, *Antitrust Policy* 144 (1959); Massel, note 10 supra, at 89; Att'y Gen. Nat'l Comm. Antitrust Rep. 26 (1955). The leading Supreme Court opinions are Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951) and Addystone Pipe & Steel Co. v. United States, 175 U.S. 211 (1899). In White Motor Co. v. United States, 372 U.S. 253 (1963), a case involving vertical territorial restraints, the court included horizontal territorial allocations in a roll call of per se violations disregarding an amicus curiae brief that urged the avoidance of dicta on horizontal arrangements. Id. at 259; see 51 Calif. L. Rev. 608, 619 n. 89 (1963).
 22. 116 F. Supp. 319 (E.D. Pa. 1953). See Bork, "Ancillary Restraints and the Sherman Act," 15 A.B.A. Antitrust Section 211, 231-34 (1959) for a critical analysis of the theory of National Football League.

network,²³ Congress in turn stressed the singularity of the context by legislating a specific exemption from the antitrust laws.²⁴ United States v. Pan American World Airways, Inc.,²⁵ concerned an equally exceptional situation. In 1929 Pan American and W.R. Grace & Co. established Panagra, a jointly controlled airline, in order to obtain United States mail contracts for western South America. The joint venture included an understanding between Pan American and Grace that Panagra and Pan American would not duplicate or parallel each other's South American routes. Disregarding a government charge that the agreement was per se invalid, the district judge concluded that the rule of reason was applicable and that the territorial allocation did not unreasonably restrain competition. He stressed as mitigating the restraint the large amount of capital necessary to finance an airline, the fierce competition from foreign carriers, and a Post Office and State Department policy of zoning operations of American international carriers. The Pan American and National Football League cases give no indication that an allocation of domestic markets by competing businesses would be other than a per se violation of section 1 of the Sherman Act and section 5 of the Federal Trade Commission Act.²⁶

Analysis of vertical territorial restraints customarily distinguishes between restraints on the seller and restraints on the buyer.²⁷ The former typically involves a manufacturer's promise that a particular dealer will be the manufacturer's exclusive sales outlet for a defined territory.²⁸ Although an exclusive sales outlet agreement negates intrabrand competition from within a dealer's territory by removing the possibility that additional dealers will be appointed and that the manufacturer will engage in direct sales, these agreements have been uniformly sustained unless enmeshed

23. United States v. National Football League, 196 F. Supp. 445 (E.D. Pa. 1961).

24. Blaich v. National Football League, 212 F. Supp. 319 (S.D.N.Y. 1962).

25. 193 F. Supp. 18 (S.D.N.Y. 1961), rev'd on other grounds, 371 U.S. 296 (1963).

26. With respect to § 5 see, e.g., W. B. Saunders Co., 35 F.T.C. 382 (1942); Hardwood Charcoal Co., 31 F.T.C. 706 (1940).

27. But see Jordan, "Exclusive and Restricted Sales Areas Under the Antitrust Laws," 9 U.C.L.A.L. Rev. 111, 142-43 (1962).

28. An exclusive sales outlet arrangement may or may not be based upon an agreement between a manufacturer and a distributor. If the arrangement is a de facto result of a manufacturer's unilateral decision to limit the number of his distributors, an antitrust violation is improbable. See Turner, "The Definition of Agreement Under the Sherman Act," 75 Harv. L. Rev. 655, 703-04 (1962). But see id. at 705. The textual discussion is accordingly focused on exclusive sales outlet agreements.

in an anticompetitive scheme or monopoly power existed at either the buyer or seller level.²⁹ In other words, exclusive sales outlet agreements have been tested by the rule of reason under both section 1 of the Sherman Act and section 5 of the Federal Trade Commission Act.³⁰ The furor over vertical territorial allocations sparked by White Motor Co. v. United States³¹ has, however, recently led to a critical reappraisal. It has been suggested that exclusive sales outlet agreements should be presumptively illegal³² and that their business purpose must justify both their existence and the material terms of the contract before a rule of reason inquiry is justified.³³ The assumptions of the critics of exclusive sales outlet agreements have been questioned,³⁴ but Mr. Justice Brennan's concurring opinion in White Motor contained the following footnote:

The District Court suggested, 194 F. Supp., at 585-86, and the Government seems to concede, that certain types of exclusive franchises would not violate the Sherman Act, although a determination of the legality of such arrangements would seem also to require an examination of their operation and effect.³⁵

Quaere: What does this observation portend? It should at least inspire more careful consideration of the reasonableness of the contractual provisions in exclusive sales outlet agreements.³⁶

29. E.g., New York Automatic Canteen Corp. v. Automatic Canteen Corp., 1963 Trade Cas. ¶ 70625 (S.D.N.Y. 1962); see 51 Calif. L. Rev. 608, 617 & nn.74-75 (1963).
30. See Day, "Exclusive Territorial Arrangements Under the Antitrust Laws," 40 N.C.L. Rev. 223, 229-35, 248 (1962); Jordan, note 27 supra, at 134-42, 152 (1962); Robinson, "Restraints on Trade and the Orderly Marketing of Goods," 45 Cornell L.Q. 254, 255-61 (1960). With respect to § 5 see Sandura Co., Dkt. 7042, 1961-63 F.T.C. Complaints, Orders, Stipulations ¶ 15945, ¶ 16095 (1962), rev'd on other grounds, 339 F.2d 847 (6th Cir. 1964); Snap-On Tools Corp., 59 F.T.C. 1035 (1961), rev'd on other grounds, 321 F.2d 825 (7th Cir. 1963).
31. 372 U.S. 253 (1963).
32. Turner, note 28 supra, at 704-05; Note, "Restricted Channels of Distribution Under the Sherman Act," 75 Harv. L. Rev. 795, 824-27 (1962).
33. Note, "Restricted Channels of Distribution Under the Sherman Act," note 32 supra, at 823-27; 51 Calif. L. Rev. 608, 617-19 (1963).
34. Cf. Handler, "Recent Antitrust Developments," 112 U. Pa. L. Rev. 159, 166-68 (1963).
35. White Motor Co. v. United States, 372 U.S. 253, 271 n. 11 (1963). See also Jordan, note 27 supra, at 142-43.
36. See Stewart, "Exclusive Franchises and Territorial Confinement of Distributors," 22 A.B.A. Antitrust Section 33, 44 (1963); 51 Calif. L. Rev. 608, 618 (1963) (speculating on increased Justice Department interest). Compare New York Automatic Canteen Corp. v. Automatic Canteen Corp., 1963 Trade Cas. ¶ 70625 (S.D.N.Y. 1962) which sustained a thirty-two year contract under the current permissive standards.

Vertical territorial restraints on buyers range from requiring a dealer to perform minimum marketing functions in a defined area before soliciting sales elsewhere, through forbidding a dealer to solicit sales outside his designated territory, to a ban on sales to persons residing outside the territory. These restrictions will be respectively referred to as designation of areas-of-primary-responsibility, closed territories, and geographical customer allocation. The customary sanctions for disregard of territorial restrictions are some form of profit "pass-over" from the raiding dealer to a dealer whose territorial rights he has infringed or the refusal of a manufacturer to continue doing business with an offending dealer.³⁷

Closed territories and geographical customer allocation are in relatively common use³⁸ and sustained by a substantial body of older precedent.³⁹ Nevertheless, since 1949 the Antitrust Division has asserted their per se invalidity and garnered a surprising number of consent decrees abjuring the restraints.⁴⁰ White Motor Co., however, refused to accede to Justice Department importunities and issue was joined. The district court granted the government's motion for summary judgment holding White's system of geographical customer allocation illegal per se,⁴¹ but the Supreme Court reversed and remanded the case for a trial noting that

This is the first case involving a territorial restriction in a vertical arrangement; and we know too little of the actual impact of . . . that restriction . . . to reach a conclusion on the bare bones of the documentary evidence before us.⁴²

Justices Harlan, Stewart, and Goldberg joined Mr. Justice Douglas in the majority opinion in which Mr. Justice Brennan concurred. Chief Justice Warren and Justice Black joined Mr. Justice Clark in voting for affirmance, and castigating the majority for prolonging

37. See Note, "Restricted Channels of Distribution Under the Sherman Act," note 32 supra, at 814-17.
38. But see Robinson, note 30 supra, at 254. The area-of-primary-responsibility concept emerged from the provisions of consent decrees terminating alleged violations of section 1 of the Sherman Act. E.g., *United States v. American Type Founders Co.*, 1958 Trade Cas. ¶ 69065 (D.N.J. 1958) (consent decree); *United States v. Philco Corp.*, 1956 Trade Cas. ¶ 68409 (E.D. Pa. 1956) (consent decree).
39. E.g., *Phillips v. Iola Portland Cement Co.*, 125 Fed. 593 (8th Cir. 1903), cert. den., 192 U.S. 606 (1903); see generally Robinson, note 30 supra, at 261-65 and accompanying notes.
40. E.g., *United States v. Studebaker Corp.*, 1965 Trade Cas. ¶ 71410 (D. Neb. 1965) (consent decree); see generally Handler, "Annual Review of Antitrust Developments," 15 Record of N.Y.C.B.A. 362, 374-75 (1960).
41. *United States v. White Motor Co.*, 194 F. Supp. 562 (N.D. Ohio 1961).
42. *White Motor Co. v. United States*, note 35 supra, at 261.

White's "enjoyment of the fruits of its illegal action."⁴³ White Motor Co. itself was not as impressed by the Court's largess. White accepted a consent decree in which it renounced all present and future vertical territorial restraints.⁴⁴

Although another Supreme Court opinion will be necessary to ascertain the touchstone of legitimacy,⁴⁵ the basic issue is the extent to which solicitude for intrabrand competition will lead the Court to require justifications for vertical territorial restraints on buyers that do not substantially impair market competition.⁴⁶ A full dress rule-of-reason inquiry would disregard abridgment of intrabrand competition for a valid business purpose, absent an overriding anticompetitive design or concomitant undue impairment of market competition at either buyer or seller levels;⁴⁷ but it is optimistic to assume that the Court will dismiss intrabrand competition lightly. The three dissenters in *White Motor* would have struck down the avowed restriction of intrabrand competition out of hand, and the opinion of the Court couched reversal of the district court as follows:

We do not know enough of the economic and business stuff out of which these arrangements emerge to be certain. They may be too dangerous to sanction or they may be allowable protections against aggressive competitors or the only practicable means a small company has for breaking into or staying in business . . . and within the "rule of reason" There is an analogy from the merger field that leads us to conclude that a trial should be had. A merger that would otherwise offend the antitrust laws because of a substantial lessening of competition has been given immunity where the acquired company was a failing one.⁴⁸

While admittedly inconclusive, this language seems to coincide with the views of commentators requiring convincing justifications for

43. *Id.* at 283.

44. *United States v. White Motor Co.*, 1964 Trade Cas. ¶ 71195 (N.D. Ohio 1964) (consent decree).

45. See ATRR 122:B-3 (11/12/63). For views suggesting a per se approach see Kessler & Stern, "Competition, Contract, and Vertical Integration," 69 *Yale L.J.* 1, 113 (1959); Rifkind, "Divisions of Territory Under the Antitrust Laws," 1953 CCH Antitrust Symp. 173, 180-81; Turner, note 28 *supra*, at 698-99. Proponents of the rule of reason include Day, note 30 *supra*, at 248-51; Jordan, note 27 *supra*, at 152-55 (1962); Robinson, note 30 *supra*, at 267-68 (1960); Note, "Restricted Channels of Distribution Under the Sherman Act," 75 *Harv. L. Rev.* 795, 823-24 (1962).

46. See Handler, note 34 *supra*, at 161-70 (1963).

47. See Jordan, note 27 *supra*, at 155.

48. *White Motor Co. v. United States*, note 35 *supra*, at 263-64.

restraints on intrabrand competition⁴⁹ and appears consistent with evolution of the per se rule which denies established firms with large market shares the privilege of using tying clauses.⁵⁰ Mr. Justice Brennan's concurring opinion is equally suggestive. He adverted to the claim that territorial restrictions were necessary to effective competition by independent truck manufacturers and to the situation of a manufacturer starting out in business or marketing a new and risky product as merely indicating possible justifications for vertical territorial restraints.⁵¹ These reflections were, moreover, qualified by a footnote suggesting that justification might only be open to companies with small market shares, and by a caveat that even a justifiable restriction might be unlawful if its terms were too severe or "excessively anticompetitive."⁵² The lower federal courts may interpret White Motor as a mandate to apply the rule of reason to vertical territorial restraints until the Supreme Court writes a definitive opinion,⁵³ but prudent counsel view White Motor as a thunderhead on the horizon that is slowly moving toward their clients.⁵⁴

The application of section 5 of the Federal Trade Commission Act to vertical territorial restraints on buyers has paralleled section 1 experience. At first charges of invalidity were dismissed⁵⁵ or found wanting,⁵⁶ then the administrative attitude changed radically.⁵⁷ In Snap-On Tools Corp.⁵⁸ a sizable manufacturer of hand tools was ordered to abandon a program of vertical geographical customer allocation but allowed to designate areas-of-primary responsibility. In Sandura Co.⁵⁹ a small manufacturer of

49. Stone, "Closed Territorial Distribution," 30 U. Chi. L. Rev. 286, 314-17 (1963); Turner, note 28 *supra*, at 698-99. Note, "Restricted Channels of Distribution Under the Sherman Act," note 45 *supra*, at 823-29, 832-34.

50. See Oppenheim, "Antitrust Booms and Boomerangs," 59 Nw. L. Rev. 33, 38-40 (1964). But see Snap-On Tools Corp. v. F.T.C., 321 F.2d 825 (7th Cir. 1963).

51. White Motor Co. v. United States 372 U.S. 253, 268-70 (1963).

52. *Id.* at 269 n. 8, 270-72.

53. E.g., Sandura Co. v. F.T.C., 339 F.2d 847 (6th Cir. 1964); Snap-On Tools Corp. v. F.T.C., note 50 *supra*; see ATRR 122:B-3 (11/12/63). But see United States v. Arnold Schwinn & Co., 237 F. Supp. 323 (N.D. Ill. 1965) (outlawing geographical customer allocation with respect to stock purchased by a distributor).

54. E.g., United States v. Arnold Schwinn & Co., note 53 *supra*; see Stewart, "Exclusive Franchises and Territorial Confinement of Distributors," 22 A.B.A. Antitrust Section 33, 37, 47 (1963).

55. General Cigar Co., 16 F.T.C. 537 (1932).

56. Columbus Coated Fabrics, 55 F.T.C. 1500 (1959).

57. International Staple & Mach. Co., 59 F.T.C. 1080 (1961).

58. 59 F.T.C. 1035 (1961).

59. Dkt. 7042, 1961-63 F.T.C. Complaints, Orders, Stipulations ¶ 15945, ¶ 16095 (1962).

plastic floor and wall covering was handed a virtually identical order. Both Snap-On and Sandura were decided prior to the Supreme Court's disposition of White Motor, in fact, the F.T.C. hearing examiner in Sandura relied on the trial court opinion in White Motor.⁶⁰ When the cases were reviewed by the Seventh and Sixth Circuits respectively, White Motor had been reversed and remanded by the Supreme Court. The courts of appeals interpreted the Supreme Court's action as indicating that the rule of reason was presently applicable to vertical territorial restraints, found Snap-On's and Sandura's vertical restrictions justified by a need to combat fierce interbrand competition, and set aside the Commission's cease and desist orders.⁶¹

Except where there is an obvious intent to stifle future competition⁶² the rule of reason is necessarily the Sherman Act and Federal Trade Commission Act test for conglomerate territorial restrictions on buyers.⁶³ The absence of an economic relationship between the parties makes it requisite to probe the factual matrix of a restriction before a judgment of invalidity can be rendered, if, indeed, these restrictions are ever invalid. As a practical matter, however, pure conglomerate territorial restrictions are rare and the subsequent development of competition will mature them into horizontal or vertical restraints subject to the antitrust principles governing those types of restraints. For example, assume that a nonmanufacturing trademark licensor⁶⁴ has developed a marketing system for hand tools involving complete lines of approved products carried in minitrucks. If the licensor enters into representation arrangements with retailer-servicemen in Salt Lake City and Boston and restricts each retailer's sales territory to within 50 miles of the metropolitan area in order to obtain intensive cultivation of the urban market, the restraint is conglomerate. Yet, as more and more retailers enter into similar representation arrangements, a situation will inevitably occur where one or more

60. Id. at 20766.

61. Sandura Co. v. F.T.C., 339 F.2d 847 (6th Cir. 1964); Snap-On Tools Corp. v. F.T.C., note 50 supra.

62. A territorial allocation intended to prevent future competition is void per se. United States v. General Dyestuff Corp., 57 F. Supp. 642 (S.D.N.Y. 1944).

63. United States v. Penn-Olin Chem. Co., 217 F. Supp. 110 (D. Del. 1963) rev'd on other grounds, 378 U.S. 158 (1964); cf. United States v. E.I. du Pont de Nemours & Co., 118 F. Supp. 41, 218-20 (D. Del. 1953), aff'd on other grounds, 351 U.S. 377 (1956); Foundary Services v. Beneflux Corp., 110 F. Supp. 857 (S.D.N.Y.), rev'd on other grounds, 206 F.2d 214 (2d Cir. 1953). See also George Hantscho Co. v. Miehle-Goss-Dexter, Inc., 33 F.R.D. 332 (S.D.N.Y. 1963).

64. See text accompanying note 207 infra for discussion of trademark licensing by nonmanufacturing "sponsors."

retailers could have competed for hand tool sales except for the territorial restrictions. In this event the territorial restrictions will become analogous to vertical restraints with regard to the retailers who are precluded from competing and should be tested by the antitrust standards applicable to vertical restraints on buyers.

Territorial allocations accompanying joint ventures may fall into any of the categories previously discussed. A joint venture is an association of two or more persons to carry out a single undertaking for profit⁶⁵ and the participants may range from competitors to firms with no other economic relationship than that represented by the joint venture. If territorial allocations between parties to a joint venture attend, but are collateral to, the joint venture, the territorial allocations will neither gain nor lose antitrust status because of the existence of the joint venture.⁶⁶ For example, a joint venture between two competing manufacturers in building a plant of sufficient size to efficiently process a common by-product should not affect, and should not be affected by, the validity of an allocation of territorial markets by the same manufacturers with respect to their primary product.⁶⁷ On the other hand, in situations in which territorial allocations between the parties to a joint venture are integral to the existence of the joint venture, the validity under the antitrust laws of the joint venture itself⁶⁸ should influence appraisal of the territorial restrictions. A lawful joint venture supplies sufficient business purpose and justification so that ancillary territorial restrictions should ordinarily be tested by the rule of reason;⁶⁹ conversely, territorial allocations ancillary to an illegal joint venture fall with it.⁷⁰

65. See 2 Williston, Contracts § 318A (3d ed. 1959); Tractenberg, "Joint Ventures on the Domestic Front," 8 Antitrust Bull. 797, 798 (1963).

66. See Kaysen & Turner, Antitrust Policy 137 (1959); Bork, "Ancillary Restraints and the Sherman Act," 15 A.B.A. Antitrust Section 211, 229 (1959).

67. See Bork, note 66 *supra*.

68. The validity of joint ventures is a current cause celebre in antitrust law. See Handler, "Emerging Antitrust Issues—Diversification, Reciprocity, and Joint Ventures," 49 Va. L. Rev. 433 (1963); Panel Discussion, "Joint Ventures and the Sherman Act," A.B.A. Antitrust Section Transcript at 27 (1963); ATRR 35:X-4 (3/13/62) (remarks of Paul Rand Dixon). The Supreme Court has recently decided that § 7 of the Clayton Act, the Celler-Kefauver Anti-Merger Act, applies to joint ventures. *United States v. Penn-Olin Chem. Co.*, 378 U.S. 158 (1964).

69. See *United States v. Pan American World Airways, Inc.*, 193 F. Supp. 18 (S.D.N.Y. 1961) rev'd on other grounds, 371 U.S. 296 (1963); *United States v. National Football League*, 116 F. Supp. 319 (E.D. Pa. 1953); see Bork, note 66 *supra*, at 224-34.

70. E.g., *United States v. Minnesota Mining and Mfg. Co.*, 92 F. Supp. 947 (D. Mass. 1950).

It is clear that there is no single test for ascertaining the validity of all territorial allocations under the antitrust laws. Horizontal restrictions are generally invalid *per se* whereas vertical restraints on sellers have been said to be virtually legal *per se*.⁷¹ The status of vertical restraints on buyers is presently unclear though it is entirely possible that geographical customer allocation may be placed in a *per se* category⁷² while closed territories⁷³ and areas-of-primary-responsibility⁷⁴ will continue to be evaluated by the rule of reason. To the extent that valid business purposes can be attributed to conglomerate restraints, they are probably valid simply because the antitrust issue is not ripe for decision. As soon as competition develops between the parties, conglomerate restraints assume either a vertical or a horizontal posture and become subject to the principles governing those classifications. Finally, a joint venture will materially affect the validity of ancillary territorial restrictions.

B. The Assignment and Licensing Provisions of the Lanham Act

The assignment and licensing provisions of the Lanham Act do not remove consensual territorial allocations involving trademarks from the sweep of the antitrust laws. Congress allayed the Justice Department's concern in this regard through section 46(a) of the Lanham Act which provides:

[N]othing contained in this Act shall be construed as limiting, restricting, modifying, or repealing any statute in force on the effective date of this Act which does not relate to trade-marks, or as restricting or increasing the authority of any Federal department or regulatory agency except as may be specifically provided in this Act.⁷⁵

This section is not, however, fully dispositive of the Antitrust Division's contention. Conduct otherwise *per se* violative of the antitrust laws can become subject to the rule of reason if required or sanctioned by another federal statute.⁷⁶ Because of the *per*

71. Oppenheim, "Antitrust Booms and Boomerangs," 59 *Nw. L. Rev.* 33, 36 n.15 (1964).

72. *United States v. Arnold Schwinn & Co.*, 237 F. Supp. 323 (1965) (outlawing geographical customer allocation with respect to stock purchased by a distributor). But see *Sandura Co. v. F.T.C.*, 339 F.2d 847 (6th Cir. 1964) (small manufacturer in a concentrated industry).

73. *Snap-On Tools Corp. v. F.T.C.*, note 50 *supra*.

74. E.g., *United States v. American Type Founders Co.*, 1958 Trade Cas. ¶ 69065 (D.N.J. 1958) (consent decree).

75. Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 445.

76. *Silver v. New York Stock Exchange*, 373 U.S. 341 (1963); see Loevinger, "The Rule of Reason in Antitrust Law," 50 *Va. L. Rev.* 23, 31-32 (1964).

se—rule of reason dichotomy is essentially a judge-made rule of evidence and not an express statutory provision, the Lanham Act could conceivably require a rule of reason test for all consensual allocations of territorial trademark rights that it authorizes despite section 46(a). A sketch of the manner in which the Lanham Act condoned the divergent common law decisions concerning assignment and licensing will further the assessment of this possibility.

The common-law shibboleth was that a trademark could only be validly assigned in conjunction with the good will that it represented.⁷⁷ "Good will" was an amorphous concept which was once defined as "that which makes tomorrow's business more than an accident. It is the reasonable expectation of future patronage based on past satisfactory dealings."⁷⁸ Despite abstruseness, the rule was easily enough applied if there was obviously no good will, for example, where the assignor had previously abandoned the assigned mark,⁷⁹ or had never used the mark in connection with the goods or the area for which an assignment was made.⁸⁰ Nor did assignments of merchants' or selectors' marks cause the courts a great deal of trouble because the good will involved was generally related to the quality of the goods sold.⁸¹ But the common-law precept left the courts adrift without rudder and compass whenever good will did exist which was arguably derivative from productive facilities. Virtually the only judge-proof assignment by a manufacturer at common law was one accompanied by all of the physical assets used to produce the goods identified by an assigned mark.⁸² Assignments coupled with less tangible evidence of the transfer of good will were subject to greater or lesser degrees of risk with judicial condemnation being most likely if a manufacturer-assignor continued to sell the identical product under a different trademark.⁸³

77. See 1 Nims, *Unfair Competition and Trade-Marks* 85-95 (4th ed. 1947).

78. Rogers, *Goodwill, Trade-Marks, and Unfair Trading* 13 (1919).

79. E.g., *Dietz v. Horton, Mfg. Co.*, 170 Fed. 865 (6th Cir. 1909) (alternative holding).

80. See *Restatement (Second), Torts* § 756, comment *b* (Tent. Draft No. 8, 1963).

81. E.g., *Schneider Brewing Co. v. Century Distilling Co.*, 107 F.2d 699 (10th Cir. 1939); *accord*, *Witthaus v. Mattfeldt & Co.*, 44 Md. 303 (1876).

82. E.g., *Kidd v. Johnson*, 100 U.S. 617 (1879); *accord*, *Emerson Elec. Mfg. Co. v. Emerson Radio & Phonograph Corp.*, 105 F.2d 908 (2d Cir.); *cert. den.*, 308 U.S. 616 (1939).

83. *Eiseman v. Schiffer*, 157 Fed. 473 (C.C.S.D.N.Y. 1907); *accord*, *California Packing Corp. v. Sun-Maid Raisin Growers*, 81 F.2d 674 (9th Cir.); *cert. den.*, 298 U.S. 668 (1936); *Independent Baking Powder Co. v. Boorman*, 175 Fed. 448 (C.C.D.N.J. 1910) (alternative holding). See also *Gehl v. Hebe Co.*, 276 Fed. 271 (7th Cir. 1921).

A related limitation on assignability was that no material public deception should result from an assignee's use of a mark.⁸⁴ This meant that the original connotation of a mark to the public had to remain substantially unaltered after a transfer unless the public was adequately informed of material changes. For example, a mark that identified a particular source was nonetheless assignable, unless it also denoted uniquely personal attributes of that source,⁸⁵ as long as an assignee gave notice of successorship in conjunction with his use of the mark.⁸⁶ There was some authority requiring transfer of the entire physical plant used to produce the goods on which a mark had been used if an assignor was a manufacturer;⁸⁷ but the sounder and more prevalent view was that only assets necessary to preserve the connotation of a mark had to accompany an assignment in order to avoid a probability of public deception.⁸⁸ Typical examples were patents⁸⁹ and secret formulas.⁹⁰ In general, an assignee had the same privilege to vary the composition of trademarked goods as an assignor;⁹¹ both were merely expected to disclose material alterations.⁹²

84. See Grismore, "The Assignment of Trade Marks and Trade Names," 30 Mich. L. Rev. 489, 493-96 (1932); Isaacs, "Traffic in Trade Symbols," 44 Harv. L. Rev. 1210, 1220-21 (1931).
85. E.g., Lowell Lamb & Co. v. Herskovits, 204 App. Div. 407, 198 N.Y. Supp. 55 (1st Dep't 1923), appeal dismissed *per curiam*, 238 N.Y. 572, 144 N.E. 897 (1924); see Restatement (Second), Torts § 756, comment g (Tent. Draft No. 8, 1963).
86. E.g., Symonds v. Jones, 82 Me. 302, 19 Atl. 820 (1890). Failure to give notice constituted unclean hands although not necessarily invalidating the assignment. E.g., Alaska Packers Ass'n v. Alaska Imp. Co., 60 Fed. 103 (C.C.N.D. Cal. 1894).
87. E.g., Mayer Fertilizer & Junk Co. v. Virginia-Carolina Chem. Co., 35 App. D.C. 425 (1910); see 1939 House Hearings at 90-92 (especially remarks of Stewart L. Whitman).
88. See Vandenburg, Trademark Law and Procedure 189 (1959); Grismore, note 84 *supra*, at 498-500.
89. E.g., Lewis v. Trinklein, 304 Mich. 542, 8 N.W.2d 631 (1943); see Dewees v. Schneider, 333 Pa. 401, 5 A.2d 174 (1939).
90. E.g., Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc., 43 F.2d 937 (2d Cir.), cert. den., 282 U.S. 881 (1930).
91. See Isaacs, note 84 *supra*, at 1215-16; Restatement (Second), Torts § 756, comment a (Tent. Draft No. 8, 1963). In marketing parlance this is referred to as "trading-up" or "trading-down" as the case may be. See Phelps, Sales Management 44-45 (1951).
92. Trademark rights may conceivably be forfeited by undisclosed changes in ingredients, e.g., Independent Baking Co. v. Boorman, 175 Fed. 448 (C.C.D.N.J. 1910) (alternative holding) but denial of trademark protection because of unclean hands would be more likely. E.g., Renaud Sales Co. v. Davis, 22 F. Supp. 703 (D. Mass 1938), *mod. on other grounds*, 104 F.2d 683 (1st Cir. 1939). The trademark user would also be subject to a Federal Trade Commission proceeding. E.g., Royal Baking Powder Co. v. F.T.C., 281 Fed. 744 (2d Cir. 1922).

An invalid assignment, called a "naked assignment" or an "assignment in gross," led to loss of an assignor's ability to prevent use of his mark by third parties⁹³ and transferred no rights against third parties to an assignee.⁹⁴ Nevertheless, an assignor was estopped to assert the invalidity of an assignment against an assignee⁹⁵ and the latter could acquire rights in the mark through use subsequent to the invalid assignment.⁹⁶

In marked contrast to the Act of 1905, which reiterated the common-law rule that a mark was assignable in connection with the good will of the business,⁹⁷ the original version of the Lanham Bill declared that a registered mark was assignable "either with or without the goodwill of the business."⁹⁸ Proponents of free assignability explained that this language was intended to make clear that marks were assignable without the plant or premises where the goods identified by a mark had been produced.⁹⁹ They argued that the common-law rule confused good will related to a business with good will related to a mark and that the transfer of a mark necessarily conveyed the latter type of good will because "the goodwill is appurtenant to the trade-mark, not the trade-mark to the goodwill."¹⁰⁰ More traditional views had equally eloquent spokesmen, however,¹⁰¹ and the language finally accepted by Congress represented a dilution of both the common-law rule and the theory of free assignability. Section 10 of the Lanham Act provides:

A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part

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93. E.g., *Eiseman v. Schiffer*, 157 Fed. 473 (C.C.S.D.N.Y. 1907). This is because the assignment is evidence of the assignor's intent to abandon the mark. See Restatement (Second), Torts § 756, comment c (Tent. Draft No. 8, 1963).
94. E.g., *Avon Shoe Co. v. David Crystal, Inc.*, 171 F. Supp. 293, 300-01 (S.D.N.Y. 1959) (alternative holding), aff'd on other grounds, 279 F.2d 607 (2d Cir.), cert. den., 364 U.S. 909 (1960). The assignee could not, for instance, rely on the assignor's period of use in order to establish senior rights. See *W. H. Childs & Son v. G. Sidenberg & Co.*, 11 F.2d 463 (D.C. Cir. 1926).
95. *Holly Hill Citrus Grower's Ass'n v. Holly Hill Fruit Prods., Inc.*, 75 F.2d 13 (5th Cir. 1935); cf. *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir.), cert. den. 358 U.S. 829 (1958).
96. See, *American Beauti Pleat, Inc. v. Judkins Co.*, 133 U.S.P.Q. 405 (Tm. Bd. 1962).
97. Act of Feb. 20, 1905, ch. 592, § 10, 33 Stat. 727.
98. H.R. 9041, § 10, 75th Cong., 3d Sess. (1938).
99. 1939 House Hearings at 80-81, 86 (remarks of Edward S. Rogers).
100. 1939 House Hearings at 81 (remarks of Edward S. Rogers).
101. 1939 House Hearings at 88-89 (remarks of Stewart L. Whitman).

of the goodwill of the business connected with the use of and symbolized by the mark, and in any such assignment it shall not be necessary to include the goodwill of the business connected with the use of and symbolized by any other mark used in the business or by the name or style under which the business is conducted.¹⁰²

Although the initial portion of section 10 is a verbatim re-enactment of the Act of 1905, the phrase permitting partial assignment of good will borders on the concept of free assignability outlined at the 1939 hearings. The new phrase, for instance, sanctions assignment of one registered mark by a manufacturer who uses several marks for the same type of goods¹⁰³ and dissipates the compulsion that existed under the Act of 1905 to convey symbolic tangible tokens, like labels and advertising mockups, in order to establish a "transfer of the business."¹⁰⁴ On the other hand, a manufacturer who uses a single mark for a distinctive product probably still cannot validly assign the mark and immediately adopt a new mark for the identical product,¹⁰⁵ and assets necessary to preserve a mark's connotation, like secret formulas and patents, should still accompany transfer of the mark.¹⁰⁶ In this connection it should be noted that the price enacted for liberalization of section 10 was statutory acknowledgment of the policy against recognition of assignments that foster material deception. Registration is subject to cancellation in Patent Office proceedings whenever a mark is used by or with the permission of the registrant to misrepresent source,¹⁰⁷ and a mark that is so used is

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102. § 10, 60 Stat. 431 (1946), as amended, 15 U.S.C. § 1060 (1964); see generally Halliday, "Assignments Under the Lanham Act," 38 Trade-mark Rep. 970 (1948). If the assignor's trade name is similar to the transferred mark, the name should also be transferred or discontinued or the validity of the assignment may be jeopardized. See Robert, *The New Trade-Mark Manual* 27-28 (1947).
103. See *Gentry Canning Co. v. Blue Ribbon Growers, Inc.*, 138 U.S.P.Q. 536 (Tm. Bd. 1963); 1944 Senate Hearings at 22-23 (remarks of Daphne Robert). However, if two marks are used on the same product, one cannot be assigned without the other. See Robert, note 102 *supra*, at 28.
104. See *J. C. Hall Co. v. Hallmark Cards, Inc.*, 52 C.C.P.A. (Patents) 340 F.2d 960 (1965); *Hy-Cross Hatchery, Inc. v. Osbourne*, 49 C.C.P.A. (Patents) 1163, 303 F.2d 947 (1962).
105. See Halliday, note 102 *supra*, at 976.
106. See *ibid*; Restatement (Second), Torts § 756, comment f (Tent. Draft No. 8, 1963).
107. § 14(c), 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064(c) (1964). Registrant is defined to include both assignors and assignees. § 45, 60 Stat. 443 (1946), as amended, 15 U.S.C. § 1127 (1964). Prior to

excepted from both the incontestable right to use and the conclusive evidence rule.¹⁰⁸ These Lanham Act provisions generally make it the greater part of wisdom for an assignee to display notice of successorship in conjunction with an assigned mark.¹⁰⁹

A license is an arrangement whereby a trademark user permits another to use his mark but does not give up the exclusive right to its use. Although a trademark license is only legally necessary if a licensee's use would otherwise constitute trademark infringement,¹¹⁰ one of the many fantasies concerning licensing is the practice of granting licenses that are unnecessary.¹¹¹ The resale of trademarked goods in their original containers does not, for instance, constitute infringement because the marks continue to identify exactly the same goods that were produced by the manufacturers who affixed the marks;¹¹² nevertheless, wholesalers and retailers are often granted superfluous licenses.¹¹³ An unnecessary license naturally has no effect whatsoever. On the other hand, where a mark is used to identify goods that are not produced by the possessor of rights to the mark, a valid license bars the licensor

(Footnote continued)

the 1962 Lanham Act amendments the cancellation provisions were reiterated in the section dealing with assignments. § 10, 60 Stat. 432 (1946), 15 U.S.C. § 1060 (1958); *H. H. Scott, Inc. v. Annapolis Electroacoustic Corp.*, 195 F. Supp. 208 (D. Md. 1961). Both of the original cancellation provisions referred solely to misrepresentation by, or with the permission of, assignees. The 1962 amendments broadened the ambit of the cancellation provision in § 14(c) to include misrepresentation of source by any "registrant" and deleted the duplicative language in § 10. See Hoge, "The Lanham Act's Housekeeping Amendments," 52 Trademark Rep. 1245, 1249-50 (1962). See Appendix for a sketch of cancellation proceedings.

108. § 15, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1065 (1964); § 33(b) (3), 60 Stat. 438 (1946), as amended, 15 U.S.C. § 1115(b)(3) (1964).
109. See Halliday, note 102 *supra*, at 976-79.
110. See Vandenberg, *Trademark Law and Procedure* 176 (1959).
111. See Statement of Daphne Leeds, 1961 Senate Hearings at 7-8; see generally Shniderman, "Trade-Mark Licensing—A Saga of Fantasy and Fact," 14 *Law & Contemp. Prob.* 248 (1949).
112. See *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125 (1947); *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924). Exclusive distributors for the continental United States with long-term trademark licenses have a "special ownership" that entitles them to register the licensed marks, e.g., *Scandinavia Belting Co. v. Asbestos & Rubber Works, Inc.*, 257 Fed. 937 (2d Cir.), *cert. den.*, 250 U.S. 644 (1919); but this does not signify that the long-term license is necessary. Registration is allowed primarily to protect the exclusive distribution rights. See *Amag Optik und Mechanik, A.G. v. Weinstein*, 85 F. Supp. 631 (S.D.N.Y. 1949).
113. See *Corral, Wodiska y Ca. v. Anderson, Thorson & Co.*, 95 F.2d 11 (7th Cir.), *cert. den.*, 305 U.S. 613 (1938).

from asserting that the licensee's use is an infringement¹¹⁴ and precludes the licensee from acquiring rights in the mark through his use.¹¹⁵ In contrast, an invalid license, called a "naked" or "bare" license,¹¹⁶ results in forfeiture of the licensor's trademark rights. He is denied relief for trademark infringement¹¹⁷ and an erstwhile "licensee" can ordinarily acquire adverse rights.¹¹⁸

Licensing was not permissible under the early common law¹¹⁹ and the federal trademark acts of 1881 and 1905 did not allude to it. Arrangements akin to modern licensing eventually gained judicial approval in situations where it was probable that the persons permitted to use a mark would vend substantially identical products under the common mark.¹²⁰ Arrangements that did not satisfy this criterion were condemned as naked licenses.¹²¹ A transfer of property from the licensor to the licensee was usually present in the transactions which the courts sustained, but ascription of the validity of a license to this transfer, would lose sight of the instances in which resale of a trademarked product does not require a license¹²² and emphasize form over substance. As in the case of assignments, it was the relation of the property transferred to the connotation of the mark that was crucial.

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114. See *Martha Washington Creamery Buttered Flour Co. v. Martien*, 44 Fed. 473 (C.C.E.D. Pa. 1890).
115. E.g., *Smith v. Dental Prods. Co.*, 140 F.2d 140 (7th Cir.) cert. den., 322 U.S. 743 (1944); *Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co.*, 272 Fed. 478 (D. Vt. 1921).
116. See *Vandenburgh*, note 110 supra. An invalid license has also been called a "license in gross" in order to emphasize that the law of licensing derived from the law of trademark assignments. See Taggart, "Trade-Marks and Related Companies," 14 *Law & Contemp. Prob.* 234, 241 (1949).
117. *Everett O. Fisk & Co. v. Fisk Teachers' Agency*, 3 F.2d 7 (8th Cir. 1924); accord, *Midwest Fur Producers Ass'n v. Mutation Mink Breeders Ass'n*, 127 F. Supp. 217 (W.D. Wis. 1955) (alternative holding); *Broeg v. Duchaine*, 319 Mass. 711, 67 N.E.2d 466 (1946).
118. *E. F. Pritchard Co. v. Consumers Brewing Co.*, 136 F.2d 512 (6th Cir. 1943), cert. den., 321 U.S. 763 (1944); accord, *Morse-Starrett Prods. Co. v. Steccone*, 86 F. Supp. 796 (N.D. Cal. 1949), appeal dismissed, 191 F.2d 197 (9th Cir. 1951); *Ex parte Teca Corp.*, 117 U.S. P.Q. 367 (Comm'r 1958). Estoppel may, however, preclude a particular licensee from challenging the licensor's rights. *E. F. Pritchard Co. v. Consumers Brewing Co.*, supra.
119. See *Rogers, Good Will, Trade-Marks, and Unfair Trading* 106 (1914).
120. See *Shniderman*, note 111 supra, at 253.
121. See *id.* at 257-58.
122. Compare "Quality Control and the Antitrust Laws in Trademark Licensing," 53 *Trademark Rep.* 1130, 1145-46 (1963) with notes 111 and 112 supra and accompanying text.

A mark which identified goods produced according to a patent or a secret process could be licensed in conjunction with license of the patent¹²³ or disclosure of the secret process;¹²⁴ but it was sufficient if a licensor furnished components of a licensee's product and there were adequate safeguards concerning the quality of the licensee's manufacture. The Coca-Cola cases¹²⁵ sustained the license of wholesaler-bottlers by the manufacturer of a soft-drink base where the manufacturer supplied the syrup which was the principal ingredient of the bottled drink and supervised the bottling process. Similarly, Crown Fabrics Corp. v. American Viscose Corp.¹²⁶ upheld the licensing by a yarn manufacturer of fabric manufacturers who utilized the licensor's yarn to weave fabrics that were tested by an independent testing agency, and B. B. & R. Knight, Inc. v. W. L. Milner & Co.¹²⁷ allowed a cotton piece goods manufacturer to permit carefully selected clothing manufacturers to use the licensor's mark on garments made from his piece goods where the clothing manufacturers and the licensor jointly undertook to refund the purchase price to purchasers dissatisfied with the garments.¹²⁸ The other major instance in which licensing was sustained involved companies subject to common control. Keebler Weyl Baking Co. v. J. S. Invins' Son¹²⁹ upheld the licensing of manufacturing subsidiaries of a common parent by a co-subsiary

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123. E.g., Smith v. Dental Prods, Co., 140 F.2d 140 (7th Cir.), cert. den., 322 U.S. 743 (1944); Adam v. Folger, 120 Fed. 260 (7th Cir. 1903); Hoffman v. B. Kuppenheimer & Co., 183 Fed. 597 (C.C.N.D. Ill. 1910).
124. See Barcardi Corp. v. Domenech, 311 U.S. 150 (1940). In both the patent and secret formula situations there was a high probability that the licensor would lose his rights in the mark to the licensee if the license was exclusive and the licensor failed to adequately supervise the licensee. E.g., Replogle v. Air-Way Co., 287 Fed. 765 (D.C. Cir. 1923) (patent); President Suspender Co. v. Macwilliam, 238 Fed. 159 (2d Cir. 1916), cert. den., 243 U.S. 636 (1917) (patent); Montgomery v. Kalak Water Co., 196 F. Supp. 173 (S.D.N.Y. 1961) (secret formula).
125. Coca-Cola Co. v. Bennett, 238 Fed. 513 (8th Cir. 1916); Coca-Cola Bottling Co. v. Coca-Cola Co., 269 Fed. 796 (D. Del. 1920); Coca-Cola Co. v. J. G. Butler & Sons, 229 Fed. 224 (E.D. Ark. 1916); Coca-Cola Co. v. State, 225 S.W. 791 (Tex. Civ. App. 1920).
126. 32 C.C.P.A. (Patents) 701, 145 F.2d 246 (1944).
127. 283 Fed. 816 (N.D. Ohio 1922).
128. The Knight case is one instance in which the literal implications of the "guarantee" function of trademarks cannot be disputed. See Brown, "Advertising and the Public Interest," 57 Yale L. J. 1165, 1186-87 (1948).
129. 7 F. Supp. 211 (E.D. Pa. 1934); accord, United States Ozone Co. v. United States Ozone Co., 62 F.2d 881 (7th Cir. 1932); see Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co., 272 Fed. 478 (D. Vt. 1921).

which furnished instructions concerning the production of the goods identified by the licensed mark.

The Lanham Act does not in terms advert to trademark licensing. Section 5 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 registration, provided that such mark is not used in such manner as to deceive the public.¹³⁰

Section 45 defines a "related company" as follows:

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.¹³¹

These provisions were primarily intended to codify prior law concerning trademark licensing.¹³² Avowed exceptions were several Patent Office decisions under the Act of 1905 denying a holding company the right to register a mark used by its operating subsidiaries.¹³³ In overturning these decisions through a declaration that use by a related company inures to the benefit of an applicant for registration, section 5 necessarily created an exception to the common-law fundamental that trademark rights derive solely from use.¹³⁴ Moreover, the exception was apparently as broad as the definition of related company in section 45, which was intentionally inclusive of more than the parent-subsidiary relationship.¹³⁵ The Patent Office, however, has relied on the legislative history of section 5 to restrict derogation of the common law to the parent-

130. § 5, 60 Stat. 429 (1946), 15 U.S.C. § 1055 (1964).

131. § 45, 60 Stat. 443 (1946), 15 U.S.C. § 1127 (1964).

132. See Taggart, "Trade-Marks and Related Companies," 14 *Law & Contemp. Prob.* 234 (1949); "Quality Control and the Antitrust Laws in Trademark Licensing," 53 *Trademark Rep.* 1130, 1141-42 & n. 66 (1963) (citing legislative history).

133. 1938 House Hearings at 134-36. The decisions were *Ex parte United States Steel Corp.*, 23 *U.S.P.Q.* 145 (Comm'r 1934) and *Buergerliches Braeuhaus Pilsen v. Allied Brewing & Distilling Co.*, 31 *U.S.P.Q.* 26 (Comm'r 1936).

134. See *Esso, Inc. v. Standard Oil Co.*, 98 F.2d 1 (8th Cir. 1938); 1944 Senate Hearings at 94 (remarks of Henry J. Savage).

135. 1944 Senate Hearings 1947-51; see Diamond, "Requirements of a Trademark Licensing Program," 17 *Bus. Law* 295, 300-02 (1962).

subsidiary relationship¹³⁶ and closely analogous situations.¹³⁷ Other licensors who introduce marks on particular goods through licensee use are required to have had pre-existing good will in the mark in order to obtain registration,¹³⁸ and persons who have merely conceived an idea for a trademark have been held to be incapable of acquiring registrable rights through a licensee's use.¹³⁹ In light of the Patent Office position even an established business would be well-advised to engage in use of a mark prior to licensing.¹⁴⁰

Despite the technical question of the extent to which the Lanham Act introduced the concept of acquisition of basic trademark rights through controlled use by another, the overriding significance of section 5 and 45 derives from the manner in which they codified prior law.¹⁴¹ The salient features of this codification are the pre-script that the licensor must control the licensee with respect to the nature and quality of the goods in connection with which the licensed mark is used, and the double requirement that there be "legitimately" related companies and a "legitimate" use.

The guidelines to the interpretation of licensor control were laid down in E. I. du Pont de Nemours & Co. v. Celanese Corp.,¹⁴²

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136. In re C. B. Donald Co., 122 U.S.P.Q. 401, reconsideration denied, 122 U.S.P.Q. 535 (Tm. Bd. 1959); see Zephyr American Corp. v. Esterbrook Pen Co., 135 U.S.P.Q. 84 (Tm. Bd. 1962).
137. See Clark v. Sanderson Films, Inc., 139 U.S.P.Q. 130 (Tm. Bd. 1963) (licensor and wife sole stockholders of licensee).
138. In re C. B. Donald Co., 122 U.S.P.Q. 401, reconsideration denied, 122 U.S.P.Q. 535 (Tm. Bd. 1959); see In re Joseph Bancroft & Sons, 129 U.S.P.Q. 329 (Tm. Bd. 1961); see Diamond, note 135 *supra*, at 300-02.
139. In re C. B. Donald Co., 122 U.S.P.Q. 401, reconsideration denied, 122 U.S.P.Q. 535 (Tm. Bd. 1959); accord, Coahoma Chem. Co. v. Smith, 113 U.S.P.Q. 413 (Comm'r 1957), aff'd, 46 C.C.P.A. (Patents) 801, 264 F.2d 916 (1959); A. E. Staley Mfg. Co. v. Scott, 118 U.S.P.Q. 312 (Comm'r 1958); Ex parte Alexander, 114 U.S.P.Q. 547 (Comm'r 1957). Denial of registration in these cases may also have been justified by the inadequacy of the licensors' quality control. See Krayner, "Domestic Trademark Licensing," 43 J. Pat. Off. Soc'y 574, 579-80 (1961).
140. See In re Joseph Bancroft & Sons, 129 U.S.P.Q. 329 (Tm. Bd. 1961); Vandenburgh, Trademark Law and Procedure, 179-80 (1959). A possible alternative would be for the contemplated licensee to introduce the mark, obtain common-law rights, and assign the mark to the licensor in exchange for a license. See Geo. A. Hormel & Co. v. Hereford Heaven Brands, Inc., 52 C.C.P.A. (Patents), 341 F.2d 158 (1965); Vandenburgh, *supra*.
141. See Reynolds, "Contemporary Problems in Trademark Licensing," 49 Trademark Rep. 1141, 1144-45 (1959).
142. 35 C.C.P.A. (Patents) 1061, 167 F.2d 484 (1948). Celanese was technically decided under the Act of 1905 because the case was initiated before the effective date of the Lanham Act.

a Patent Office cancellation proceeding,¹⁴³ in which du Pont alleged that a faulty licensing arrangement had invalidated the Celanese Corporation's registration of "Celanese." The Court of Customs and Patent Appeals affirmed dismissal of the petition for cancellation on two narrow grounds: (1) there was no allegation of breach of the license provisions specifying the nature and quality of the goods to be manufactured by the licensee, and (2) the alleged breach of the license provision requiring the licensee to include notice of the license in advertisements of the licensed mark was immaterial because of failure to allege resultant public deception. Judge O'Connell's dissent stressed that invalidation of a license could result from the failure of the licensor to police the licensee's manufacture and that there was no showing of actual quality control despite the detailed license provisions.¹⁴⁴ Since the Celanese case it has become generally accepted that the burden of proof and the burden of going forward with the evidence are on the person attacking the validity of a license whether the claim of invalidity is raised by a plaintiff¹⁴⁵ or a defendant.¹⁴⁶ As Celanese further indicated, section 45 requires actual control by a licensor over both the nature and quality of the goods sold by a licensee.¹⁴⁷ Neither impeccable license provisions¹⁴⁸ nor control

143. See Appendix for discussion of cancellation proceedings.

144. 35 C.C.P.A. (Patents) 1061, 1069, 167 F.2d 484, 490 (1948).

145. R. C. W., Supervisor, Inc. v. Cuban Tobacco Co., 220 F. Supp. 453 (S.D.N.Y. 1963).

146. American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619 (5th Cir. 1963); accord, Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); see Friedman v. Sealy, Inc., 274 F.2d 255 (10th Cir. 1959). Contrarywise, if a licensor asserts rights derived from a licensee's use, the licensor must establish that there are sufficient controls to validate the license. Ex parte Pure Oil Co., 99 U.S.P.Q. 19 (Comm'r 1953); see Krayner, note 139 supra, at 578-79. The licensor will seldom be allowed to attack the license at the licensee's expense. See Arthur Murray, Inc. v. Horst, 110 F. Supp. 678 (D. Mass. 1953).

147. See Halliday, "Safeguarding the Integrity of Licensed Marks," 49 Trademark Rep. 602 (1959); Lahart, "Control—The Sine Qua Non of a Valid Trademark License," 50 Trademark Rep. 103, 107 (1960); Shniderman, "Trade-Mark Licensing—A Saga of Fantasy and Fact," 14 Law & Contemp. Prob. 248, 262-68 (1949). Control limited to the nature of the goods is insufficient. Baxter Laboratories, Inc. v. Don Baxter, Inc., 87 U.S.P.Q. 122 (Comm'r 1950), *juris. retained*, 38 C.C.P.A. (Patents) 786, 186 F.2d 511 (1951); see American Junior Aircraft Co. v. L. M. Cox Mfg. Co., 107 U.S.P.Q. 260 (S.D. Cal. 1955) (alternative holding); Consolidated Dairy Prods. Co. v. Albers Milling Co., 104 U.S.P.Q. 407 (Comm'r 1955).

148. Alligator Co. v. Robert Bruce, Inc., 176 F. Supp. 377 (E.D. Pa. 1959). Failure to include appropriate provisions in the license is likewise not determinative. Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959); accord, Huber Baking Co. v. Stroehman Bros.,

limited to display of the mark is enough.¹⁴⁹ By the same token, a license will not necessarily be jeopardized by failure of the licensor to control the licensee's display of the mark.¹⁵⁰ Although the Lanham Act does not particularize as to what constitutes adequate control over the nature and quality of the goods, there is general agreement that the Coca-Cola program is an acceptable model.¹⁵¹ The Coca-Cola Company specifies the nature of the goods on which licensees can use its mark, prescribes standards for both the bottling process and the bottled product, polices licensees' plants to ensure conformity with these standards, and institutes prompt corrective measures whenever deviations are discovered.¹⁵² Appropriate license provisions have accordingly been described as including

(Footnote continued)

- 110 U.S.P.Q. 349 (S.D.N.Y. 1956), rev'd on other grounds, 252 F.2d 945 (2d Cir.), cert. den., 358 U.S. 829 (1958).
149. Societe Comptoir v. Alexander's Dep't Stores, 299 F.2d 33 (2d Cir. 1962); accord, Bellbrook Dairies Inc. v. Bowman Dairy Co., 114 U.S.P.Q. 450 (Comm'r 1957), rev'd on other grounds, 47 C.C.P.A.(Patents) 763, 273 F.2d 620 (1960); Reddy Kilowatt, Inc. v. Mid-Carolina Elec. Co-op, Inc., 240 F.2d 282, 289 (4th Cir. 1957) (dictum).
150. In 1958 the Assistant Commissioner of Patents took issue with Celanese and ruled that display of notice of license was necessary to perfect a license under the Lanham Act. Ex parte C. B. Donald Co., 117 U.S.P.Q. 485 (Comm'r 1958). However, the Trademark Trial and Appeal Board subsequently repudiated this gloss on the statute, Tetra Pak Co. v. Schneider, 125 U.S.P.Q. 460 (Tm. Bd. 1960); see Woodward, "Some Observations on Legitimate Control of the Nature and Quality of the Goods," 49 Trademark Rep. 609, 613-15 (1959), and an effort to amend the Lanham Act in this respect failed of enactment. Amendment in the Nature of a Substitute, 1962 Senate Hearings at 194. Despite the reaffirmation of Celanese, it is better and common practice for the licensor to make sure that the licensee gives notice of license in order to avoid the twin dangers of public deception and loss of trademark rights to the license. See Vandenburg, note 140 supra, at 180-81; Diamond, note 135 supra, at 306. See "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 872-73 (1955) for discussion of the possible loss of rights to the licensee. The basic proposition, echoed by the Assistant Commissioner in the Donald case, 117 U.S.P.Q. 485 (Comm'r 1958), is that failure to give notice of license leads to the mark's connoting the licensee, rather than the licensor.
151. See Diamond, note 135 supra, at 298; Halliday, note 147 supra, at 602-03; Lahart, note 147 supra, at 128-29. The Coca-Cola program was utilized as an example of what section 45 required during hearings on the Lanham Bill. 1944 Senate Hearings at 150-51. See also Reynolds, note 141 supra, at 1145.
152. For similar programs see Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc., 212 F. Supp. 715 (E.D. Pa. 1962); E. I. du Pont de Nemours & Co. v. Celanese Corp., 35 C.C.P.A. (Patents) 1061, 167 F.2d 484 (1948).

1. A statement of the precise nature of the goods or services in connection with which the mark is to be used and a requirement that additional goods or services may not be introduced under the mark without the consent of, and quality standards promulgated by, the licensor in advance of production.

2. The quality standards to be adhered to must be set forth. This may be specified as the quality of the same article or service of the licensor, or of other licensees, or of a designated competitor.

3. A requirement that pre-production samples be submitted to the licensor for approval and that production samples be submitted at specified intervals.

4. An agreement that the licensor has the right to enter the premises of the licensee without notice during business hours and inspect production.

Other licenses include such provisions as the requirement by the licensor of the display of the mark on packages, labels, cartons and other containers and in advertising, so as to indicate singleness of responsibility for the goods.

Ordinarily, the license contract contains a statement of the licensor's right to terminate the license for failure to comply with any of the provisions of the contract.¹⁵³

The Lanham Act's dual control requirement has diminished the precedent value of the common-law decisions sustaining licenses. The fact that a licensor supplies a principal ingredient of the trademarked product or a formula or patent license necessary for its production may indicate control over the nature of the goods sold by a licensee but does not necessarily establish control over quality.¹⁵⁴ The existence of a parent-subsidiary relationship or evidence of careful selection of licensees is similarly no guaranty that both types of control in fact exist.¹⁵⁵ These circumstances have greater continued utility, however, because in appropriate factual situations they may justify an inference that a

153. Restatement (Second), Torts § 756A, comment a (Tent. Draft No. 8, 1963); Diamond, note 135 supra, at 299-300.

154. See, e.g., Lahart, note 147 supra, at 127-28 (patent licenses). See generally Halliday, note 147 supra. The Coca-Cola system implicitly assumes that ingredient control is not enough.

155. See Halliday, note 147 supra, at 604-05. Cases involving the parent-subsidiary relationship so indicating are *R.C.W., Supervisor, Inc. v. Cuban Tobacco Co.*, 220 F. Supp. 453 (S.D.N.Y. 1963); *Evelyn Wood Reading Dynamics Institutes v. Zimmerman*, 134 U.S.P.Q. 475 (N.D. Cal. 1962); *Johnson & Johnson v. Medcraft Pharmacal Co.*, 130 U.S.P.Q. 373 (Tm. Bd. 1961); *cf. Huntington Nat'l Mattress Co. v. Celanese Corp.*, 201 F. Supp. 938, 945 (D. Md. 1962) (dictum).

licensor controls both the nature and quality of the goods sold by a licensee.¹⁵⁶

The requirement that licensing involve both "legitimate" control and use is a latent Pandora's box. If the idea was to insert a remainder that a licensing arrangement must be legally permissible and reconcilable with defined public policy, the "requirement" is a truism.¹⁵⁷ On the other hand, if, as one commentator has suggested,¹⁵⁸ the rationale was that a person who has used a mark to violate the antitrust laws should ipso facto be denied the privilege of trademark licensing, the requirement would raise anew the bugbear of subsection 33(b)(7)¹⁵⁹ with attendant possibilities of irrational forfeiture of trademark rights at the expense of the consuming public.¹⁶⁰

The legislative history is uninformative beyond tracing the language to the Senate¹⁶¹ and disclosing the following cryptic statements by the House Managers:

This amendment makes clear that, under section 5 of the House Bill, the use by related companies of a registered mark or a mark sought to be registered must be legitimate.¹⁶²

This amendment amends the definition of the term "related company" to exclude any person who does not legitimately control or is not legitimately 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.¹⁶³

The very blandness of the legislative history is, however, perhaps the best guaranty that the "legitimate" terminology does not add

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156. *Sterling Drug, Inc. v. Lincoln Laboratories, Inc.*, 322 F.2d 968 (7th Cir. 1963) (parent-subsidiary relationship); *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) (careful selection of licensee); see Lahart, note 147 *supra*, at 116-27.
 157. *Cf.* Hopkins, Trademarks, Tradenames, and Unfair Competition 4-9 (4th ed. 1924); Restatement (Second), Torts § 715 (Tent. Draft No. 8, 1963). This has been advanced as the intent of the requirement, Whitman, "You Can License Your Trade-Mark, If-," 38 Trademark Rep. 639 (1948), and as its practical result. Diggins, "The Lanham Trade-Mark Act," 37 Trademark Rep. 305, 322 (1947).
 158. Timberg, "Trade-Marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 355-56 (1949).
 159. § 33(b)(7), 60 Stat. 439 (1946), 15 U.S.C. § 1115(b)(7) (1964); see text accompanying notes 235-84 in Chapter II *supra*.
 160. *Cf.* Att'y Gen. Nat'l Comm. Antitrust Rep. 260 (1955).
 161. S. Rep. No. 1333, 79th Cong., 2d Sess. at 1-2 (1946).
 162. H. R. Rep. No. 2322, 79th Cong., 2d Sess. at 4 (1946).
 163. *Id.* at 7.

automatic vitiation of trademark licensing to the sanctions for violation of the Sherman Act. Since the antitrust interpretation of the requirement derives solely from informal commentary,¹⁶⁴ judges wary of the literal language of subsection 33(b)(7) are unlikely to adopt an extreme interpretation of a single word. The lack of authoritative legislative history as well as the verdict of quiescent years indicate that if "legitimate" has any specific antitrust content, it is a simple declaration that trademark licensing will not immunize conduct otherwise violative of the antitrust laws.¹⁶⁵

C. Partial Territorial Assignments, Limited Territorial Licenses and the Antitrust Laws

The major impact of the assignment and licensing provisions of the Lanham Act on consensual allocation of territorial trademark rights derives from the purported validation of partial territorial assignments and the vast increase in the number of limited territorial licenses brought about by these provisions. Prior to the Lanham Act the feasibility of partial territorial assignments was in doubt as was the propriety of widespread licensing.

The assertion has been made that assignment of trademark rights for a limited area was possible under the Act of 1905.¹⁶⁶ However, insofar as this contention is predicated upon cases upholding assignment of American trademark rights to exclusive distributors of foreign manufacturers, it is submitted that the statement is incorrect. The platitude that trademark rights do not exist in gross is susceptible to many implications,¹⁶⁷ but one that is often overlooked is that trademark rights are dependent upon legal protection for their existence.¹⁶⁸ It follows that assignment in toto of American trademark rights, whether before or after the Lanham Act,¹⁶⁹ is not a partial territorial assignment but a transfer of all of the trademark rights accorded by the American legal

164. E.g., Shniderman, note 147 supra, at 252 & n. 25; Taggart, note 116 supra, at 242.

165. See Taggart, "New Statutory Concepts of Trade-Mark Ownership," 38 Trademark Rep. 125, 129 (1948). Cf. Act of July 5, 1946, ch. 540, § 46(a), 60 Stat. 445; Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951).

166. Halliday, "Assignments Under the Lanham Act," 38 Trademark Rep. 970, 975 (1948).

167. See Grismore, "The Assignment of Trade Marks and Trade Names," 30 Mich. L. Rev. 489 (1932).

168. See Cohen, "Transcendental Nonsense and the Functional Approach," 35 Colum. L. Rev. 809, 814-15 (1935).

169. E.g., A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Watson v. E. Leitz, Inc., 254 F.2d 777 (D.C. Cir. 1958).

system in the entire territory subject to that system.¹⁷⁰ Moreover, cases involving the grant of exclusive territorial rights in part of the United States in conjunction with an exclusive distributorship¹⁷¹ are equally inapposite because the grant is seldom more than a license which terminates with the distributorship.¹⁷² With the exclusive distributor cases excepted, the validity of partial territorial assignments can hardly be regarded as a settled point of trademark law prior to the Lanham Act,¹⁷³ notwithstanding a few suggestive cases. In Griggs, Copper & Co. v. Erie Preserving Co.,¹⁷⁴ decided in 1904, plaintiff's predecessor, Griggs, had begun using "Home Brand" on canned fruits and jellies only to discover a prior use in a different trade area. Griggs thereupon obtained an assignment of the prior user's rights in Grigg's own trade area subject to the assignor's right to use the mark in conjunction with a distinctive label. As there was no evidence that the assignor had acquired any good will in Grigg's trade territory, the assignment could only have been effective to estop the assignor from asserting rights in Griggs' trade area,¹⁷⁵ a consequence precluded by the reservation of rights. In any event, the court enjoined a third party from infringing the mark in Griggs' territory relying on both the assignment and the secondary meaning that the plaintiff's mark had acquired. The Griggs case is shorn of meaningful precedent value, however, by its lack of analysis¹⁷⁶ and its early date. The assignment would have been doubly unnecessary after 1918 because Griggs would have qualified as a bona fide concurrent user under the Hanover and Rectanus cases. Another

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170. See Roger & Gallet v. Janmarie, Inc., 44 C.C.P.A. (Patents) 965, 245 F.2d 505 (1957); Steed & Hunter, "Trademark Assignments and Restraints of Trade," 45 Trademark Rep. 886, 894 (1955).
171. E.g., California Wine & Liquor Corp. v. William Zakon & Sons, 297 Mass. 373, 8 N.E.2d 812 (1937).
172. United States Ozone Co. v. United States Ozone Co., 62 F.2d 881 (7th Cir. 1932); accord, Progressive Welder Co. v. Collom, 125 F. Supp. 307 (D. Minn. 1954). A license is not even necessary if the distributor merely resells the trademarked product. Cf. Rimmel, Inc. v. Nelson, 102 U.S.P.Q. 258 (Comm'r 1954); see Shniderman, note 147 supra, at 252 n. 27 (1949).
173. See 3 Callmann, Unfair Competition and Trade-Marks 1284-85 (2d ed. 1950); Steed & Hunter, note 170 supra, at 894-95; Willcox, "Territorial Extent of Trademark Rights and the Partial Sale of a Business," 25 Ill. L. Rev. 485-86 (1931).
174. 131 Fed. 359 (C.C.W.D.N.Y. 1904).
175. See note 95 supra and accompanying text.
176. See Hopkins, Trademarks, Tradenames, and Unfair Competition 59 (4th ed. 1924).

suggestive case was Coca-Cola Bottling Co. v. Coca-Cola Co.,¹⁷⁷ which upheld a contract in which the Coca-Cola Company granted the exclusive right to use its mark on bottled "Coke" within a defined territory. The arrangement was more akin to a license than an assignment, however, because the Coca-Cola Company manufactured the syrup which was the basic component of the bottled product and controlled the nature of the bottling process.¹⁷⁸

Though the validity of partial territorial assignments was unadjudicated prior to the Lanham Act, commentators have assumed that partial territorial assignments were theoretically permissible at least in situations in which concurrent territorial rights could have been acquired under the doctrine of the Hanover and Rectanus cases and that the new language concerning partial assignment of good will in section 10 of the Lanham Act validated these assignments.¹⁷⁹ Neither proposition has yet been authoritatively resolved although there have again been suggestive decisions. In Huber Baking Co. v. Stroehmann Bros. Co.¹⁸⁰ the plaintiff had used a component of a cooperative's registered collective mark¹⁸¹ as his own mark until he joined the cooperative and adopted its mark. After joining the cooperative and participating in a quality control program,¹⁸² the plaintiff had assigned his former mark to the cooperative subject to a reservation of "full and unrestricted" rights within his trade area. The Second Circuit held that the terms of the assignment indicated that the plaintiff's license to use the collective mark within his trade territory was meant to be exclusive or, alternatively, that the terms of the assignment estopped the assignee to dispute the plaintiff's rights within the reserved area. The territorial reservation in the assignment was found to have a legitimate business purpose consonant with the public interest because the reservation, in effect, preserved the connotation that the

177. 269 Fed. 796 (D. Del. 1920). The Coca-Cola case has been referred to in dictum as establishing the validity of partial territorial assignments. Holley Milling Co. v. Salt Lake & Jordan Mill & Elevator Co., 58 Utah 149, 164, 197 Pac. 731, 736 (1921) (dictum).

178. See Jones v. Pepsi-Cola Co., 223 F. Supp. 650 (D. Neb. 1963); Steed & Hunter, note 170 *supra*, at 893-94.

179. Robert, The New Trade-Mark Manual 28 (1947); Vandenburg, Trade-mark Law and Procedure 190 & n. 23 (1959).

180. 252 F.2d 945 (2d Cir.), cert. den., 358 U.S. 829 (1958).

181. A collective mark is a trade or service mark used by members of a group to indicate that membership. § 45, 60 Stat. 644 (1946), as amended, 15 U.S.C. § 1127 (1964).

182. The cooperative analyzed samples of members' bread and flour, periodically inspected members' premises, and furnished advice on optimum baking methods.

plaintiff's former mark had acquired in his trade territory.¹⁸³ This is precisely the reason why Huber sheds little light on the validity of partial territorial assignments. Because the area that the plaintiff reserved in the assignment was slightly larger than the area in which he had used and advertised his mark, there was no good will outside of that area that the assignment could convey to the cooperative. At most, the "assignment" constituted a declaration that the plaintiff would not thereafter expand territorial use of the mark.¹⁸⁴ Maola Ice Cream Co. v. Maola Milk & Ice Cream Co.,¹⁸⁵ on the other hand, did involve a potentially valid partial territorial assignment for good will did exist in the assigned territory. The assignor was an ice cream manufacturer who initially operated two plants, each plant supplying "Maola" ice cream to distinct but bordering trade territories in North Carolina. One plant was sold to the assignee with the understanding that his use of the "Maola" mark would be restricted to the territory previously served by that plant. After the assignee began to sell "Maola" ice cream outside this territory the assignor sued to enforce the restrictive terms of the assignment, and the Supreme Court of North Carolina held that the restrictions were unreasonable and unenforceable at common law because the assignee was not doing business in all of the reserved territory.¹¹⁶ The court did not pass on the validity of the partial territorial assignment itself or on the effect that the illegality of the territorial restrictions would have on that validity, yet it seems obvious that the policy against purchaser deception should be considered.

The inference in both Huber and the pre-Lanham Act Coca-Cola case that partial territorial assignments with respect to competing goods are nondeceptive is limited to a context of overall quality control which maintains a mark's ability to identify like

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183. The district judge had conversely held the plaintiff estopped to assert that the license was exclusive on the ground that the public would otherwise be misled into believing that the plaintiff's use of the collective mark identified goods approved by the cooperative. Huber Baking Co. v. Stroehmann Bros., 110 U.S.P.Q. 349 (S.D.N.Y. 1956). He apparently considered that an exclusive license would exempt the plaintiff from the cooperative's quality control program.
184. See Restatement (Second), Torts § 756, comment c (Tent. Draft No. 8, 1963).
185. 238 N.C. 317, 77 S.E.2d 910 (1953). The Maola case is analyzed in Steed & Hunter, "Trademark Assignments and Restraints of Trade," 45 Trademark Rep. 886 (1955).
186. This was an alternative holding. The court also considered that the restrictions were invalid because (1) they were not in writing as required by North Carolina law and (2) they were a naked restraint of trade and void at common law.

goods despite multiple users. In the absence of quality control, a partial territorial assignment which results in the assignor and the assignee selling in adjacent markets may well be found to be invalid.¹⁸⁷ Since both an assignor and an assignee have a privilege to vary the quality of their products, there is no assurance that the assigned mark will continue to identify like goods to consumers exposed to both brands.¹⁸⁸ Unless dispelled by experience in the use of the marks, this probability of confusion should only be discounted for a cogent reason. For example, a partial territorial assignment that is used in lieu of litigation to adjust the colorable territorial claims of rival concurrent users should generally be upheld regardless of the creation of a common border. This type of partial territorial assignment functions like those judicial decrees which accept a common boundary between concurrent users as a border of convenience in reaching an equitable accommodation of conflicting trademark rights.¹⁸⁹ In both cases the common border is tolerated, not because some confusion of purchasers may not result, but because it would be inequitable and noncompetitive to foreclose a person who already has concurrent territorial rights from extending those rights to the utmost. These considerations do not exist with respect to a partial territorial assignment which creates initial concurrent territorial rights and the policy against assignments which produce deception can therefore be given greater weight. Partial territorial assignments used to create concurrent territorial rights should generally be restricted to situations where an assignor has used a mark in several remote markets and has transferred all of his rights in one or more of the markets to an assignee.

Territorial restrictions on a partial assignee's area of use should not materially affect the validity of a partial territorial assignment. Restrictions which forbid invasion of the assignor's markets are superfluous because the remedies for trademark infringement are adequate to protect the assignor's and the public's interests in this regard.¹⁹⁰ Moreover, it would be impolitic to encourage assignors to specify in an assignment the area in which their assignees cannot use the assigned mark due to the assignors'

187. *Snodgrass v. Welle*, 11 Mo. App. 590 (1882) (mem.) (alternative holding); cf. *Ex parte Chadbourn Hosiery Mills, Inc.*, 107 U.S.P.Q. 12 (Comm'r 1955); *Flintkote Co. v. Merriam & Co.*, 88 U.S.P.Q. 390 (Comm'r 1951).

188. See *Steed & Hunter*, note 185 *supra*, at 895-96. The assignee's display of notice of successorship would be a questionable palliation where the assignor continued to use the mark.

189. E.g., *Tillman & Bendel, Inc. v. California Packing Corp*, 63 F.2d 498 (9th Cir.), *cert. den.*, 290 U.S. 638 (1933).

190. Cf. *A Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923).

continued use. The contours of an assignor's market may change with the ebb and flow of trade so that territorial restrictions which initially accurately reflected an assignor's retained trade territory could eventually bar an assignee's expansion into an abandoned market. Should this occur, the territorial restrictions will have become mere restraints on the assignee's business activities which are unsupported by the policy against deception of purchasers and should be unenforceable at common law. As the Maola case suggests territorial restrictions that mediately or immediately preclude a partial assignee from entering areas unoccupied by the assignor should not be tolerated.

Partial territorial assignment of trademark rights remains a questionable commercial expedient despite the theoretical validity of some partial transfers. A settlement of conflicting territorial claims through a partial territorial assignment is probably unexceptionable but the potential validity at common law of certain partial territorial assignments used to create concurrent territorial rights is not necessarily determinative of the validity of these transfers under the Lanham Act.¹⁹¹ It remains open to question whether a Congress that endeavored to stamp out the doctrine enunciated in the Hanover and Rectanus cases through the constructive notice provision can reasonably be assumed to have authorized wholesale resurrection of concurrent territorial rights through the consent of the parties to a partial territorial assignment.¹⁹² The Justice department served notice during the hearings on the Lanham Bill that partial territorial assignments sustainable under the Lanham Act would also have to pass muster under the antitrust laws.¹⁹³ Furthermore, the terse declaration in section 10 of the

191. See contra, Robert, note 179 supra, at 28.

192. The concurrent registration provisions do not necessarily raise a contrary inference since they were principally intended to apply to concurrent territorial use exempted from the constructive notice provision on equitable grounds, e.g., good faith use commenced prior to registration on the Principal Register. See Diggins, "The Lanham Trade-Mark Act," 37 Trademark Rep. 305, 316-17 (1947). The basic issue is whether Congress was opposed to concurrent territorial use because it was a noncompetitive as well as an inexpedient doctrine.

193. 1944 Senate Hearings at 64. See also Restatement (Second), Torts § 756, comment f (Tent. Draft No. 8, 1963). The Justice Department recommended that the "accordion term good will," see Timberg, "Trade-Marks, Monopoly, and the Restraint of Competition," 14 Law & Contemp. Prob. 323, 357-58 (1949), be deleted from section 10 in order to preclude assignments unaccompanied by the physical assets associated with the assigned mark or marks. 1944 Senate Hearings at 146. The apparent purpose of this suggestion was to make assignability sufficiently onerous to be an inconvenient cloak for conspiratorial activity. It is interesting to note that the Justice Department

Lanham Act that "A registered mark. . . shall be assignable. . . with that part of the goodwill of the business connected with the use of and symbolized by the mark. . ." ¹⁹⁴ contains no discernible dispensation from ordinary antitrust standards. Section 10, for instance, does not expressly condone territorial restrictions in partial territorial assignments nor should it be construed to do so implicitly in light of the noncompetitive potentialities of such restrictions. This means that section 1 of the Sherman Act's *per se* ban on horizontal market allocation should apply in full force to territorial restrictions which prohibit a partial assignee's use on competing goods in areas unoccupied by the assignor. ¹⁹⁵ Partial territorial assignments may have a function to perform as an alternative to litigation with respect to territory claimed by several concurrent users, but the combined strictures of trademark and antitrust law confine other risk-free partial territorial assignments to a narrow compass indeed.

In contrast to the dubious status of partial territorial assignments, territorial limitations in trademark licenses are both frequent ¹⁹⁶ and unquestionably valid as a matter of trademark law. ¹⁹⁷ A license with territorial limitations must, however, expressly forbid sales to third persons who intend to resell the goods outside the licensee's territory if that is the intent of the parties. The covenant will not ordinarily be implied or inferred due to the restraint imposed on trade. ¹⁹⁸

The interaction between limited territorial licenses and the antitrust standards applicable to territorial restrictions is presently

(Footnote continued)

proposal was in line with the common-law view of assignments, e.g., *Independent Baking Powder Co. v. Boorman*, 175 Fed. 448 (C.C.D.N.J. 1910) (alternative holding), and common law conditions for a reasonable restraint of trade. See Bork, "Ancillary Restraints and the Sherman Act," 15 A.B.A. Antitrust Section 211, 219-24 (1959).

194. § 10, 60 Stat. 431 (1946), as amended, 15 U.S.C. § 1060 (1964).

195. *Cf. Maola Ice Cream Co. v. Maola Milk & Ice Cream Co.*, 238 N.C. 317, 77 S.E.2d 910 (1953). A bona fide partial territorial assignment would merely convey the good will in an area without limiting the assignee's ability to expand territorial use of the mark.

196. See Restatement (Second), Torts § 756A, comment b (Tent. Draft No. 8, 1963).

197. *Parkway Baking Co. v. Freihofer Baking Co.*, 255 F.2d 641 (3d Cir. 1958); accord, *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir.), cert. den., 358 U.S. 829 (1958).

198. *Parkway Baking Co. v. Freihofer Baking Co.*, note 197 supra; nor will territorial limitations generally be inferred. *Pacific Supply Corp. v. Farmers Union Central Exch., Inc.*, 318 F.2d 894 (9th Cir. 1963), cert. den., 375 U.S. 965 (1964). But see *Huber Baking Co. v. Stroehmann Bros. Co.*, 252 F.2d 945 (2d Cir.), cert. den., 358 U.S. 829 (1958).

the major point of friction between territorial trademark rights and the antitrust laws.¹⁹⁹ The constructive notice provision substantially delivered business from the noncompetitive divisions of trade territory that could result from multiple good faith adoptions of a mark, but a noncompetitive principle of trademark law may have been replaced by an anticompetitive principle if the licensing provisions of the Lanham Act sanction territorial allocations that would otherwise violate the antitrust laws. The incidence of good faith concurrent territorial use was haphazard and coincidental, whereas the licensing provisions permit the broad territorial rights created by registration to be deliberately apportioned. Calculated manipulation of territorial trademark rights manifestly holds greater opportunities for anticompetitive abuse.

Trademark licensing arrangements may be horizontal, vertical, or conglomerate depending on the commercial relationship between a licensor and a licensee. If they are or become competitors, the arrangement is horizontal. If the licensee is or becomes a customer or supplier of the licensor, the arrangement is vertical. On the other hand, if there is no business relationship between the licensor and the licensee apart from that occasioned by the trademark license, the arrangement can be considered conglomerate. Conglomerate licensing typically extends use of a mark to new products or services²⁰⁰ or into previously unexploited geographical areas.²⁰¹

Proper characterization of a licensing arrangement is sometimes obscured by trademark licensing's intimate, yet indeterminate, relationship to franchise selling—a generic term for contractual arrangements concerning the distribution of goods and services. Although franchise programs can involve all levels of distribution, there are three principal types: (1) manufacturer-wholesaler-retailer exclusive sales outlet arrangements; (2) sponsor-retailer representation arrangements; and (3) retailer or manufacturer joint ventures.²⁰² The traditional franchise, an exclusive sales outlet

199. As the Justice Department representatives prophesied during the legislative hearings, *Cf.* 1944 Senate Hearings at 143 (remarks of Elliott H. Moyer), the issue has been brought to a boiling point by the boom in trademark licensing induced by the Lanham Act.

200. See *Alligator Co. v. Robert Bruce, Inc.*, 176 F. Supp. 377 (E.D. Pa. 1959); *Finchley, Inc. v. George Hess Co.*, 24 F. Supp. 94 (E.D.N.Y. 1938); *cf.* Panel Discussion, "New Frontiers in Section 7 Enforcement," A.B.A. Antitrust Section Transcript at 9 (1963).

201. See *Medd v. Boyd Wagner, Inc.*, 132 F. Supp. 399 (N.D. Ohio 1955); *Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co.*, note 129 *supra*; *cf.* Panel Discussion, note 200 *supra*.

202. See Hall, "Franchising—New Scope for an Old Technique," 42 Harv. Bus. Rev. 60, 62-63 (1964); statement of Daphne Leeds, 1961 Senate Hearings at 7.

arrangement between a manufacturer and a wholesaler or retailer,²⁰³ seldom requires a trademark license because the franchisee merely resells the manufacturer's product.²⁰⁴ However, if the franchisee participates in the processing of the product, like the wholesaler bottlers in the soft-drink industry,²⁰⁵ a trademark license is necessary for the distributor to vend the processed product under the manufacturer's mark.²⁰⁶ In the typical sponsor-retailer representation arrangement the sponsor develops an idea for marketing a distinctive product or service, establishes marketing standards, selects a trademark or service mark, engages in advertising and promotional campaigns, and authorizes businesses in different areas to market the product or service subject to the sponsor's quality control.²⁰⁷ The sponsor-retailer arrangement is the fastest growing type of franchising including operations like Howard Johnson restaurants, Hertz auto rentals, and Kelly Girl part-time employment agencies.²⁰⁸ In variants of the arrangement, a sponsor, like the Independent Grocers Alliance (IGA), may select goods and authorize certain wholesalers or retailers to sell them, or a sponsor-wholesaler, like Western Auto Supply Company, may authorize certain retailers to sell goods selected by the sponsor.²⁰⁹ These variants may or may not involve trademark licensing depending on whether the sponsor adopts a trademark to identify the goods which it selects. Finally, joint venture franchising customarily concerns a group of manufacturers or retailers who join forces to establish an umbrella corporation which in turn franchises the joint venturers.²¹⁰ If manufacturers are participants, the umbrella corporation typically engages in product research, develops product specifications, selects a trademark, engages in national advertising and licenses the joint venturers to use the mark in connection with the sale of the franchised product.²¹¹

203. See Phillips & Duncan, *Marketing* 574 (3d ed. 1956).

204. See statement of Daphne Leeds, 1961 Senate Hearings at 7.

205. See Hall, note 202 *supra*, at 62-63.

206. E.g., *Coca-Cola Co. v. Bennett*, 238 Fed. 513 (8th Cir. 1916). Absent contractual restrictions a distributor would not, however, need a license to advertise that a bottled drink was made from trademarked syrup. Cf. *Prestonnettes, Inc. v. Coty*, 264 U.S. 359 (1924).

207. See 1961 Senate Hearings at 7.

208. See Hall, note 202 *supra*, at 63.

209. *Ibid.*

210. A joint venture exists where the following factors are present: (a) contribution by several persons of money, property, effort, knowledge, skill, or other assets to a common undertaking; (b) a joint property interest in the subject matter of the venture; (c) a right of mutual control or management of the enterprise; (d) expectation of profit; (e) a right to participate in profits; (f) customarily the objective is limited to a single undertaking. 2 Williston, *Contracts* § 318A (3d ed. 1959).

211. See 1961 Senate Hearings at 7.

On the other hand, retailer joint ventures usually set up wholesale organization in order to aggregate the participants' purchasing power and may or may not adopt a trademark to identify goods purchased through the umbrella corporation.²¹² Aside the exclusive sales outlet arrangement, which primarily serves to inspire dealer loyalty and effort,²¹³ the attractiveness of modern franchising lies in the economies of scale in advertising and purchasing made available to the franchisees.

An exclusive sales outlet arrangement is usually vertical, whereas joint venture franchising is generally horizontal. Sponsor-retailer arrangements may fall into the conglomerate category because they are widely used to obtain geographical dispersion of a hopefully unique marketing scheme, and the franchisees may be neither customers nor competitors of the sponsor apart from the franchising relationship. Whether horizontal, vertical, or conglomerate, combined with franchising or not, trademark licensing programs generally involve limited territorial licenses.²¹⁴

In the wake of White Motor Co. v. United States²¹⁵ a number of persons have suggested that the existence of a limited territorial trademark license should require application of the rule of reason to vertical²¹⁶ and even horizontal²¹⁷ territorial allocations. These views contradict those expressed by other commentators shortly after the Supreme Court declared in the Timken case that "a trademark cannot be legally used as a device for Sherman Act violation."²¹⁸ Nevertheless, one present-day commentator asserts that "a solid front of precedents" prove that limited territorial trademark licenses do make a difference.²¹⁹ Analysis of this

212. See Hall, note 202 supra, at 63.

213. See Phillips & Duncan, note 203 supra, at 574-75. Exclusive sales outlets may also reduce distribution costs by restricting the number of sales points to be serviced, minimizing risk of dealer insolvency, and providing more reliable estimates of future sales. See "Some Doubts About Franchising," 8 Cartel 61, 62 (1963).

214. See Hall, note 202 supra, at 66; Restatement (Second), Torts § 756A, comment b (Tent. Draft No. 8, 1963).

215. 372 U.S. 253 (1963).

216. See LeBlanc, "Antitrust Ramifications of Trademark Licensing and Franchising," 53 Trademark Rep. 519, 544 (1963); Stewart, "Exclusive Franchises and Territorial Confinement of Distributors," 22 A.B.A. Antitrust Section 33, 43-44 (1963).

217. See Groen, "Trade-Marks and Copyrights," 7 Antitrust Bull. 249, 257 (1962); Panel Discussion, 7 Antitrust Bull. 275, 278 (1962) (remarks of Robert Bork).

218. Timken Roller Bearing Co. v. United States, 341 U.S. 593, 599 (1951); e.g., Wortmann, "Trademark Licensing and Use by Related Companies," 44 Trademark Rep. 1257, 1265-67 (1954).

219. Stewart, "Franchise or Protected Territory Distribution," 8 Antitrust Bull. 447, 461-65 (1963).

"solid front of precedents" will reveal the effect that the licensing provisions of the Lanham Act have had upon the relationship between territorial trademark rights and antitrust laws. ^{No} Surprisingly, the most unequivocal precedent concerns horizontal licensing arrangements.

The 1964 decision of the Northern District of Illinois in United States v. Sealy, Inc., presently on appeal to the Supreme Court,²²⁰ and the 1962 decision of the Fifth Circuit in Denison Mattress Co. v. Spring-Air Co.,²²¹ are the ranking authorities for the proposition that the rule of reason should be applied to limited territorial licenses involving competitors. Sealy, Inc., Spring-Air Co., and several other corporations were organized by small bedding manufacturers in order to bolster their competition with the "majors" of the industry. These umbrella corporations designed uniform specifications for lines of branded bedding products to be manufactured by their stockholders, licensed the stockholders to manufacture and sell the trademarked goods in specified areas, and pooled stockholder funds in order to finance national advertising campaigns. The territorial restrictions on manufacture and sale applied only to products sold under the licensed marks. Licensees were free to sell goods under other marks whenever and wherever they chose. In 1960 the government filed civil antitrust complaints against four of the "mattress companies" engaged in trademark licensing, including Sealy and Spring-Air, alleging that the limited territorial trademark licenses constituted horizontal territorial allocations that were per se violative of the antitrust laws. Spring-Air and one other mattress company signed consent decrees abandoning the territorial limitations on licensee sale and manufacture,²²² but the other two companies elected to go to trial. One case is still sub judice.²²³ In United States v. Sealy, Inc.²²⁴ the court found for the defendant. Judge Austin summarized his conclusions as follows:

220. 1964 Trade Cas. ¶ 71258 (N.D. Ill. 1964), juris. statement filed, ATRR 205:A-2 (6/15/65).

221. 308 F.2d 403 (5th Cir. 1962).

222. United States v. Spring-Air Co., 1962 Trade Cas. ¶ 70402 (N.D. Ill. 1962) (consent decree); United States v. Restonic Corp., 1960 Trade Cas. ¶ 69739 (N.D. Ill. 1960) (consent decree).

223. United States v. Serta Associates, Inc., 29 F.R.D. 136 (N.D. Ill. 1961) (mem.) (motion to quash subpoena).

224. 1964 Trade Cas. ¶ 71258 (N.D. Ill. 1964). The Federal Trade Commission dismissed a complaint against the Sealy group of bedding manufacturers in the halcyon days when the Commission was "soft" on territorial allocations. Sealy, Inc., 45 F.T.C. 730 (1944).

Plaintiff's evidence, read as a whole, conclusively proves that the Sealy licensing arrangements were developed in the early 1920's for entirely legitimate business purposes, including royalty income to Sugar Land Industries, which owned the Sealy name, trademarks and patents, and the benefits to licensees of joint purchasing, research, engineering, advertising and merchandising. These objectives were carried out by successor companies, including defendant, whose activities have been directed not toward market division among licensees but toward obtaining additional licensees and more intensive sales coverage.²²⁵

It seems evident from the foregoing statement that Judge Austin did not believe that the presence of a limited territorial trademark license in and of itself materially affected the antitrust status of the Sealy territorial restrictions. He considered that the rule of reason was applicable to the Sealy system because the territorial restrictions were reasonably ancillary to the joint venture of the small bedding companies in marketing a national brand. Although as an abstract proposition the pooling of funds to finance large-scale advertising is possible without restricting the areas in which the advertised goods can be sold,²²⁶ it has been forcefully maintained that joint venture licensing cannot attract adequate capital without the quid pro quo of territorial exclusivity,²²⁷ and Judge Austin specifically so found in Sealy. He stated:

It is obvious that an essential inducement to prospective licensees—to get them to undertake the obligations of a Sealy license—was the grant of exclusive rights in the territories in which Sealy asked them to manufacture, distribute, and pay royalties.²²⁸

In sum, Sealy appears to be one of several instances in which the lower federal courts have, in effect, sustained a joint venture defense to an allegation of per se violation of the antitrust laws.²²⁹

Denison Mattress Co. v. Spring-Air Co.²³⁰ was a private action which was sub judice at the time that the Spring-Air Co.

225. 1964 Trade Cas. ¶ 71258, at 80083 (N.D. Ill. 1964).

226. See Moutoux v. Gulling Auto Elec., Inc., 1963 Trade Cas. ¶ 70639 (S.D. Ind. 1962).

227. 1961 Senate Hearings at 34 (remarks of Sigmund Timberg).

228. 1964 Trade Cas. ¶ 71258, at 80078 (N.D. Ill. 1964).

229. See United States v. Pan American World Airways, Inc., 193 F. Supp. 18 (S.D.N.Y. 1961), rev'd on other grounds, 371 U.S. 296 (1963); United States v. National Football League, 116 F. Supp. 319 (E.D. Pa. 1953); "Joint Ventures and Boycotts: Some Suggestions on Per Se," 15 Stan. L. Rev. 638 (1963).

230. 308 F.2d 403 (5th Cir. 1962).

conceded to the Justice Department and agreed to abandon its territorial restrictions. In 1957 Denison attempted to withdraw from the Spring-Air group without paying accrued liabilities for advertising and fees. When Spring-Air brought suit for the money due, Denison asserted that the license agreement was void under the federal antitrust laws. Several unlawful restraints of trade were alleged, including collusive division of markets. The trial court brushed aside this defense, and the Fifth Circuit Court of Appeals affirmed. The appellate court stressed the limitation of the territorial restrictions to the sale of Spring-Air brand products and the duty of a trademark licensor to police his licensees in support of this result. Supreme Court precedents condemning horizontal territorial allocations were distinguished on the ground that division of markets was not the central purpose of the Spring-Air contracts. This conclusion was supported by a mishmash of cases, the bulk of which applied the rule of reason to vertical territorial allocations.²³¹

The result of Denison seems correct. The Supreme Court has disavowed antitrust defenses to contractual obligations unless payment would involve "one of the very restraints forbidden by the Sherman Act,"²³² and the legality of the territorial restrictions did not seem so intimately related to Denison's liability for advertising fees.²³³ However, the Fifth Circuit's rationalization of this result in terms of the rule of reason seems more questionable than the approach taken by the federal district court in Sealy. The crux of the matter is whether, as the Fifth Circuit held, the legal obligations imposed upon a trademark licensor provide a sufficient business purpose for territorial limitations in horizontal trademark licenses to justify a finding that division of markets was not the central purpose of the territorial restrictions. The limitation of the restraints to products sold under the Spring-Air brand is immaterial if this business purpose fails to remove the incubus of per se illegality.²³⁴

231. 308 F.2d 403, 409-410. The Hanover case and Tricontinental Fin. Corp. v. Tropical Marine Enterprises, Inc., 265 F.2d 619 (5th Cir. 1959), which sustained a restrictive covenant accompanying the sale of a boat, were also cited. For criticism of Tricontinental see Bork, "Ancillary Restraints and the Sherman Act," 15 A.B.A. Antitrust Section 211, 219 (1959).

232. Kelly v. Kosuga, 358 U.S. 516, 520 (1959).

233. Compare Farbenfabriken Bayer, A.G. v. Sterling Drug, Inc., 197 F. Supp. 613 (D.N.J. 1961), aff'd, 307 F.2d 207 (3d Cir. 1962), cert. den., 372 U.S. 929 (1963) (the successor to a party to a contract which illegally allocated world markets can not bring an action for profits due under the contract).

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

The Fifth Circuit's conclusion was grounded on twin propositions: (1) a trademark license without territorial restrictions will be deemed coextensive with the whole country; (2) a licensor can lose rights in a mark that he permits others to misuse.²³⁵ The first proposition is reasonable but hardly a justification for allocation of markets by competitors. The licensor's quality control should have adequately guaranteed the integrity of the licensed mark regardless of the number of licensees selling in the same territory.²³⁶ The second proposition was questionably analogized from cases which involved loss of trademark rights because of failure to institute prompt suits for trademark infringement. If the court intended on oblique reference to potential loss of a licensor's trademark rights through a licensee's improper display of the licensed mark, territorial restrictions are by no means necessary, or even adequate, antidotes. A commonly encountered license provision requiring the licensor's approval of the licensee's mode of display of the licensed mark seems more appropriate and effective.²³⁷ Denison's limited rationale does not, of course, exhaust the argument that the legal obligations of a trademark licensor warrant resort to the rule of reason. It can also be contended that territorial restrictions are justified by a trademark licensor's duty to control the nature and the quality of the goods sold by a licensee.²³⁸ It is doubtful, however, that quality considerations would ever in fact require restriction of the area in which a licensee may produce a product. The specification of production and product standards should almost invariably be enough. In the context of the "mattress cases," for instance, a quality mattress can presumably be made in any of the fifty states as long as adequate production and product standards are applied. By the same token, because purchasers from one licensee might resell the goods in another licensee's territory,²³⁹ a system of exclusive sales territories would be of less assistance in tracing defective goods back to slipshod licensees than a simple requirement that every licensee place his individual trade name or trade-

235. *Denison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403, 409-10 (5th Cir. 1962).

236. *Parkway Baking Co. v. Freihofer Baking Co.*, 154 F. Supp. 823 (E.D. Pa. 1957), *aff'd*, 255 F.2d 641 (3d Cir. 1958).

237. See Restatement (Second), Torts § 756A, comment a (Tent. Draft No. 8, 1963).

238. § 45, 60 Stat. 443 (1946), 15 U.S.C. § 1127 (1964); see "Quality Control and the Antitrust Laws in Trademark Licensing," 53 Trademark Rep. 1130, 1162 n. 188 (1963).

239. *E.g.*, *Parkway Baking Co. v. Freihofer Baking Co.*, 154 F. Supp. 823 (E.D. Pa. 1957), *aff'd* 255 F.2d 641 (3d Cir. 1958).

mark, in addition to the licensed mark, on goods produced under the license.²⁴⁰ Endeavoring to maintain the quality of a licensee's production through restricting the areas in which he can manufacture and sell goods is akin to cutting down an elm in which a cat has been treed in order to prevent the cat from falling and being hurt. The desired result may or may not be achieved, and there are more direct and less drastic ways to achieve it. Justifications unique to licensing aside, a trademark user's interest in avoiding tarnishment of his mark's reputation might support a stipulation forbidding a licensee to locate in "low class" or nonprestigious areas; but this is a far cry from prohibiting all licensee operations in blocks of territory where suitable locations exist as was done by the mattress companies.

The weakness of the theory that the legal obligations of a trademark licensor justify territorial limitations in horizontal licenses is only exceeded by the inappropriateness of the other two cases billed as supporting territorial limitations in horizontal licenses. It has been contended that Hanover Star Milling Co. v. Metcalf²⁴¹ "in effect, allocated one territory for use of the trademark "Tea Rose" for flour to one competitor, and assigned another territory for use of the same trademark on like goods to the other."²⁴² This interpretation, however, glosses over the "peculiar facts" of Hanover.²⁴³ The case did not involve the calculated apportionment of trademark rights. Hanover merely held that where two persons coincidentally adopt the same mark in different territories, the prior user has no common-law right to compel the junior user to abandon use of the mark. Moreover, in contrast to the typical limited territorial license, Hanover did not place any arbitrary limits on the territorial rights that the concurrent users could attain. Under Hanover, each concurrent could market his goods wherever he wished as long as he did not come into conflict with the other. Huber Baking Co. v. Stroehmann Bros. Co.,²⁴⁴ the other principal case advanced as sustaining limited territorial licensing among competitors, is equally inapposite. Quality Bakers of America, a bakers' cooperative, had a policy of granting non-exclusive limited territorial licenses which ordinarily left the licensor free to authorize overlapping territories but prevented the

240. This has been an aspect of the "Ban-Lon" quality control program. Joseph Bancroft & Sons v. Shelley Knitting Mills, 212 F. Supp. 715 (E.D. Pa. 1962).

241. 240 U.S. 403 (1916). The Hanover case is discussed in Chapter I in the text accompanying notes 24-28.

242. Stewart, "Franchise or Protected Territory Distribution," 8 Antitrust Bull. 447, 464 (1963).

243. 240 U.S. 403, 420.

244. 252 F.2d 945 (2d Cir.), cert. den., 358 U.S. 829 (1958).

licensees from soliciting sales outside their territories without the licensor's permission.²⁴⁵ When the licensor allowed Stroehmann Bros. to sell in Huber's territory, Huber objected. The Second Circuit upheld the objection sustaining Huber's contentions that the licensor had granted Huber an exclusive territorial license or, alternatively, that the licensor was estopped to authorize another licensee to sell in Huber's territory by the terms of a trademark assignment accepted from Huber. No antitrust issues were raised or discussed. The case turned on niceties of trademark law and the parole evidence rule. The court's comment that "the division of territory was not designed to, and in fact did not, work a fraud on the public. . ." but rather had "a legitimate business purpose"²⁴⁶ was limited to a trademark context—the idea being that granting Huber the exclusive right to sell "Sunbeam" bread in an area in which Huber had previously used a similar mark served the commendable purpose of preserving the former connotation of the mark to the public. Laudable as this function may be when antitrust principles are not considered, this "business purpose" should not be entitled to as much weight in an antitrust suit as in a suit on a contract. A licensor's quality control should safeguard the integrity of a licensed mark regardless of the number of licensee's selling in the same territory,²⁴⁷ and confusion as to the identity of the trademark users can be adequately dispelled by requiring that licensees couple their individual trade names or trademarks with display of the licensed mark.²⁴⁸

Inasmuch as Hanover dealt with an unrelated point of trademark law and Huber was premised upon contract rights to which no antitrust challenge was raised, the case for application of the rule of reason to territorial limitations in horizontal licenses because of considerations derived from trademark law is based on Denison's faulty reasoning insofar as adjudications are concerned. Recognition of the deficiencies in this approach is evidenced by the mattress companies' abortive attempts to amend the Lanham Act so as to specifically require application of the rule of reason to limited territorial licenses.²⁴⁹ Sealy was on far sounder ground in holding

245. The territorial restriction in Huber was the equivalent of a closed sales area.

246. 252 F.2d 945, 956.

247. Parkway Baking Co. v. Freihofer Baking Co., 154 F. Supp. 823 (E.D. Pa. 1957), aff'd 255 F.2d 641 (3d Cir. 1958).

248. The significance of the fact that each licensee displayed his individual trade name in conjunction with the licensed mark was not discussed by the Second Circuit in the Huber case because the presence of likelihood of purchaser confusion was conceded by both parties. 252 F.2d at 950-51.

249. S. 1396, § 5(k), 87th Cong., 1st Sess. (1961); S. 1396, § 5(b), 87th Cong., 2d Sess. (1962).

that the joint venture of the small bedding manufacturers in marketing a national brand, rather than a talismanic trademark license, merited application of the rule of reason.

The assertion that territorial limitations in vertical licenses are invariably tested by the rule of reason has no clear-cut decisional support. A number of older decisions cited for the proposition either dismissed allegations of a plaintiff's antitrust violations as immaterial to the merits of a trademark infringement suit²⁵⁰ or applied the pre-White Motor Co. view that all vertical territorial restraints were tested by the rule of reason.²⁵¹ The other cases, Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co.²⁵² and Parkway Baking Co. v. Freihofer Baking Co.²⁵³ turned on points of trademark and contract law respectively. Vermont Maple Syrup held, without a passing reference to anti-trust law, that trademark law did not prohibit the introduction of a mark into new territory through licensing. On the other hand, Parkway narrowly construed a territorial limitation in a trademark license because of antitrust considerations. The licensor urged the district court that a license which designated but did not expressly limit the licensee's sales territory should be interpreted to interdict sales within the licensee's territory if the licensee knew that the goods were to be resold elsewhere. The district judge flatly rejected this contention and indicated that an express provision for geographical customer allocation might raise an antitrust question.²⁵⁴ He also refused to imply the restriction from

250. E.g., Coca-Cola Co. v. Bennett, 238 Fed. 513 (8th Cir. 1916); accord, Coca-Cola Co. v. Gay-Ola Co., 200 Fed. 720 (6th Cir. 1912), cert. den., 229 U.S. 613 (1913); see Coca-Cola Co. v. J. G. Butler & Sons, 229 Fed. 224 (E.D. Ark. 1916). See generally Nicoson, "Misuse of the Misuse Doctrine in Infringement Suits," 9 U.C.L.A.L. Rev. 76, 96 (1962).

251. E.g., Brosious v. Pepsi-Cola Co., 59 F. Supp. 429 (M.D. Pa. 1945), aff'd, 155 F.2d 99 (3d Cir. 1946) (alternative holding); accord, Coca-Cola Bottling Co. v. Coca-Cola Co., 269 Fed. 796 (D. Del. 1920).

252. 272 Fed. 478 (D. Vt. 1921).

253. 154 F. Supp. 823 (E.D. Pa. 1957), aff'd, 255 F.2d 641 (3d Cir. 1958). Parkway involved a sponsor-manufacturer representation arrangement with an independent sponsor. If the sponsor is not controlled by the franchisees, a sponsor-manufacturer representation arrangement is analogous to a vertical arrangement because restraints are imposed on persons at the same level of manufacture or distribution by a person divorced from that level. On the other hand, if the sponsor is controlled by the franchisees, the arrangement is horizontal. Cf. White Motor Co. v. United States, 372 U.S. 253, 267, 279-80 (1963).

254. 154 F. Supp. 823, 826 citing United States v. Bausch & Lomb Optical Co., 321 U.S. 707 (1944), which invalidated a private licensing system used to fix resale prices.

the conduct of the parties because "courts are reluctant to construe a contract in a way which would give it the effect of restricting the free and unlimited exchange or sale of commodities."²⁵⁵ The Third Circuit's affirmance of Parkway²⁵⁶ has been interpreted by Judge Barnes of the Ninth Circuit as establishing that "where there is no express grant of exclusive territory in a contract or franchise, none will be impliedly read into the contract, as a general rule."²⁵⁷

The dearth of federal authority suggesting that the existence of a trademark license affects the validity of vertical territorial restraints is not surprising. In most vertical relationships a trademark license is unnecessary because the purported licensee merely resells the "licensor's" products. Even if a license is required, control of a licensee's sales area is not essential to quality control however useful it may otherwise be to the licensor.²⁵⁸ Yet, hope springs eternal and Texas decisions upholding territorial limitations in vertical trademark licenses under the Texas antitrust laws²⁵⁹ have been thrown into the potpourri of cases alleged to sustain a rule of reason test for territorial limitations in vertical licensing arrangements. These cases are of considerable importance in Texas because that state's antitrust laws generally outlaw per se both horizontal and vertical territorial allocations.²⁶⁰ The rationale, however, has little transfer value at either the federal or state level. In the leading Texas case of Coca-Cola Co. v. State²⁶¹ the Court of Civil Appeals premised its discussion upon the following principle:

255. Ibid.

256. Parkway Baking Co. v. Freihofer Baking Co., 255 F.2d 641 (3d Cir. 1958).

257. Pacific Supply Cooperative v. Farmers Union Central Exch., Inc., 318 F.2d 894, 907 (9th Cir. 1963), cert. den., 375 U.S. 965 (1964).

258. See note 238 supra and accompanying text.

259. Coca-Cola Co. v. State, 225 S.W. 791 (Tex. Civ. App. 1920). Coca-Cola was followed in Shaddock v. Grapette Co., 259 S.W.2d 231 (Tex. Civ. App. 1953) (disallowing antitrust defense to a suit on a note and a chattel mortgage).

260. E.g., Climatic Air Distrib. v. Climatic Air Sales, 162 Tex. 237, 345 S.W.2d 702 (1961); 8 Baylor L. Rev. 295 (1961); see Hanson & Van Kalinowski, "Status of State Antitrust Laws with Federal Analysis," 15 W. Res. L. Rev. 9, 26-27 (1963). The Texas Attorney General has ruled that the exception is limited to legally required trademark licenses. 1940-43 Trade Cas. ¶ 56112 (1941).

261. 225 S.W. 791 (Tex. Civ. App. 1920).

The Constitution of the United States . . . expressly provides for the creation of monopolies in the matter of patent rights, trade-marks, and copyright. Article I, § 8. Congress has legislated under this provision and no state can nullify its acts. "The very object of these laws is monopoly."²⁶²

Since the foregoing analysis has suggested that the federal trademark laws do not include the privilege of imposing territorial limitations in trademark licenses within the trademark "monopoly" conferred by registration, the propriety of territorial limitations should be as open to question under state antitrust laws as under the federal statutes.²⁶³ Indeed, the principal virtue of the Texas cases is that they avoid conflict with the federal antitrust laws, not the federal trademark laws. The Sherman Act and the Federal Trade Commission Act do not parallel the Texas antitrust laws' blanket proscription of territorial restraints.²⁶⁴

D. Conclusion

The Antitrust Division's concern that the assignment and licensing provisions of the Lanham Act could be used to facilitate collusive divisions of territorial markets was clearly exaggerated. Partial territorial assignments are of limited feasibility and there is nothing in the Lanham Act which should give them preferred antitrust status. Moreover, the "solid front of precedents" allegedly validating limited territorial licenses under the antitrust laws is singularly insubstantial. The legality of these restrictions appears to be controlled by conventional antitrust factors, notably the horizontal, vertical, or conglomerate character of the licensing arrangement. Horizontal restrictions are generally invalid per se whereas it seems probable that stringent vertical territorial restraints on buyers will be difficult to justify. Conglomerate restraints for which business reasons can be evinced are probably valid as long as the possibility of market competition between a licensor and a licensee, or between licensees, is remote. Upon the development of a

262. *Id.* at 793; accord, *Shaddock v. Grapette Co.*, 259 S.W.2d 231, 235 (Tex. Civ. App. 1953). The Court of Civil Appeals was, of course, erroneous in assuming that federal trademark legislation is based upon the patent and copyright clause of the Constitution. *United States v. Steffens*, 100 U.S. 82 (1879).

263. *Cf. Temperato v. Horstman*, 321 S.W.2d 657 (Mo. Sup. Ct. 1959). The problem does not arise with respect to state trademark legislation because statutory trademark licensing is a federal phenomenon.

264. Application of the strict Texas rule to interstate trademark licenses might be invalid as a burden on interstate commerce. See *Denison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403, 413 (5th Cir. 1962); see generally Flynn, *Federalism and State Antitrust Regulation* (1964).

probability of competition these restraints assume either a horizontal or a vertical character and should be tested by the antitrust principles applicable to those classifications. The Sealy case raises the problem of the extent to which a distributive joint venture should moderate the per se rule with respect to horizontal territorial allocations. Whatever answer the Supreme Court may give, the existence of limited territorial trademark licenses should not figure in the result.

CONCLUSION

The saga of territorial trademark rights with respect to competing goods and the antitrust laws indicates that the debate between proponents and opponents of strong trademark protection has engendered exaggerated claims and counterclaims which have obscured the basic legal problems. The doctrine of concurrent territorial rights expounded in the Hanover and Rectanus cases was noncompetitive, but it was also consonant with a respect for good faith conduct which is deeply ingrained in our law. The Lanham Bill was strong protectionist legislation, but the Justice Department permitted this fact to goad it into blind opposition to trademark law revision. Limited territorial licenses are in widespread use, but neither prevalence nor the Lanham Act immunizes territorial restrictions in trademark licenses from challenge under the antitrust laws. Amidst, perhaps because of, the welter of extreme positions, it is heartening to observe the development of a legal structure which facilitates procompetitive delineation of territorial trademark rights with respect to competing goods.

The doctrine of the Hanover and Rectanus cases was a natural response by the Supreme Court to the plight of junior users who innocently adopted marks similar to those already in use. It was unfair to penalize these junior users for failure to discover the existence of prior rights for there was no reliable method by which they could do so. Nor was the protection of good faith junior use unduly burdensome to a senior user at the time that the doctrine of concurrent territorial rights was formulated. Before the advent of television, radio, and national magazines, territorial trademark interests were confined to smaller areas than was true after the revolution in commercial communication engendered by these phenomena. Although chain operations were often embarrassed and annoyed by the discovery of good faith concurrent users, the absence of expensive conduits to mass markets meant that the advertising investment in a mark by a senior user was less substantial, the expense of popularizing a new mark to avoid concurrent territorial rights was less onerous, and the simultaneous use by a senior user of several marks for the same goods was less likely to require duplication of costly advertising.¹ It was not until the emergence

1. E.g., General Baking Co. v. Gorman, 3 F.2d 891 (1st Cir.), cert. den., 268 U.S. 705 (1925).

of mass media advertising that the latent noncompetitive potentialities of recognition of concurrent territorial rights became readily apparent. Thereafter, broad territorial markets were more easy to exploit and senior users were more apt to find that concurrent territorial rights were an obstacle that it was prohibitively costly to surmount.² Nevertheless, the advertising expenditures and good will of bona fide junior users could not be ignored so the courts contented themselves with expanding a senior user's territorial trademark rights where a junior user's good faith was doubtful, e.g., where a senior user's advertising, popular reputation, or steady expansion of operations made it unlikely that a junior user was unaware of the existence of the senior use when he adopted his mark. Because the courts would go no further, solution of the problem of concurrent territorial use was left to the legislature.

Resolution of the problem by state legislation would have been cumbersome at best. Concurrent territorial rights could arise anywhere in the United States so that a satisfactory solution to the problem had to take into consideration the interests of both senior and junior users throughout the length and breadth of the country. State trademark registration statutes might have constituted a vehicle for providing notice of senior rights but the endeavors to enact substantive state registration statutes generally constituted attempts to abuse the state capacity for trademark law revision, and interstate commercial interests understandably favored a single federal registration statute. The ultimate result was the enactment of the Lanham Act.

The Lanham Act provides an adequate framework within which to balance the legitimate interests of junior and senior users. A senior user who foregoes registration assumes the risk of concurrent territorial rights and is properly subjected to them. Conversely, a senior user who acquires registration has given junior users an opportunity to discover the fact of his use through examination of the records in the Patent Office and is entitled to the privilege of nationwide trademark rights made possible by the constructive notice provision. Utilization of the federal trademark registry is not unduly burdensome on either senior or junior users. Numerous law-firms in Washington, D.C. specialize in searching the federal registry and obtaining registration for local or out-of-town businessmen, and registration of a common-law trademark is possible after

2. See "Trademarks in the Marketplace," 53 Trademark Rep. 687, 696-97 (1963) (good faith concurrent user asks \$1,000,000 settlement from Colgate-Palmolive).

nominal use plus token use in commerce.³ Although secondary-meaning marks require a greater amount of use for registrability,⁴ everyday language should not be as easily removed from unrestricted commercial usage as coined, arbitrary, or suggestive words. The frequency with which multiple adoptions of these marks occur and the potency of descriptive words as advertising devices dictate that the prize of registration should only be bestowed on a person with a substantial interest in the mark. If one is primarily interested in obtaining quick registration, he can adopt a common-law trademark.

As a general proposition, the existence of the federal trademark registry makes it reasonable to penalize both senior users who fail to secure registration and junior users who fail to check the registry before adopting a mark. Nevertheless, "general propositions do not decide concrete cases."⁵ Because the Lanham Act may trench hard upon unsophisticated local trademark users and because judges are reluctant to impose needless penalties, the Second Circuit's interpretation of the Lanham Act definition of trademark infringement in Dawn Donut Co. v. Hart's Food Stores, Inc.⁶ should figure prominently in future attempts by senior users to invoke the constructive notice provision. The proposition that junior users are not to be deprived of their marks until market conflict develops with a registrant is a fair reading of section 32(1)(a) which should have a wellnigh irresistible appeal to consequence-conscious judges. The other side of the coin is that junior users temporarily sheltered by the Dawn interpretation may be lulled into increasing their advertising investment in a mark in which they have subordinate rights. This undesirable consequence can, however, be mitigated by realistic advice from trademark counsel, by senior users who warn junior users of the risk that they run in failing to adopt a new mark, and, when conflict does occur, by judicial decrees which temper the blow to junior users who have had no warning of a possible day of reckoning.

The strong territorial trademark protection with respect to competing goods made possible by registration is in the public interest insofar as persons who initiate use after constructive notice begins are concerned. Section 22 should have no effect on the

3. E.g., Seiberling Rubber Co. v. Dayton Rubber Co., 110 U.S.P.Q. 556 (Comm'r 1956). "Use in commerce" is a jurisdictional prerequisite of the Lanham Act. § 1, 60 Stat. 427 (1946), as amended, 15 U.S.C. § 1051 (1964).

4. See Knox Gelatine, Inc. v. Gelatin-Plus, 143 U.S.P.Q. 72 (Tm. Bd. 1964).

5. Lochner v. New York, 198 U.S. 45, 76 (1905) (dissenting opinion of Mr. Justice Holmes).

6. 267 F.2d 358 (2d Cir. 1958).

capacity of a person to extend already acquired concurrent territorial rights. It is unduly restrictive of the development of commerce to consider that a person with an unquestionable right to use a mark cannot extend his area of protectable use where this does not produce a clash with a registrant, but the situation is radically different with respect to persons who start use following the applicability of section 22. The noncompetitive potentialities of the doctrine of concurrent territorial rights make it sound public policy to deny those rights to junior users who have had fair warning of senior use as long as there is no other practicable way to avoid a substantial likelihood of purchaser confusion. This is not to say that a registrant may not estop himself to challenge certain of these junior users through express or implied acquiescence in their continued use;⁷ nevertheless, every registrant should be entitled to an opportunity to expand in preference to a recognition of junior concurrent territorial rights to the extent that the registrant diligently endeavors to expand.

The possibility of obtaining broad territorial trademark rights through federal registration has obvious implications for attempts to broaden territorial trademark rights through other federal or state legislation. The predication of strong territorial trademark protection on registration is in the public interest because potential junior users can discover the marks which qualify for nationwide protection by checking the federal registry. A statutory expansion of the territorial trademark protection accorded unregistered marks would not give junior users an equivalent opportunity for notice of superior rights and might even discourage federal registration. Although it may be expected that the courts would narrowly construe this type of legislation in any event, the presence of the opportunity to obtain extensive territorial trademark rights through Lanham Act registration should give them an additional reason for doing so.

Because territorial restrictions accompanying trademark licenses, partial territorial assignments, and concurrent registration can constitute an antitrust violation, it may superficially appear that the Justice Department properly opposed the Lanham Bill on this ground. On reflection, it seems clear that the substitution of controlled for coincidental concurrent territorial use was a desirable modernization of the law. A highly integrated economy can ill afford fragmentation of territorial trademark rights through happenstance. The law facilitates the efficient marketing of goods and services by making possible nationwide trademark rights. To the extent that these rights may be abused, the Lanham Act does not impinge on the operation of the antitrust laws.

7. See Restatement (Second), Torts § 754 (Tent. Draft No. 8, 1963).

APPENDIX

It is necessary to have a general understanding of Patent Office practice in trademark cases in order to be able to evaluate Patent Office decisions respecting trademark rights. The following sketch should provide an adequate perspective.

A. Basic Patent Office Proceedings

When an application for registration on the Principal Register is received by the Patent Office, a trademark examiner initially determines *ex parte*¹ whether the mark is registrable.² The examiner may request additional information before coming to a decision³ or may finally dispose of the application on the first examination.⁴ One of the most frequent grounds for rejection of an application is that the mark

consists of or comprises a mark which so resembles a mark registered in the Patent Office or a mark or trade name previously used in the United States by another and not abandoned, as to be likely, when applied to the goods of the applicant, to cause confusion, or to cause mistake, or to deceive. . . .⁵

If an examiner believes that a likelihood of confusion exists between marks, final rejection will usually follow unless the applicant can dissuade the examiner.⁶ However, if the likelihood of confusion is caused by a prior application or a prior registration that has not become incontestable⁷ and the applicant alleges a date of use prior

1. *Ex parte* Patent Office proceedings involve a single party and take place before a trademark examiner.
2. 37 C.F.R. § 2.61(a) (1960). *Ex parte* issues generally involve the registrability of a mark under section 2 of the Lanham Act. *Universal Overall Co. v. Stonecutter Mills Corp.*, 122 U.S.P.Q. 324 (Comm'r 1959).
3. 37 C.F.R. § 2.61(b) (1960).
4. 37 C.F.R. § 2.64 (1960).
5. § 2(d), 60 Stat. 428 (1946), as amended, 15 U.S.C. § 1052(d) (1964); see *Vandenburgh*, *Trademark Law and Procedure* 253 (1959).
6. *Vandenburgh*, note 5 *supra*, at 253-56 suggests various arguments that may be essayed.
7. The Lanham Act forbids declaration of an interference between an application and an incontestable registration. § 16, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1066 (1964); *Robert Hall Clothes, Inc. v. Comm'r of Patents*, 145 U.S.P.Q. 256 (D.D.C. 1965). But see *Koeppel*

to the filing date of the earlier application, the examiner, or in the case of a registration issued before the pending application was filed, the Commissioner, may declare an interference.⁸

An interference proceeding is an inter partes proceeding⁹ before the Patent Office Trademark Trial and Appeal Board¹⁰ employed to determine the right to registration as between two or more parties at least one of whom is an applicant.¹¹ Since the Commissioner will usually refuse to declare an interference,¹² as a practical matter interference proceedings are limited to interferences declared by an examiner between pending applications or between a pending application and a registration issued after the application was filed. Before an interference will be declared it must be determined that the relevant marks are registrable except for the issue of likelihood of confusion.¹³ If a junior applicant establishes superior rights in an interference proceeding, he is entitled to registration but must first obtain cancellation of any impugned registrations.¹⁴ On the other hand, if a junior applicant cannot demonstrate superior rights or absence of confusing similarity, his application will be rejected.¹⁵ This does not necessarily mean that the other party will obtain or retain registration. Although a junior applicant must allege use of a mark before the filing date of a conflicting prior application in order to obtain a declaration of interference, the outcome of the proceeding does not

(Footnote continued)

Metal Furniture Corp. v. Dunleavy Co., 51 C.C.P.A. (Patents) 1221, 328 F.2d 939 (1964) (failure to appeal erroneous declaration of interference constitutes waiver of objection).

8. 37 C.F.R. § 2.91 (1960), as amended, (Supp. 1964).
9. Inter partes proceedings involve more than one party and at least one applicant or registrant. See Vandenburg, note 5 *supra*, at 259. The Federal Rules of Civil Procedure apply to inter partes proceedings to the extent that the Patent Office deems them appropriate. 37 C.F.R. § 2.117(a) (1964); R. H. Macy & Co. v. Richter & Phillips Co., 115 U.S.P.Q. 342 (Comm'r 1957).
10. The Trademark Trial and Appeal Board, composed of the Commissioner of Patents, the Assistant Commissioners, and other Patent Office employees designated by the Commissioner, hears all inter partes proceedings. § 17, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1067 (1964). Cases must be heard by at least three members of the board. *Ibid*; Foodland, Inc. v. Foodtown Super Mkts., Inc., 138 U.S.P.Q. 591 (Tm. Bd. 1963). See generally Law, "The Trademark Trial and Appeal Board," 50 Trademark Rep. 1019 (1960).
11. See Vandenburg, note 5 *supra*, at 295.
12. In re Hot Shoppes, Inc., 141 U.S.P.Q. 302 (Comm'r 1963).
13. Soule-Gibbs & Co. v. Hearn Bros. Super Food Mkts., 118 U.S.P.Q. 383 (Comm'r 1958).
14. 37 C.F.R. § 2.96 (1964).
15. E.g., United States Plywood Corp. v. Trieb, 114 U.S.P.Q. 343 (Comm'r 1957).

turn upon this factor alone but rather upon a determination of the respective rights of all the parties.¹⁶ Thus in United States Ply-wood Corp. v. Trieb¹⁷ the junior applicant failed to establish a right to registration but introduced sufficient un rebutted evidence to cause denial of registration to the other applicant as well.

If an examiner concludes that a mark is registrable on the Principal Register, the mark will be published for opposition in the Official Gazette of the Patent Office.¹⁸ Publication may take place even though an interference is to be declared or a concurrent use proceeding instituted, although the ultimate registrability of the mark is, of course, dependent on the outcome of those proceedings.¹⁹ Anyone who believes that he would be damaged by registration of the published mark has thirty days from the date of publication to seek an opposition proceeding by filing a verified opposition in the Patent Office.²⁰ An opposition proceeding is an inter partes proceeding before the Patent Office Trademark Trial and Appeal Board initiated by a person objecting to issue of registration on the Principal Register. An opposer is generally the user of a mark or trade name that is similar to the mark sought to be registered. An applicant whose application is opposed usually endeavors to establish prior use, absence of likelihood of confusion, or an equitable defense.²¹ The validity of a conflicting registration asserted by an opposer²² can, however, only be attacked by a request for cancellation.²³ If an opposition is sustained, the applicant will, of course, be refused registration;²⁴ but dismissal

16. 37 C.F.R. § 2.96 (1964); Grand Bag & Paper Co. v. Tidy-House Paper Prods., Inc., 109 U.S.P.Q. 395 (Comm'r 1956); accord, Bunny Bear, Inc. v. Dennis-Mitchell Indus., 104 U.S.P.Q. 116 (Comm'r 1955).

17. 114 U.S.P.Q. 343 (Comm'r 1957).

18. § 12(a), 60 Stat. 432 (1946), as amended, 15 U.S.C. § 1062(a) (1964).

19. Ibid.

20. 37 C.F.R. § 2.101 (1964). A request for extending the time for filing an opposition must be received in the Patent Office before the expiration of the thirty-day period. 37 C.F.R. § 2.102 (1964). Grant of an extension is discretionary with the Commissioner. General Tire & Rubber Co. v. Pelron Corp., 137 U.S.P.Q. 600 (Comm'r 1963).

21. E.g., Motorola, Inc. v. Griffiths Electronics, Inc., 50 C.C.P.A. (Patents) 1518, 317 F.2d 397 (1963); see Vandenburgh, note 5 supra, at 260. See generally Panel Discussion, "Trademark Oppositions," 52 Trademark Rep. 1053 (1962).

22. An opposer can only rely upon his own registrations as grounds for opposition. He cannot champion the rights of third parties. Parke, Davis & Co. v. Diamond Laboratories, Inc., 139 U.S.P.Q. 551 (Tm. Bd. 1963).

23. 37 C.F.R. § 2.106(b) (1964); Contour Chair-Lounge Co. v. Englander Co., 51 C.C.P.A. (Patents) 833, 324 F.2d 186 (1963).

24. Trak Electronics Co. v. Rustrak Instrument Co., 141 U.S.P.Q. 841 (Tm. Bd. 1964).

of an opposition does not ensure registration. Section 18 of the Lanham Act²⁵ authorizes the Patent Office to refuse registration on the basis of evidence adduced in the opposition that would have led a trademark examiner to initially refuse registration *ex parte*.²⁶ If an *ex parte* ground of irreregistrability appears to exist, the Trademark Trial and Appeal Board will accordingly recommend that registration be withheld pending reexamination of the application by a trademark examiner who may thereupon refuse registration.²⁷

A published mark that survives all *inter partes* and *ex parte* challenges is registered in due course.²⁸ The certificate of registration is, however, subject to later cancellation in various proceedings:²⁹ an *inter partes* cancellation proceeding can be brought by a person who will be damaged by the continued existence of the registration;³⁰ cancellation may be requested in a counterclaim in another *inter partes* proceeding;³¹ the Patent Office may cancel registration on an *ex parte* ground³² or because the registrant fails to file an affidavit of continued use within six years after the issuance of registration,³³ cancellation may be ordered by a court in an action involving a registered mark;³⁴ or cancellation proceedings may be brought by the Federal Trade Commission.³⁵ The grounds

25. § 18, 60 Stat. 435 (1946), 15 U.S.C. § 1068 (1964).

26. Common *ex parte* grounds of irreregistrability are found in the prohibitions of section 2 of the Lanham Act. *Universal Overall Co. v. Stonecutter Mills Corp.*, 122 U.S.P.Q. 324 (Comm'r 1959). The Patent Office may also raise *ex parte* objections to registration after the conclusion of other *inter partes* proceedings involving an application.

37 C.F.R. § 2.131 (1964); e.g., *La Jolla Sportswear Co. v. Maskuline Underwear Co.*, 114 U.S.P.Q. 130 (Comm'r 1957) (*interference proceeding*).

27. 37 C.F.R. § 2.131 (1964); *Polaroid Corp. v. Anken Chem. & Film Corp.*, 138 U.S.P.Q. 327 (Tm. Bd. 1963).

28. 37 C.F.R. §§ 2.82, 2.151 (1964).

29. See generally Stoughton, "Cancellation of Trademarks," 50 *Trademark Rep.* 890 (1960).

30. 37 C.F.R. § 2.112 (1960).

31. 37 C.F.R. §§ 2.97, 2.106 (1964); e.g., *Robert Hall Clothes, Inc. v. Stern-Slegman-Prins Co.*, 48 C.C.P.A. (Patents) 792, 285 F.2d 816 (1961).

32. See Stoughton, note 29 *supra*, at 894-95. The validity of *ex parte* cancellation of registration after dismissal of a cancellation proceeding has been questioned, Vandenburg, note 5 *supra*, at 285 & n. 2 and the Court of Customs and Patent Appeals has recently scored the practice. *Golden Gate Salami Co. v. Gulf States Paper Corp.*, 51 C.C.P.A. (Patents) 1391, 332 F.2d 184 (1964) (supplemental register registration).

33. § 8(a), 60 Stat. 431 (1946), 15 U.S.C. § 1058(a) (1964).

34. § 37, 60 Stat. 440 (1946), 15 U.S.C. § 1119 (1964); e.g., *Proxite Prods., Inc. v. Bonnie Brite Prods. Corp.*, 206 F. Supp. 511 (S.D.N.Y. 1962).

35. § 14, 60 Stat. 433 (1946), as amended, 15 U.S.C. § 1064 (1964); *Bart Schwartz Internat'l Textiles, Ltd. v. F.T.C.*, 48 C.C.P.A. (Patents) 933, 289 F.2d 665 (1961).

on which registration can be cancelled vary depending on the period of time that has elapsed since registration on the Principal Register or republication.³⁶

B. Review of Patent Office Proceedings

1. Patent Office Review

The Trademark Trial and Appeal Board hears appeals from final decisions of trademark examiners in *ex parte* cases.³⁷ As in the past when these appeals were heard by an Examiner-in-Chief or an Assistant Commissioner on behalf of the Commissioner of Patents,³⁸ the Board generally decides the case on the basis of the record made before the examiner.³⁹ Although most decisions of examiners in *ex parte* cases must be appealed to the Board, a petition for review may be filed with the Commissioner (1) if an examiner has persisted in course of conduct not subject to appeal to the Board, (2) if a statute or rule specifically provides for such review⁴⁰ or (3) if appropriate circumstances exist for invocation of the Commissioner's general supervisory authority.⁴¹ Failure of an examiner to follow a prior decision of the Board might, for instance, be a proper object of petition,⁴² but a petition for review addressed to the Commissioner cannot ordinarily be used as a substitute for an appeal from a decision of the Board itself.⁴³

Prior to August 8, 1958 an *inter partes* case was initially heard by the Examiner of Interferences⁴⁴ and an administrative appeal could be taken to the Commissioner of Patents with the actual decision generally being rendered by an Examiner-in-Chief or an Assistant Commissioner.⁴⁵ A 1958 amendment to the Lanham Act, however, vested the Trademark Trial and Appeal Board with

36. See text accompanying notes 141-69 in Chapter II *supra*.

37. § 20, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1070 (1964); a final decision is a decision stated to be final or a second refusal of an application on the same ground. 37 C.F.R. § 2.141 (1960).

38. Act of July 5, 1946, ch. 540, § 20, 60 Stat. 435.

39. E.g., *In re Flintkote Co.*, 128 U.S.P.Q. 12 (Tm. Bd. 1960), rev'd on other grounds, 132 U.S.P.Q. 295 (Tm. Bd. 1961).

40. See Vandenburg, note 5 *supra*, at 331-32.

41. 37 C.F.R. § 2.146(a) (1960). The Commissioner also has authority to suspend certain rules in extraordinary situations. 37 C.F.R. § 2.148 (1960); *In re W. D. Byron & Son*, 139 U.S.P.Q. 550 (Tm. Bd. 1963).

42. *Cf. Ex parte Barley*, 116 U.S.P.Q. 592 (Patent Bd. 1957).

43. *In re Celotex Corp.*, 121 U.S.P.Q. 44 (Comm'r 1959); accord, *In re Celotex Corp.*, 120 U.S.P.Q. 493 (Comm'r 1959).

44. Act of July 5, 1946, ch. 540, § 17, 60 Stat. 434.

45. Act of July 5, 1946, ch. 540, § 20, 60 Stat. 435.

original jurisdiction of inter partes proceedings.⁴⁶ An appeal from a decision of the Board in an inter partes case must ordinarily be taken to the courts,⁴⁷ although the Commissioner continues to entertain petitions for review of nonappealable interlocutory orders⁴⁸ and asserts statutory authority to pass on decisions of the Board approving concurrent registration.⁴⁹ Where the evidence in an inter partes case suggests to the Board that a mark is unregistrable on an ex parte ground, the Board must recommend that a trademark examiner reexamine the application if the applicant finally prevails in the inter partes case.⁵⁰ Should an examiner thereupon reject the application, an ex parte appeal may be taken to the Board.⁵¹

2. Extra-Patent Office Review

An applicant denied registration by the Board or a dissatisfied party⁵² in an inter partes proceeding can seek review of final Patent Office decisions⁵³ in either the Court of Customs and Patent Appeals or a federal district court.⁵⁴ If a dissatisfied party in an inter partes case chooses to proceed in the Court of Customs and Patent Appeals, an adverse party has twenty days to file with the Commissioner of Patents an election to have the review conducted in a district court.⁵⁵ The appellant must then commence a civil action within thirty days or the decision of the Board will govern further proceedings.⁵⁶ The appeal to the Court of Customs and Patent Appeals must ordinarily be dismissed after an election in

46. § 17, 60 Stat. 434 (1946), as amended, 15 U.S.C. § 1067 (1964). Prior decisions by the Examiner of Interferences are not binding on the Board. *Royal Crown Cola Co. v. Pure Spring (Canada) Ltd.*, 50 C.C.P.A. (Patents) 906, 311 F.2d 805 (1963).

47. *Sterling Drug, Inc. v. Merritt Corp.*, 120 U.S.P.Q. 94 (Comm'r 1959).

48. See *Chicopee Mfg. Corp. v. Madison Research & Development Corp.*, 134 U.S.P.Q. 261 (Comm'r 1962); *Kroger Co. v. Country Club Ice Cream Co.*, 130 U.S.P.Q. 34 (Comm'r 1961).

49. *Coastal Chem. Co. v. Dust-A-Way, Inc.*, 139 U.S.P.Q. 208 (Comm'r 1963). This authority has not been successfully challenged to date. *Coastal Chem. Co. v. Hodges*, 235 F. Supp. 1018 (D.D.C. 1964).

50. 37 C.F.R. § 2.131 (1964).

51. *Ibid.*

52. A prevailing party may nonetheless qualify as a "dissatisfied" party. *Frostie Co. v. Sun-Glo Packers, Inc.*, 49 C.C.P.A. (Patents) 983, 300 F.2d 940 (1962) (per curiam).

53. E.g., *Seamless Rubber Co. v. Ethicon, Inc.*, 46 C.C.P.A. (Patents) 950, 268 F.2d 231 (1959) (per curiam).

54. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071 (1964).

55. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(a)(1) (1964).

There is not corresponding provision authorizing transfer of an action begun in a district court to the Court of Customs and Patent Appeals.

56. *Ibid.*

favor of a civil suit is made.⁵⁷ However, if the appeal concerned both *ex parte* and *inter partes* questions, the Court of Customs and Patent Appeals has held that the election transfers only the *inter partes* issues to a district court.⁵⁸ Since this permits two issues flowing from the same Patent Office decision to be litigated simultaneously in two different courts, the Patent Office has modified its procedure in an effort to avoid duplicative litigation. The Patent Office rule which requires the Board to refer *ex parte* matters in *inter partes* proceedings to a trademark examiner with a subsequent right of appeal back to the Board is intended to result in Board decisions on either *ex parte* or *inter partes* grounds but not on both.⁵⁹

The Court of Customs and Patent Appeals considers only questions raised in the reasons for appeal concerning the record made in the Patent Office.⁶⁰ Issues that have not been passed on by the Patent Office will not be heard.⁶¹ Decision of the Court of Customs and Patent Appeals in trademark cases were not reviewable until 1962 when the Supreme Court acknowledged the constitutional status of the Court of Customs and Patent Appeals and thus the existence of certiorari jurisdiction.⁶² A final decision in a case heard by the Court of Customs and Patent Appeals governs subsequent Patent Office proceedings⁶³ but is not necessarily

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57. *Ibid.* But see *Frostie Co. v. Sun-Glo Packers, Inc.*, 49 C.C.P.A. (Patents) 983, 300 F.2d 940 (1962) (*per curiam*) (case can not be transferred piecemeal).
58. *Baxter Laboratories v. Don Baxter, Inc.*, 138 C.C.P.A. (Patents) 786, 186 F.2d 511 (1951).
59. 37 C.F.R. § 2.131 (1964); see Vandenburg, note 5 *supra*, at 337-39.
60. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(a)(4) (1964). Judicial notice may be taken of additional facts. E.g., *Hancock v. American Steel & Wire Co.*, 40 C.C.P.A. (Patents) 931, 203 F.2d 737 (1953).
61. E.g., *In re Retail Clerk's Internat'l Protective Ass'n*, 32 C.C.P.A. (Patents) 1004, 149 F.2d 153 (1945).
62. *Glidden Co. v. Zdanok*, 370 U.S. 530 (1962); see Stern & Gressman, *Supreme Court Practice* 56-59 (3d ed. 1962). The Judicial Code has provided for Supreme Court certiorari jurisdiction over trademark decisions of the Court of Customs and Patent Appeals since 1948, 28 U.S.C. § 1256 (1964), but until 1962 it was unclear whether these controversies were justiciable in a constitutional sense, several precedents indicating that these decisions were administrative rather than judicial. *Postum Cereal Co. v. California Fig Nut Co.*, 272 U.S. 693 (1927); see *Pacific Nw. Canning Co. v. Skookum Packers' Ass'n*, 283 U.S. 858 (1931); Vandenburg, "Review of Decisions of the Court of Customs and Patent Appeals Under the Administrative Procedure Act," 38 *J. Pat. Off. Soc'y* 675 (1956). Despite implicit recognition of the justiciable nature of trademark controversies in *Zdanok* the Court has yet to grant certiorari.
63. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(a)(4) (1964).

binding in infringement suits.⁶⁴ In contrast, district court review of a decision of the Board results in a trial de novo.⁶⁵ Although the Patent Office record can be introduced on motion and enjoys a presumption of validity, other evidence can be considered.⁶⁶ Both ex parte and inter partes issues can be reviewed⁶⁷ and general equitable relief may be obtained in inter partes cases in addition to appropriate directions to the Patent Office.⁶⁸ Any federal district court has jurisdiction over the subject matter of review proceedings;⁶⁹ but only the District Court for the District of Columbia can serve process of parties residing anywhere in the United States or abroad.⁷⁰ A district court decision can be appealed to the appropriate court of appeals,⁷¹ and a decision by the court of appeals is within the Supreme Court's certiorari jurisdiction.⁷²

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64. E.g., *Syncromatic Corp. v. Eureka Williams Corp.*, 174 F.2d 649 (7th Cir.), cert. den., 338 U.S. 829 (1949). Decisions of the Court of Customs and Patent Appeals may be given greater weight in the wake of the Supreme Court's acknowledgement that they are judicial decisions. See *Glidden Co. v. Zdanok*, 370 U.S. 530 (1962); "Developments in the Law—Trade-Marks and Unfair Competition," 68 Harv. L. Rev. 814, 842 (1955).
65. *Esso Standard Oil Co. v. Sun Oil Co.*, 229 F.2d 37 (D.C. Cir.), cert. den., 351 U.S. 973 (1956); accord, *Watkins Prods., Inc. v. Sunway Fruit Prods., Inc.*, 311 F.2d 496 (7th Cir. 1962), cert. den., 373 U.S. 904 (1963).
66. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(b) (1) & (3) (1964). E.g., *Royal Crown Cola Co. v. Crown Beverage Corp.*, 195 F. Supp. 130 (E.D.N.Y. 1961); accord, *Wilson Jones Co. v. Gilbert & Bennett Mfg. Co.*, 332 F.2d 216, 218 (2d Cir. 1964) (dictum).
67. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(b) (1) (1964).
68. See, e.g., *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 330 F.2d 667 (7th Cir. 1964).
69. *Jean Patou, Inc. v. Societe Anonyme Technique de Parfumerie*, 124 F. Supp. 145 (S.D.N.Y. 1954).
70. § 21, 60 Stat. 435 (1946), as amended, 15 U.S.C. § 1071(b) (4) (1964).
71. E.g., *Esso Standard Oil Co. v. Sun Oil Co.*, 229 F.2d 37 (D.C. Cir.), cert. den., 351 U.S. 973 (1956).
72. Cf. *Hoover Co. v. Coe*, 325 U.S. 79 (1945).