TRADE-MARK LICENSING — A SAGA OF FANTASY AND FACT

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One of the principal architects of our vast commercial enterprises has been the trade symbol. The advertised brand has readily lent itself to building reputation by repetition. And while "commerce has outsoared the steeples that once looked down upon the marts,"2 busy entrepreneurs have dreamed dreams of new uses for old symbols, especially well-known ones.

It has long been suspected that there is a lively traffic, often covert, in trade symbols.3 The writers have drawn attention to the traffic, but usually only that found in certain roadways. The transfer of trade-marks and trade names by assignment, often without the good will of the business enterprise, has no doubt frequently occurred. These transfers may be well camouflaged, so that the complete separation of the good will and the brand, which would mean destruction of the symbol as anyone's exclusive appropriation, is not easily detected. Yet forfeitures of real trade-mark protection because of improper assignment must occur with great frequency, due to purposeful reliance on camouflage or ignorance of the requirements for valid trade-mark assignment. This story has been told.4

What is even more amazing is the fantasy surrounding trade-mark licensing. This fantasy seems to arise out of vague conceptions as to whether trade symbols may be licensed; how licensing may be validly accomplished; and what the new Lanham Act, still an infant of less than two years' operation, has done to the licensing problem. The impetus of the new statutory provisions will undoubtedly foster what was already a growing tendency towards licensing. The licensing of trade symbols is, therefore, an important business problem; it is not a mere facet of the law of assignments. It deserves an independent examination and a study of the cold facts.

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- 1 Judge Learned Hand spoke of this as "the power of reiterated suggestion." Shredded Wheat Co. v. Humphrey Cornell Co., 250 Fed. 960, 962 (C. C. A. 2d 1918).
- ² Holmes, The Class of '61: Fiftieth Anniversary Reunion (June 28, 1911), reprinted in MAX LERNER, The Mind and Faith of Justice Holmes 25, 27 (1943).

 SISSACS, Traffic in Trade-Symbols, 44 Harv. L. Rev. 1210 (1931).

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

 The so-called Lanham Act was approved on July 5, 1946. 60 Stat. 427, 15 U. S. C. §1051 et seq. (1946). By its terms it became effective one year later. Section 46(a), 15 U. S. C. §1051 note (1946). For a general treatment of its provisions, see Callmann, The New Trade-Mark Act of July 5, 1946, 46 Col. L. Rev. 929 (1946).

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STATUTORY ORIGINS

The effort to revise our trade-mark law which culminated in the Lanham Act in 1946 had been a protracted one, in part because of legislative indifference, and in some measure because of last-minute Congressional stiffening to a few drastic innovations urged by its sponsors. The legislative reports on the new statute viewed the bills commencing with the 1938 version as part of the legislative history of the measure finally enacted.⁶ The basic structure of most of these was similar, though important consequences were dependent upon the changes made. This was not the kind of bill that captured the legislative imagination; it was ably shaped by skillful private technicians cooperating with the few legislators who were actively interested. Oftentimes the "legislative will" on important economic policy represents no more than this.

The Act, considered by the casual legal observer as a mere codification of earlier law plus a modernization of the principles governing registration of marks, in reality has considerable substantive importance as well. Bluntly stated, the measure was intended to foster and protect interests in trade-marks. Call this industrial property or label it a mere protectable right, the result is identical. "The trademark is a species of monopoly, towards which the present climate of opinion is frigid," as Judge Clark observed; but the Lanham Act "gave to this property a legislative standing it had not had before."7

A. The Licensing Provisions Enacted

The provisions of interest are not tagged "licensing" sections, but rather cover use of marks by "related companies." Sections 5 and 45 are of importance:

SECTION 5. USE BY RELATED COMPANIES

Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public.8

SECTION 45. CONSTRUCTION AND DEFINITIONS

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.9

⁶ H. R. Rep. No. 219, 79th Cong., 1st Sess. 5 (1945); Sen. Rep. No. 1333, 79th Cong., 2d Sess. 6

(1946).

⁷ La Touraine Coffee Co. v. Lorraine Coffee Co., 157 F. 2d 115, 118 (C. C. A. 2d 1946), cert. denied, 329 U. S. 771 (1946). See dissent, at 119-120, by Judge Frank, who deemed the discussion gratuitous since concededly the new statute was not applicable to the case.

The trend to cut down patent and trade-mark restrictions on competition has been ably discussed. Zlinkoff, Monopoly Versus Competition, 53 YALE L. J. 514 (1944); Brown, Advertising and the Public Interest: Legal Protection of Trade Symbols, 57 YALE L. J. 1165 (1948). The Lanham Act, however, clearly increases protection of trade symbols, although only time will tell the extent. See WALTER Defenberg, Preparing for the New Trade-Mark Law 50 (Research Institute of America, 1946).

8 60 Stat. 429, 15 U. S. C. §1055 (1946).

6 60 Stat. 443, 15 U. S. C. §1127 (1946).

B. The Evolution of the "Related Companies" Provision

The bill first considered in 1938 provided that where the trade-mark was used by "subsidiary or related companies" such use should not affect the validity of the mark. No effort was made to define a "related" company, and the need for the provision was couched by a sponsor in terms of the impossibility under the existing law of a holding company, such as United States Steel, registering a mark used only by its subsidiaries. 12

At this time the "related companies" provision was of minor importance. The striking aspect of the bill with respect to transfer of rights was the provision permitting assignments with or without good will. The expert guiding the subcommittee, Mr. Rogers, frankly stated that "a license is certainly less than an assignment, and if an assignment is permitted, licensing certainly would be." As it turned out eventually, the licensing section became more significant because, though the assignment language crumbled, the "related companies" notion showed remarkable stamina.

By the following year, 1939, the licensing provision took on additional meaning, for the subcommittee had defined "related company" in terms of control "by stock ownership, contractual relationship, or otherwise" over the "nature and quality of the goods." The die was now definitely cast—the bill was to permit licensing to companies not mere subsidiaries of the trade-mark owner.

This change was not made without protest. It was feared that the public might be duped, that where stock control was absent regulation of the nature and quality of the goods might prove ineffectual, and that the provision might lead to some companies' degenerating into nothing more than licensors of trade-marks, with only nominal interest in the character of the goods. This fear was countered by argu-

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¹⁰ H. R. 9041, 75th Cong., 3d Sess. (1938).

¹¹ Definition was urged upon the Committee on Patents in a memorandum submitted by the United States Trade-Mark Association, through its Secretary and Assistant Secretary, L. E. Daniels and W. J. Derenberg. Hearings before the Subcommittee on Trade-Marks of the House Committee on Patents on H. R. 9041, 75th Cong., 3d Sess. 65 (1938).

¹² Id. at 134-137. Mr. Rogers was referring to Ex parte United States Steel Corporation, 23 U. S. P. Q. 145 (C. P. 1934). The Assistant Commissioner of Patents ruled that use by a subsidiary, a majority of whose stock was owned by applicant, did not place title and use of the trade-mark in the parent. At the same time, the Assistant Commissioner noted that it would be advantageous to both the parent and the subsidiaries to permit such registration and "it would not be prejudicial to any interest of the public." Id. at 147. The same result was reached two years later where the subsidiary was wholly owned. Buergerliches Braeuhaus Pilsen v. Allied Brewing and Distilling Co., 31 U. S. P. Q. 26 (C. P. 1936).

¹³ This is true where the license is an exclusive one merely for a term of years, with the licensor retiring from the field. Where the licensor continues use of the mark or retains the right to license others on a nonexclusive basis, it is difficult to deny that licensing will be controlled by different rules and cannot be assimilated as "less than an assignment."

¹⁴ H. R. 4744, 76th Cong., 1st Sess. (1939). Other changes not important here were also made. For example, a suggestion during the hearings of the previous year resulted in inclusion of a reference to use by "members of an association," as well as by subsidiary and related companies. This eventually was deleted. Further, "trade-mark" became "mark" because of a desire to include other symbols, such as service marks. Hearings before the Subcommittee on Trade-Marks of the House Committee on Patents on H. R. 4744, 76th Cong., 1st Sess. 57 (1939).

¹⁵ Id. at 58-60.

ment that any company could commit "commercial suicide by putting out inferior goods," with or without licensing, that the Coca-Cola system of licensing bottlers had long been sustained although stock ownership was not used to maintain control over quality, and that in essence licensing plus control over quality was nothing more than the application of the "guarantee" theory of the function of trade-marks. 16

After the bill passed the House, the Senate committee worked out some changes. The only one of importance with respect to "related companies" was the addition to Section 5, without discussion, of a qualifying sentence to the effect that the "mark shall not be used in such manner as to deceive the public." This qualification carried over to the bill finally passed in 1946.

Other features of the bill caused difficulty, including the broad assignment provision, which was ambiguously modified.¹⁸ The bill, though passed by the Senate, was shelved by a motion to reconsider.19

The next Congress, in 1941 and 1942, again saw both the Senate and the House passing the bills in varying forms, without reaching ultimate agreement. The House for the first time dropped all reference to "ownership" as a method of control.20 It passed a bill which, like the statute enacted in 1946, did not specify the manner of control.

The Seventy-eighth Congress, in 1943 and 1944, again failed to enact the law, this time because of a last-minute marshalling of opposition by those fearing a serious blow to the antitrust laws.21 This feature of the history of the statute and of the "related companies" provision will be considered later.²² It should be pointed out here that an effort to eliminate the Department of Justice objections through confining use by related companies to those companies wholly owned by the registrant was made and rejected.²³ However, the hearings did make it clear that when

¹⁷ 86 Cong. Rec. 8990 (1940). Technical improvements were made in the language by the Senate Committee on Patents. The definition of "related company" was also somewhat modified. The language chosen retained the reference to control by "ownership, or contractual relationship" over the nature and quality of the goods which "is exercised by the registrant." Id. at 8993. Mere power of control without its actual exercise would not seem to fall within this language.

¹⁰ Id. at 8993. 18 Id. at 7203.

^{20 88} Cong. Rec. 7432, 7436 (1942). Note that the House also restored the requirement of assigning good will along with the mark. Id. at 7433. This became a fixture in later versions considered by the Congress, as did the qualification with respect to cancellation for misrepresenting the source of goods. For the bill passed by the Senate, see 87 Cong. Rec. 7445 (1941).

³¹ 90 Cong. Rec. 9439 (1944); Hearings before the Subcommittee on Trade-Marks of the Senate

Committee on Patents on H. R. 82, 78th Cong., 2d Sess. 57-154 (1944).

22 The 1943 bill arrived at the language ultimately adopted for Section 5 and the definition of "related company" except for the word "legitimately." A "related company" was for the first time defined as any person who "controls or is controlled by" the registrant with respect to the nature and quality of the goods. At first blush this would seem to permit registration by either the subsidiary or the parent company. See Leslie Taggart, Statutory New Concepts of Trade-Mark Ownership 69, 77 (Practicing Law Institute, 1948). This lecture is an excellent treatment of the subject. Dr. Derenberg, participating in the discussion, raised serious doubts as to the right of the related company to obtain "the registration in its own name in every case, although the definition seems to say that." Id. at 79.

²³ Hearings before the Subcommittee on Trade-Marks of the Senate Committee on Patents on H. R. 82, 78th Cong., 2d Sess. 96, 147-148 (1944). The suggestion was made at various times by Assistant Commissioner Frazer, Senators Pepper and Hawkes, and Mr. Moyer of the Department of Justice.

the related companies were parent and subsidiary, "probably but not necessarily" the requisite control over quality would result.²⁴ This is of considerable importance to affiliated companies who might consider the right to control, without its exercise, sufficient to satisfy the statute.

The Seventy-ninth Congress, in 1946, finally enacted the Lanham Act. In doing so the Senate added to Sections 5 and 45 the word "legitimately" to satisfy those fearing the employment of related companies to evade antitrust policy.²⁵

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Judicial Foundations for the New Statute

The Lanham Act represents a challenge to the courts. There is much room within the licensing provisions for construction with a view to the requirements of a sound public policy. The development of the meaning of the statute is of interest not only from this broad public view, but also from the standpoint of trade-mark owners whose conceptions of vast licensing authority may some day lead to a rude awakening, with valuable business assets sacrificed. The meaning of the Act in large measure will revolve around the concept of "control" and the significance of the prohibition against deception of the public.

The flavor of judicial opinion before the new statute was passed relating to licensing will provide not only a key to the meaning of the statute, but a guide to those policy considerations which are appropriate.²⁶

It is somewhat alarming to contemplate that the reaction to the broad generalizations of the past, that licensing of trade-marks is improper,²⁷ may be an equally misleading assumption that licensing is now permitted, with only a formal curtsey to statutory requirements needed.

²⁴ Id. at 27. Mr. Fenning, who had been active in preparing the legislation, made this statement. ²⁵ Thus Section 5 required that the mark be "used legitimately by related companies," and Section 45 defined a related company as a person who "legitimately controls or is controlled by registrant." The explanation of these changes, agreed to by the House in conference, is singularly unhelpful, for the adverb is defined by using the adjective. 92 Cong. Rec. 7525, 7526 (1946). Thus it is exhilarating to learn that the amendment adding the word "legitimately" "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."

²⁶ For a general review of licensing cases, see 1 Harry D. Nims, Unfair Competition and Trade-Marks 122 et seq. (1947); 2 Rudolf Callmann, Unfair Competition and Trade Marks 1067 et seq. (1945); Walter Derenberg, Trade Mark Protection and Unfair Trading 571 (1936).

²⁷ The general statement, frequently made, is illustrated by Macmahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 Fed. 468, 474-475 (C. C. A. 8th 1901): "A trade-mark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used."

On the other hand, it was a not uncommon practice to license or partially assign a mark under circumstances where no special agreement seemed necessary. For example, the mere resale of branded goods, without change of form or packaging, would not seem to require permission from the owner in the form of a license to use the mark. But such a license is often employed. See Corral, Wodiska y Ca. v. Anderson, Thorson & Co., 95 F. 2d 11 (C. C. A. 7th 1938), cert. denied, 305 U. S. 613 (1938); Empire Paper Co. v. Carew Mfg. Co., 20 F. 2d 281 (App. D. C. 1927); Hicks v. Anchor Packing Co., 16 F. 2d 723 (C. C. A. 3d 1926); California Wine & Liquor Corp. v. William Zakon & Sons, Inc., 297 Mass. 373, 8 N. E. 2d 812 (1937). Even the reconditioning of a product and its resale under its branded name has been recently sustained, provided the public is advised the product is not new. Champion Spark Plug Co. v. Sanders, 331 U. S. 125 (1947).

The truth of the matter is that some licensing was well recognized before the Lanham Act, and the important consideration even then seemed to be the need to regulate the licensee's use. The types of cases in which licensing was approved develop this fact.

Ingredient control by manufacturer. The first of these types of cases is that in which the licensor manufactures the chief ingredient of the product, thus controls its quality, and perhaps supplements this control with regulation over the production of the entire finished product. The Coca-Cola cases are the most famous.²⁸ There the licensor manufactured a syrup to be sold as a fountain drink and, with a somewhat different formula, to be combined in specified proportions with carbonated water as a bottled drink. The bottling rights were granted to licensees and sublicensees under contract provisions calling for the most rigid kind of inspection and supervision of the entire process to insure wholesomeness and uniformity of quality.²⁹ In other cases, a trade-mark for flour was permitted to be used on bread made by bakers using the licensor's product; a trade-mark for rayon yarn was used by a fabric manufacturer in like circumstances; a mark for woolen cloth was employed by a licensed clothing manufacturer; a brand for cotton piece goods, by selected shirt and blouse makers.³⁰ As far as the cases reveal, the incidental control over the further processing of the goods was not as satisfying in some instances as in the bottling cases. The yarn manufacturer maintained effective control by a contractual requirement of independent testing of the quality of the fabrics, and the cotton piece goods licensor contracted for a joint guaranty by itself and the licensee of the shirts and blouses manufactured. But we are not advised as to whether there was an effective arrangement, or any at all, in the other cases.

Foreign licensors and simulated ownership. The second type of situation in which the courts have given an approving nod to licensing is the granting of exclusive sales rights in this country for a foreign-made product.³¹ Since this in

²⁸ Coca-Cola Co. v. Bennett, 238 Fed. 513 (C. C. A. 8th 1916); The Coca-Cola Bottling Co. v. The Coca-Cola Co., 269 Fed. 796 (D. Dela. 1920); Coca-Cola v. J. G. Butler & Sons, 229 Fed. 224 (E. D. Ark, 1916).

²⁰ See Coca-Cola Co. v. J. G. Butler & Sons, 229 Fed. 224 (E. D. Ark. 1916). The licensor set the standards for the product which was to be bottled. All plants were subjected to a system of inspection and supervision to insure a sanitary and wholesome product. Inspectors, who were required to make reports, also took samples of the product both before and after the syrup had been mixed with the carbonated water. The inspectors were equipped with gas test gauges, hydrometers, and other instruments to enable them to determine whether or not the product was being put up in accordance with instructions. Other instruments were used to test each machine used by the bottler to determine whether the machine was throwing the right amount of syrup into each bottle. The samples taken expert and a member of the advisory board were sent to make personal investigations. The water was chemically tested, the sanitation of the plant inspected, and the amount of carbonic acid gas being used checked.

30 Ralston Purina Co. v. Saniwax Paper Co., 26 F. 2d 941 (W. D. Mich. 1928) (flour); Crown Fabrics Corp. v. American Viscose Corp., 145 F. 2d 246 (C. C. P. A. 1944) (rayon yarn); H. Freeman & Son, Inc., v. F. C. Huyck & Son, Inc., 7 F. Supp. 971 (N. D. N. Y. 1934) (woolen cloth); B. B. & R. Knight, Inc. v. W. L. Milner & Co., 283 Fed. 816 (N. D. Ohio 1922) (cotton piece goods).

³¹ American Dirigold Corp. v. Dirigold Metals Corp., 125 F. 2d 446 (C. C. A. 6th 1942); Lalanne v. F. R. Arnold & Co., 39 F. 2d 269 (C. C. P. A. 1930); Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc., 257 Fed. 937 (C. C. A. 2d 1919), cert. denied, 250 U. S. 644 (1919).

essence assures ingredient control, it is almost a refinement of the kind of case just considered. However, sometimes some rights of manufacture are also accorded to the licensee.³² Further, registration under the old trade-mark statutes was permitted the domestic company on the theory that it was the "owner" of the mark for the United States, even though its tenure was limited.³³ The rationale of the cases may well be that this simulated ownership and use in the United States by a single company makes the international license of no local interest.

Formula control-patented goods. A third and well-recognized type of license is for manufacture of goods under a patent owned by the licensor, and for the application to the finished product of the licensor's trade-mark. Here the licensor does not not supply the chief ingredient, as did the Coca-Cola Company and the flour company, but his control is exerted by furnishing the formula for a patented item. The theory here seems to be that the trade-mark does not signify to the public that the goods emanate from a single source, but rather that the articles were manufactured in accordance with the patent.³⁴ If this is the theory, seemingly the licensor of the trade-mark should be required to supervise production and prevent departure from the teachings of the patent or the best judgment of the patentee.

Some of the patent cases provide ample warning that supervision must supplement the simple granting of a right to practice an invention. In Adam v. Folger, 35 a license to make, use, and sell patented water heaters was granted, along with the privilege to use the mark "Victor" on goods made in accordance with the specifications of the patent. The license was terminable on certain conditions, including departure from specifications. The licensee apparently was subjected to some supervision, for the licensor terminated the agreement because of such a departure. In this suit the licensor's right to terminate and sue for subsequent trade-mark and patent infringement was upheld. The license of the trade-mark was deemed appropriate since it was for use on patented goods, and not otherwise. This distinction was much in the mind of the court, for it said: "We pass the question of farming out trade-marks on competitive articles as inapposite."36

And in Smith v. Dental Products Company, 37 a dental surgeon, licensing his patents for certain instruments and medicines along with his trade-marks, retained the full right to change formulas or ingredients, and spent considerable time, sometimes a week or a month continuously, at the licensee's plant. The court noted that he "retained well near absolute control over the manner of advertising, manufacture and sale of the products involved . . . "38 Under these circumstances the licensor

³² The validity of use on domestically made goods was reserved in Scandinavia Belting Co. v. Asbestos & Rubber Works of America, Inc., 257 Fed. 937, 956 (C. C. A. 2d 1919), cert. denied, 250 U. S. 644

<sup>(1919).

33</sup> This was referred to as a "special ownership" in Lalanne v. F. R. Arnold & Co., 39 F. 2d 269 (C. C. P. A. 1930).

⁸⁴ Hoffman v. B. Kuppenheimer & Co., 183 Fed. 597 (C. C. N. D. Ill. 1910).
⁸⁵ 120 Fed. 260 (C. C. A. 7th 1903).

⁸⁶ Id. at 264.

³⁸ Id. at 147.

was held to have preserved full rights in the trade symbol.³⁹

It is only fair to add that in other patent cases there is no indication that the licensor did anything more than license the patent and the mark, thus offering a formula which presumably was not wholly disregarded by someone willing to pay to have its advantages. In these cases, however, the absence of more effective control was not questioned.⁴⁰

Licenses by partners or employees. This fourth category embraces licensing of marks by persons who become associated with the licensee, presumably in a position of some authority or influence. Here it may be assumed that the identity of the owner of the mark with the licensee prevents deception of the public. This is true of course if the licensor has an effective voice in that part of the business concerned with the transferred mark. Some measure of continued control over quality would still seem to be the test.

It has been held that a partner may license his firm to use his mark and still maintain ownership of the symbol.⁴¹ Under such a license the trade-mark does not become a firm asset. Even an employee, however, may license his mark for the duration of his employment.⁴² Here the anomalous situation is that though the employee has persuasive power in controlling quality by his right to resign and withdraw use of the mark, the employer may have economic power to induce a continuation of the employment irrespective of changes in the goods.

A clearer case is that of a service mark adopted by a gentleman aptly named Lowell Lamb, a sorter and grader of furs. Lamb used a walking animal sign, along with the slogan: "We are going to Lowell Lamb to be assorted, where our value will be appreciated." The mark was employed in his independent business and also in connection with work done as an employee of a number of companies. The court held that Lamb was the owner of the emblem and that the mark was not lost by virtue of its use in limited advertising of an employer's business.⁴³ Patently, here the owner had full control over the quality of the service performed.

Control by stock ownership. Licenses to companies related by stock ownership will usually involve, as a starting point, at least a dormant power of control. Where stock ownership results in voting control, the power, though at rest, clearly can be

³⁰ In another case, where control of the nature of the goods resulted from the licensor's supplying the patented waterproof cement coating, the license of the trade-mark was held valid. Waterproofing Co. v. Hydrolithic Cement Co., 153 App. Div. 47, 138 N. Y. Supp. 265 (1912).

⁴⁰ Mathy v. Republic Metalware Co., 35 App. D. C. 151 (1910); Batcheller v. Thomson, 93 Fed. 660 (C. C. A. 2d 1899). The license of a trade name in connection with a patent will not necessarily prevent the licensor from otherwise employing it in connection with goods under another patent. Magazine Repeating Razor v. Read Drug & Chemical Co., 30 F. Supp. 194 (D. Md. 1939). There is some danger in licensing of trade-marks used for patented goods, for the courts may deem the licensee in a particularly advantageous position to claim the term has become generic and thus available to all after the patent expires. Amiesite Asphalt Co. v. Interstate Amiesite Co., 72 F. 2d 946, 947 (C. C. A. 3d 1934). The reasoning of such an argument would seem, however, to be very strained.

⁴¹ E. F. Pritchard Co. v. Consumers Brewing Co., 136 F. 2d 512 (C. C. A. 6th 1943), cert. denied, 321 U. S. 763 (1944).

⁴² Nelson v. J. H. Winchell & Co., 203 Mass. 75, 89 N. E. 180 (1909).

⁴³ Lowell Lamb & Co., Inc. v. Herskovits, 204 App. Div. 407, 198 N. Y. Supp. 55 (1923).

exercised at all times. Where it is in fact exercised by the parent or by the subsidiary owning the mark, the courts have found no difficulty in sustaining the validity of the license.

In the Keebler Weyl Baking Company case,⁴⁴ the subsidiary brought suit for infringement of its unregistered trade-mark "Club Cracker." The defense in part was abandonment of the mark by the plaintiff by virtue of unlawful licensing. Plaintiff was one of sixteen wholly owned subsidiaries of United Biscuit Company, a holding company which controlled the policies, methods of sale, and manufacture of the others. The kind of control is not indicated, though we are informed plaintiff consented to the use of its mark by seven of the other subsidiaries, and assisted some or all of them at least in the initial stages of preparation for manufacture. The court sustained the validity of the mark, and used language which showed it had been satisfied by the record that the products of all the companies were identical by virtue of the directions and instructions of the owner.⁴⁵

The parent may control quality even more directly by manufacturing the product and licensing its wholly owned subsidiary to carry on the distribution and sales function. But even where, in the *Vermont Maple Syrup* case, control was less certain, by virtue of mere 50 per cent ownership in a company which itself produced goods under the licensed brand, the license was upheld and ownership deemed retained by the licensor. Here, significantly, the licensor had the power to terminate the license at will, and thus had practical control which should not be overlooked. The court made no effort to develop what control in fact had been exercised.

This may point to a more lenient attitude toward licensing among relatives. But the rules, though a trifle milder, have not been abolished in the past.⁴⁸ And the old admonition, upon occasion delicately voiced by lawyers, that friendly relatives may some day fall out, has its application to the licensing of trade-marks among artificial persons related by stock ownership.⁴⁹

Without benefit of statutory authorization, licensing has sprung up and been approved in the types of cases considered. What is more, there has even been some

⁴⁴ Keebler Weyl Baking Co. v. J. S. Ivins' Son, Inc., 7 F. Supp. 211 (E. D. Pa. 1934).

⁴⁶ The court observed: "I can see no imposition upon the public, no abandonment, and no other element which impairs a trade-mark right when the corporation which owns it, which in turn is owned by a general control, permits other corporations under the same general control to use the mark upon an identical product which they produce in accordance with the owner's directions and instructions." Keebler Weyl Baking Co. v. J. S. Ivins' Son, Inc., 7 F. Supp. 211, 214 (E. D. Pa. 1934).

Universal Laboratories, Inc. v. Jean Vivaudou Co., 65 U. S. P. Q. 475 (S. D. N. Y. 1945).
 Vermont Maple Syrup Co. v. F. N. Johnson Maple Syrup Co., 272 Fed. 478 (D. Vt. 1921).

⁴⁸ In Andrew Jergens Co. v. Woodbury, Inc., 273 Fed. 952 (D. Dela. 1921), aff'd, 279 Fed. 1016 (C. C. A. 3d 1922), cert. denied, 260 U. S. 728 (1922), a license to a subsidiary, with the retention of a concurrent right of the parent to use the mark during the balance of the latter's corporate life, was sustained. The problem was simplified by the court's decision that the residual rights retained, and the licensing terminology used, did not prevent the transaction from actually being an assignment with the good will of the business.

⁴⁰ Cf. United States Ozone Co. v. United States Ozone Co. of America, 62 F. 2d 881 (C. C. A. 7th 1932).

extension of licensing to use of a mark on related commodities not previously within the manufacturing and selling experience of the licensor. In Finchley, Inc. v. George Hess Company, 50 a trade-mark previously used by its owner on men's and women's clothing was licensed to a hat manufacturer. In an infringement proceeding, the defense of unclean hands was premised on this license and the asserted resulting fraud on the public. The court ruled that no fraud was proved and the license was valid, since the testimony showed that plaintiff passed on the quality of the hats, as well as the models and styles, manufactured for sale in plaintiff's store and elsewhere by the licensee under the terms of the agreement.

It has also been held possible for the owner to license his mark to one person for manufacture of one product and to others for production of a different line of goods. Thus "Schick" for razors was licensed to one company and "Schick" for electric shavers to another.⁵¹ Control in each case rested on a patent owned by the licensor. This split in use of a single mark was accomplished in another case, involving "Flexees," by the creation of a second corporation owned by the same stockholders, in the same proportion, as those who owned the first.⁵² The line between assignment and license grows hazy here, in view of the recent more liberal tendency of the courts, now solidified in the Lanham Act, to permit a partial assignment of good will along with the mark embodying it.⁵³

We have already noted that extension of a mark to finished goods by licensing may be achieved by continued production and control of the chief raw material, supplemented by other safeguards.⁵⁴ But the mere licensing of a mark used by the owner for one drug to an independent licensee, over whom no supervision is assumed, for use on another drug, is deemed a false and deceitful designation constituting an abandonment of the symbol.⁵⁵

In general, it may be taken as a fact that the establishment of a network of licensed users without supervision over the product has led to forfeiture of the "congenial symbol" used to "impregnate the atmosphere of the market." The extensive licensing of "Mother Parker" for baked goods resulted in such a private catastrophe. The Supreme Judicial Court of Massachusetts wisely observed:

^{50 24} F. Supp. 94 (E. D. N. Y. 1938).

⁵¹ Magazine Repeating Razor Co. v. Read Drug & Chemical Co., 30 F. Supp. 194 (D. Md. 1939).
⁵² Flexnit Co. v. Artistic Foundations, Inc., 68 U. S. P. Q. 92 (S. D. N. Y. 1946). The original company used the mark on foundation garments and production was extended to bathing suits by creation of the second corporation. The court ruled there was no waiver or renunciation of rights, especially since the bathing-suit business did not compete with the original venture.

⁵⁸ Ph. Schneider Brewing Co. v. Century Distilling Co., 107 F. 2d 699 (C. C. A. 10th 1939) (the mark and good will associated with one kind of whiskey held properly assigned without transfer of rights in other whiskies); Gould Engineering Co. v. Goebel, 320 Mass. 200, 68 N. E. 2d 702 (1946) ("Gould" for oil burners, and for fuel oil, assigned separately for each phase of business). For some of the complexities, see R. M. Hollingshead Corp. v. Davies-Young Soap Co., 121 F. 2d 500 (C. C. P. A. 1941).

<sup>1941).

&</sup>lt;sup>16</sup> H. Freeman & Son, Inc. v. F. C. Huyck & Son, Inc., 7 F. Supp. 971 (N. D. N. Y. 1934); B. B. & R. Knight, Inc. v. W. L. Milner & Co., 283 Fed. 816 (N. D. Ohio 1922).

Macmahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 Fed. 468 (C. C. A. 8th 1901).
 The phrase is Mr. Justice Frankfurter's, in Mishawaka R. & W. Mfg. Co. v. S. S. Kresge Co., 316 U. S. 203, 205 (1942).

One who has developed a trade mark as a guaranty of the quality of his merchandise should not be permitted to license its use apart from his business to those who may sell an inferior product.

The granting of the licenses here was not incidental to the sale of the plaintiff's business or of any merchandise that she manufactured or sold. So far as appears, the defendant was merely given licenses to use the trade mark on bread and doughnuts that he sold regardless of their source. It was not transferred in conjunction with any patented process or secret formula . . . There was nothing in the licensing agreements that required that the bread or doughnuts sold by the defendant conform to any fixed standards. The defendant apparently was at liberty to affix the trade mark to any bread or doughnuts that he chose.57

The Seventh Circuit has skirmished briefly with an interesting sidelight. It has ruled that a license of a mark to a sales agent does not require summary dismissal of a suit based on property in the symbol, even though the plaintiff-licensor permitted his agent to sell cheese manufactured by another company, whose identity was unknown to the trade-mark owner, under the symbol.⁵⁸ Doubts as to the degree of plaintiff's knowledge of the use on goods of other manufacture, the manifestation of permission, and the extent of the use may have been elements leading to reservation of the point.

Where licensing of trade names is involved, the attitude of the courts appears to be somewhat more receptive. This may stem from the not infrequent practice of approving use of the same name by two companies, provided qualifying phrases are used when needed to explain the lack of business connection.⁵⁰ The point of reference with respect to trade names is thus different and the assumption is made by the cases that exclusiveness of use is not required to the same extent in the public interest. Consequently, the licensing of a trade name without the types of control described may nevertheless fully protect the owner when he endeavors to withdraw his consent pursuant to the contract terms. A hotel may grant an entirely independent company a license to use its name in conducting a pharmacy on the premises, and withdraw its permission when the business moves elsewhere. O company manufacturing and wholesaling drugs may license retailers to operate as parts of a vast merchandising system, use the name "Carroll Dealer" and a distinctive store front, and otherwise adhere to the distributive plan developed, and yet retain full right to withdraw the trade name on two weeks' notice. 61 Such cases are not entirely divorced from control, and in other instances the control is even clearer. 62 But the judicial atmosphere is freer and more relaxed.

⁵⁷ Broeg v. Duchaine, 319 Mass. 711, 713-714, 67 N. E. 2d 466, 468 (1946). See also Everett O.

Fisk & Co. v. Fisk Teachers' Agency, 3 F. 2d 7 (C. C. A. 8th, 1924).

58 Purity Cheese Co. v. Frank Ryser Co., 153 F. 2d 88 (C. C. A. 7th 1946), reversing 57 F. Supp.

102 (E. D. Wis. 1944). Judge Major, in his dissent, stressed this manufacture by a third party whose identity was unknown to the owner of the symbol. He thought under such circumstances the public would be misled as to the source of the goods.

⁵⁰ J. F. Rowley Co. v. Rowley, 18 F. 2d 700 (C. C. A. 3d 1927). See also Nisley Shoe Co. v. Nisley Co., 72 F. 2d 118 (C. C. A. 6th 1934), cert. denied, 293 U. S. 602 (1934).

⁶⁰ Panhellenic House Ass'n v. Savio, 81 N. Y. S. 2d 868 (1948).

⁶¹ Associated Perfumers, Inc. v. Andelman, 316 Mass. 176, 55 N. E. 2d 209 (1944).

⁶² The licensing of marks and other elements of control may create Robinson-Patman Act problems.

On the whole, it would be simple-minded to treat all judges and courts as expounding a minutely defined, Socratic conception of what is appropriate trade-mark licensing. The law is not that certain and consistent. Without endeavoring to mold justice into a single shape, it has been suggested that licensing obtained a foothold prior to the Lanham Act, and the control over the nature and quality of the goods was the focal point for validity.

III

Interpretation of the "Related Companies" Provision in the Public Interest

The continued development of the law of trade-mark licensing, now under the sponsorship of formal statutory authorization, will be in the public interest only if certain factors are carefully considered. The policy of the antitrust laws should not be carelessly sacrificed; the prohibition of use "in such manner as to deceive the public" should be respected; and, as a necessary corollary, control of quality by the licensor should be made a really significant measuring rod for licensing validity. These matters will now be considered.

A. Trade-Mark Licensing and the Antitrust Laws

Since the trade symbol is a species of monopoly, it is not unnatural to consider the effect of the new Lanham Act on the policy of the Sherman and Clayton acts. In the present context this consideration must be confined to the impact of the licensing provisions on antitrust policy. A sense of balance is the hardest thing for fair-minded specialists to achieve in their field of special competence. Many are "infected with monopoly-phobia." This has led one authority, who confesses to having discussed the relationship of the antitrust laws to almost everything else, to wonder when he will consider their relationship to a ham sandwich. It has been wisely noted that trade symbols inherently do not lend themselves to the burdensome monopoly sometimes resulting from patent grants. But though it is not believed justified, in the usual context, to refer to trade-marks as increasing competition, 66

See Paul M. Cooter et. al., FTC Dkt. No. 5460, complaint issued Aug. 28, 1946; Independent Grocers Alliance et al., FTC Dkt. No. 5433, complaint issued April 18, 1946.

⁰³ This was the character of the men who testified on the bill, but as Francis Bacon observed: "Some men become attached to particular sciences and contemplations, either from supposing themselves the authors and inventors of them, or from having bestowed the greatest pains upon such subjects, and thus becoming most habituated to them. If men of this description apply themselves to philosophy and contemplations of a universal nature, they wrest and corrupt them by their preconceived fancies. . . . The chemists, again, have formed a fanciful philosophy with the most confined views, from a few experiments of the furnace. Gilbert, too, having employed himself most assiduously in the consideration of the magnet, immediately established a system of philosophy to coincide with his favorite pursuit." Novum Organum, Bk. I, pt. 54 (rev. ed. 1944).

of "There are some persons, infected with monopoly-phobia, who shudder in the presence of any monopoly. But the common law has never suffered from such a neurosis." Eastern Wire Corp. v. Winslow-Warren Ltd., 137 F. 2d 955, 958-959 (C. C. A. 2d 1943), cert. denied, 320 U. S. 758 (1943).

⁶⁵ MILTON HANDLER, TRADE MARKS AND THE ANTI-TRUST LAWS 225 (Practicing Law Institute, 1948).
⁶⁶ The thought is that competition is increased because the public is presented a choice of brands. This is not the pure type of competition with which economists are concerned. The practical effects of trade symbols in the battle of competition versus monopoly in any field may depend on the strength of the marks and the facts of the industry. The only generalization justified is that trade-marks are here

it is fair to conclude that at least thus far the trade symbol has not produced the sharp battles with Sherman Act policy seen in the patent and even the copyright field.

The impact of the Lanham bill aroused the fears of the Department of Justice, which filed a statement raising some serious antitrust objections. These led to important modifications in the public interest.⁶⁷ Other objections, however, were not so well conceived.

The testimony of the Department of Justice representatives revealed their objection to trade-mark licenses granted to other than wholly owned subsidiaries. The fear was expressed that mere contractual relationship as a basis for joint use and control of a mark "would be used as colorable legal sanction for contracts directed toward price control, against the production of competitive products, for allocations of markets, divisions of uses, and fixing channels of distribution."08 Again, it was urged that a licensed mark would cease to stand for the origin or source of the product and would merely become the name of the product itself. Competition, it was said, would be eliminated between joint users and the contracts would be directed towards price fixing. To the extent the hazards of competition were removed, the individual producer would be reluctant to introduce new or improved products except by group agreement. Further, the trade-mark owner would have placed in his hand an instrument for securing from other or new producers adherence to conditions for continuance in or entry into a market. 69

Many of these objections obviously go far beyond trade-mark licensing and range over the entire field of collusive conduct. To some degree the "related companies" provision might lead to standardization of product and quality, though this feature was not stressed by the Justice representatives. Nor did they mention that, basically, licensing would permit some measure of expansion of productive capacity without further capital outlay or merger with other companies.

The answer provided by Professor Handler, which alleviated these fears to a considerable extent, was this:

The definition does not confer any power on one company to control another company. When you read the definition with section 5 that where the relationship between two companies is such that one controls the nature and the quality of the goods and services which it puts out, that is recognition of a fact and not the creation of a power . . . And the section is purely of a trade-mark character and not a leverage for the projection of mark control by one company as against its competitors.70

to stay, and that some additional protection was given by the new statute to an extent not "yet judicially realized, even if not quite so much so as the already voluminous literature assumes." Best & Co. v. Miller, 167 F. 2d 374, 378 (C. C. A. 2d 1948), cert. denied, 335 U. S. 818 (1948). Cf. Handler, op. cit. supra note 65, with Note, The Monopoly Concept of Trade-Marks and Trade Names and "Free Ride" Theory of Unfair Competition, 17 GEO. WASH. L. REV. 112 (1948).

⁶⁷ Hearings before the Subcommittee on Trade-Marks of the Senate Committee on Patents on H. R. 82, 78th Cong., 2d Sess. 58-71 (1944).
68 Id. at 58.

⁶⁰ Id. at 63.

⁷⁰ *Id*. at 95.

Another troublesome problem was posed by an industry representative, Miss Robert, who urged the need to allow licensing by other than affiiliated companies. She suggested that if Williams manufactured shaving cream, but not soap, it might want to license its mark for soap to an independent company over whom it exerted the necessary control as to quality.71 The Justice representative acknowledged this as a frank statement and questioned whether potential competitors should be allowed to enter into agreements with respect to the quality "and other elements" of their products. But he continued, compelled by his own momentum, to summarize the plan to which he objected as being this: "We will let you use our Williams mark on soap, but you stay out of the toothpaste and shaving-cream field."72 In fact, no such agreement would be tolerated; the real objection is much more subtle. A company which is wed to the Williams mark on soap may to some undefined degree prove reluctant to develop a different mark for competition in the toothpaste or shavingcream fields. But this is true of the Coca-Cola bottling company, where, but for the favorable licensing arrangement, a competitive soft drink might have been produced. The legality of the Coca-Cola plan was pointed out in rebuttal.⁷³

The upshot of the debate was the eventual addition of the concept of use "legitimately" by related companies, meaning not in violation of other laws—a fairly self-evident proposition.⁷⁴

From what has been said it is apparent that antitrust involvements of trade-mark use by related companies must be resolved entirely apart from the Lanham Act. Such licensing is sanctioned for trade-mark purposes by the new statute and cannot be considered in itself to be evidence of collusion or other illegal conduct. On the other hand, the statute cannot serve as a mantle to conceal illegality or as proof of innocent operation under law.

Judge Forman's recent decision in *United States v. General Electric Company* amply demonstrates the applicable principle. There General Electric licensed Westinghouse to use its trade-mark "Mazda" on tungsten filament lamps made in accordance with elaborate specifications developed by research laboratories maintained at heavy expense by General Electric. The court declined to strike down the mark and ruled that "under ordinary circumstances there would be no vice in General Electric licensing the use of the 'Mazda' symbol conditioned upon observance of its technical specifications." But the court found that under all the circumstances of the joint use made by Westinghouse and General Electric to suppress competition, including the refusal to license others, "the design in the general pattern of monopoly" of the industry became vivid, and "'Mazda' formed a panoply to screen inter-

⁷¹ Id. at 148.

⁷² Id. at 149.

⁷³ Id. at 150.

⁷⁴ Other changes in the statute, including the creation of a defense that the mark is used to violate the antitrust laws, were of greater significance. See §33(b)(7).

⁷⁵ 82 F. Supp. 753, 849 (D. N. J. 1949).

related General Electric-Westinghouse activities."⁷⁶ In other words, the court found monopoly and combination by virtue of an asserted pattern of conduct, and not because of the license itself.

Even more recently, on March 3, 1949, Judge Freed, in United States v. Timken Roller Bearing Co.,77 found an international cartel, which allocated world markets and fixed prices, violated the Sherman Act. The defendant, the co-conspirator located in the United States, allocated the use of the trade-mark "Timken" to each of the parties in its territory and required that no bearings be manufactured or sold except under that mark. All rights to the mark were to be surrendered to defendant upon termination of the contract. The court found that the trade-mark restrictions alone did not serve as direct instruments to eliminate competition, but that they had been "most helpful in buttressing other illegal conduct to achieve the desired result. They were integral parts of the general scheme to suppress trade."78 The court then turned to the argument of defendant that the restraints imposed were reasonable since merely ancillary to trade-mark licensing. This Judge Freed thought was a novel question. He rejected the argument as unsound, ruling that the Sherman Act policy of forbidding allocation of world markets and price fixing was not nullified by trade-mark licensing. And, in passing, the court noted the Lanham Act "did not open the door to employ a trade-mark as an instrument to undermine the antitrust laws."79

B. Public Deception and Trade-Mark Licensing

It is patent that the use of marks by related companies must scrupulously avoid any public deception.⁸⁰ That is required by the specific provision of Section 5 of the Act. The recognition of this principle in broad statutory terms provides ample room for interpretation in the public interest.

The English Board of Trade recommended a system of registered users, with requirements for public disclosure of the terms of the license and with authority vested in an administrative official to determine *ab initio* what conditions should be imposed and whether the public interest is served by the contemplated plan.⁸¹ This produced a law quite different from ours in one respect. We neither permit

⁷⁶ Id. at 850. The court stressed that the license ran to a single company which was otherwise bound to price maintenance under a patent license and to production quotas. It also referred to use of the mark by the two companies to frame specification requirements on government bids that would limit participation by outsiders.

For the discussion of the "Mazda" mark in the legislative history of the Lanham Act, see Hearings before the Subcommittee on Trade-Marks of the Senate Committee on Patents on H. R. 82, 78th Cong., 2d Sess. 71 (1944).

⁷⁷ 81 U. S. P. Q. 28 (N. D. Ohio 1949).

⁷⁸ Id. at 48.

^{το} *Id*. at 53

⁸⁰ The avoidance of fraud upon the public as the touchstone to valid assignments and licensing was urged by Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210 (1931).

⁸¹ BOARD OF TRADE, REPORT OF THE DEPARTMENTAL COMMITTEE ON THE LAW AND PRACTICE RELATING TO TRADE MARKS 30 (1934). For the statute enacted, see English Trade Marks Act, 1938, 1 & 2 Geo. VI, c. 22, §28. For the different Canadian experience, see Fox, Trade-Mark Assignments and Licenses in Canada, 35 T. M. Rep. 79 (1945).

such delving by our Patent Office82 nor provide the comfort recommended by the Board of Trade of a decision as to licensing validity without the risk of trade-mark loss. In view of the vague boundaries of what is public deception, the trade-mark owner will be well advised to consider carefully the minutest features of his business operations involving trade-mark licensing.

It is suggested that at least three considerations are involved in complying with the "no public deception" requirement.

The first of these is that the uniformity of the branded product be maintained irrespective of which of the related companies manufactures or distributes the goods. It may be conceded that, entirely apart from licensing, a trade symbol in the course of the years often will represent a fluctuating standard of product excellence.83 Management or managerial policy may change, or assignment may shift the mark to a new owner. Nevertheless, though the public may be fooled if it places undue faith in the owner, it is entitled at least to assume that its ordinary opportunity to find its preferences satisfied will not be dissipated by indiscriminate licensing. The likelihood of departure from quality, though ever present, should not be accentuated by licensing without control over the nature of the goods. Protection of the public against deception may be of real social significance, or may be the mere catering to irrational or snobbish desires built up by the reiterated suggestion of modern advertising. But "if the buyers wish to be snobs, the law will protect them in their snobbery."84

The trade-mark can perform its intended function only if it represents the guaranty of its owner that the product conforms to its own standards of integrity.85 This is the second requirement of the "no public deception" test. It can be fulfilled only if the trade-mark owner is sufficiently vigilant as to see to it that there is no deterioration in the product or departure by his licensee.

In the third place, wide-spread licensing may create special problems with respect to avoidance of public deception. If the number of licensees of a particular mark should multiply sufficiently, there may come a point where the public should be entitled to pick and choose among licensees. In these circumstances disclosure of the identity of licensor and licensee may become necessary even though in other cases, where a relatively few related companies use a mark, such disclosure would not seem essential.

A final caveat should be added. The nature of some marks may wholly prevent

⁸² The Patent Office requires disclosure in an application, "if practicable," of the names and addresses of related companies. There is no requirement that the list be kept current. The rule further provides that if the first date of use relied on by applicant is that of a related company, the Office may require "proof showing that such use inures to the benefit of the applicant." RULES OF PRACTICE IN TRADE-MARK CASES 7.8 (U. S. Dep't of Commerce, 1948).

⁸³ Cf. Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc., 43 F. 2d 937, 940 (C. C. A. 2d 1930), cert. denied, 282 U. S. 881 (1930).

⁸⁴ Benton Announcements, Inc. v. Federal Trade Commission, 130 F. 2d 254, 255 (C. C. A. 2d 1942). Cf. Standard Brands, Inc. v. Smidler, 151 F. 2d 34 (C. C. A. 2d 1945).

85 Schechter, The Rational Basis of Trademark Protection, 40 Harv. L. Rev. 813 (1927).

licensing. A trade symbol may perform many functions. If, for example, the mark itself connotes regional origin, and the public will be deceived if the product is produced elsewhere, licensing may become virtually impossible. Although a warranty of production in some particular area or country may be inferred from some marks, as was the case in H. N. Heusner & Son v. Federal Trade Commission⁸⁶ and Harvey v. American Coal Company,⁸⁷ in other instances the courts may feel the public is really not deceived by false geographical designations, or may decide that only minor explanatory phrases will prevent deception.⁸⁸ The propriety of licenses in such circumstances will be controlled by the observance of ordinary rules of fair competition. However, in the licensing field, in view of the specific language of the statute, it may perhaps be anticipated that doubtful cases will result in a finding of public deception.

C. Control of Quality-Practical Problems

Satisfying the statutory requirement that there be no deception of the public by virtue of the use of a mark by related companies will require complying with the further test that licensed use be confined to cases where there is control "in respect to the nature and quality of the goods or services in connection with which the mark is used." The requisite control will serve as a shield to ward off fraud upon the public. The essential problem is to develop the contours of the kind of control needed for valid licensing.

There is an easy starting point in the discussion of a practical program of control. It is firmly believed that the theoretical right to inspect and supervise the operation of a licensee, if unexercised or only occasionally used, is of no legal consequence. Any challenge to the validity of the use of a mark by licensees will be fought out on the issue of the kind of control actually exercised by the owner of the mark. The mere conformity, by accident, of the licensee's product to the standards of the licensor would not seem fully to satisfy the statute's mandate that the owner of the symbol take steps to guarantee the quality of the product marketed. The fact of conformity of the licensee's product may go far to prove that the licensor has exercised effective control, but it would not necessarily show it.

Although control over quality must be maintained even where the licensor and licensee are parent and subsidiary, it may be expected that in such circumstances the courts will be somewhat more lenient in finding that the supervisory function has been adequately fulfilled. This may flow from the fact that directions given are more likely to be carried out by a company which is answerable for its negligence

^{88 106} F. 2d 596 (C. C. A. 3d 1939).

^{87 50} F. 2d 832 (C. C. A. 7th 1931), cert. denied, 284 U. S. 669 (1931).

⁸⁸ See California Apparel Creators v. Wieder of California, Inc., 162 F. 2d 893 (C. C. A. 2d 1947), cert. denied, 332 U. S. 816 (1947).

⁸⁰ Licensing plans providing periodic supervision of a comprehensive nature are the kind that have most frequently withstood judicial scrutiny. Crown Fabrics Corp. v. American Viscose Corp., 145 F. 2d 246 (C. C. P. A. 1944); Smith v. Dental Products Co., 140 F. 2d 140 (C. C. A. 7th 1944), cert. denied, 322 U. S. 743 (1944); The Coca-Cola Bottling Co. v. The Coca-Cola Co., 269 Fed. 796 (D. Dela, 1920).

by virtue of the stock relationship, and which for like reasons will not be inclined deliberately to cheapen the product and the mark at the expense of the licensor.⁹⁰

More confusion than light has been thrown on the problem of licensing control by the recent decision of the Court of Customs and Patent Appeals in E. I. Du Pont de Nemours & Company v. Celanese Corporation of America. Here Celanese Corporation granted American Aniline Products, Inc., a nonexclusive license to manufacture dyestuffs and apply the former's registered mark, "Celanese." Du Pont sought cancellation of the mark in the Patent Office on the ground that the use of the mark by American Aniline and the advertising of "Celanese" as the product of American Aniline, without mention of the Celanese Corporation, constituted an abandonment of the mark.

The appellee filed a motion for particulars, and attached a license agreement made with American Aniline. The nonexclusive license for manufacture of dyestuffs was limited to goods which should "in quality be up to such standard as may be fixed or approved" by the licensor, and the latter was to "have the right to inspect and test from time to time" the dyestuffs before they were offered for sale. Advertising matter was to be subject to appellee's prior approval and all advertisements were to show that "Celanese" was registered and owned by appellee. The appellee was entitled to terminate the agreement upon six months' notice in writing.

Appellant produced evidence that in advertisements of which appellee was aware American Aniline's name alone was associated with the mark. Appellee then filed a motion to dismiss. The Examiner of Interferences granted the motion and it was affirmed by the Commissioner of Patents.⁹²

Before the Court of Customs and Patent Appeals, appellant argued in its brief that appellee had merely come forward with a license agreement showing the right to exercise control but had not shown that control was actually exercised. It asserted the burden of proof to show such control was on appellee. It further argued that, assuming the Lanham Act was applicable, Section 5 was violated by appellee because the Celanese Corporation and its licensee were using the same mark on the same kind of goods in the same territory, without informing the public that the companies were related. This, it contended, was deception of the public.⁹³

Appellee, on the other hand, stressed that the cancellation petition contained no allegation that quality standards had not been enforced. The issue was, therefore, not presented. It further contended there was no decision requiring that labels show the name of the trade-mark owner, and that no deception of the public could have

⁰⁰ For a discussion of the certification mark under the Lanham Act and its distinction from use of a mark by related companies, see Derenberg's comments following TAGGART, op. cit. supra note 22, at 79-80.

o1 167 F. 2d 484 (C. C. P. A. 1948). The majority of the court did not find it necessary to determine whether the Lanham Act was applicable to this case, which had been decided by the Commissioner before the new statute was effective. The dissenting judge thought the Act inapplicable.

 ⁰² 69 U. S. P. Q. 258 (C. P. 1946).
 ⁰³ Appellant's Supplemental Brief, 3-4.

occurred since the public was told the name of the party with which it was dealing.⁹⁴

Judge Hatfield, for the majority of the court, held for appellee and affirmed the decision of the Commissioner. He ruled that trade-mark licensing may be perfectly valid and does not evidence abandonment of the mark. He also held that the violation of the licensing agreement with respect to advertising, conceded on the motion to dismiss, was immaterial because the petition for cancellation contained no statement that the public or anyone else was deceived by American Aniline's conduct. He noted that the petition contained no allegation that the other terms of the license agreement were not fully carried out. The court thus squarely placed the burden of pleading and proof on the appellant. Finally, the court concluded that there was no trade-mark abandonment, entirely apart from the recognition of licensing provided by the Lanham Act, and that the applicability of that statute need not be decided.

Judge O'Connell, dissenting, stressed that appellee had not produced evidence to show that control over quality had actually been maintained. He also noted that appellee had given up its exclusive right to the mark since six months must elapse before the agreement could be terminated. Finally, he concluded that the frequent breach of the contract with respect to advertising and identification of the trade-mark owner "constituted a series of acts each and all of which would be likely to deceive the public as to the origin of the goods. This is doubly true in the case at bar because 'Celanese' is not only the appellee's trade-mark but also the appellee's corporate name." But in the next breath the dissenter admitted that "the question of such advertising, while important as an element of deceit, is not in itself of controlling influence herein."

The Celanese case holds that the burden of proving a defective licensing arrangement is on the attacker. Although the court was sparse in its language, it is perhaps not unfair to infer that it deemed actual control over quality, rather than mere potential power under the license, the essential key to validity. Only on that assumption was the failure of appellant to plead the absence of actual control material.

Secondly, the court in an ambiguous way dealt with the effect of American Aniline's advertising the mark "Celanese" without associating the name of the Celanese Corporation. Its ruling was simply that public deception was not in issue because the appellant in its petition had not alleged that deception had resulted. But the appellant had alleged the facts and the breach of the license. It

Appellee's Brief, 4, 11; Appellee's Reply Brief, 3.
 167 F. 2d at 492.
 160 Ibid.

⁹⁷ The recent decision in Manischewitz Food Products, Inc. v. Rosenberg, 80 U. S. P. Q. 427 (E. D. Pa. 1949), held that the actual control exercised would determine the validity of the trade-mark license. The complaint disclosed a license agreement providing for detailed supervision by the licensor to assure compliance with its standards. The complaint sought to enjoin the sale of canned goods, packed under the licensor's label, in part because they did not comply with the standards set. A motion to dismiss was denied on the ground that whether there had been any failure to exercise control or deception of the public would have to be shown by the evidence, since the license agreement produced by plaintiff gave it sufficient authority to maintain the integrity of the label.

must, therefore, have been the court's view that the use of the licensee's name alone with the mark does not automatically spell deception. Whether such use ever could constitute deception was not before the court on the pleadings.

In the ordinary case, it is difficult to see how deception could be caused by failure to identify the licensor. The public pays little enough attention to the name of the owner of the mark when as an optional matter it appears on the package. The license of the mark would not seem to change this. The interest of the public is somewhat greater in the identity of the licensee who actually sells the product. Full disclosure will of course do no harm, although the case law does not indicate such a legal requirement.⁹⁸

Another matter that troubled the dissenting judge in the Celanese case was that the licensor had a right to cancel the agreement only on six months' notice. This bothered the dissenter because he felt it indicated there was no exclusive right to use the mark by any one party. A more trying question is whether the licensor has effective control over the quality of the goods if for a six-month period no right to cancel exists, even when there is material departure from the specifications. On the face of it that might seem to be the case in the license agreement in suit. However, the contract might be subject to the interpretation that the grace period is dependent upon fulfillment of the obligations of the contract, and that the licensor could obtain an injunction at any time to prevent use of its mark in a deceptive fashion. In fact, license arrangements subject to cancellation on ninety days' notice, two weeks' notice, one day's notice, and not cancellable at all have been indiscriminately sustained.99 This must be premised on the assumption that the licensor would have the right to, and would in fact, exhaust every legal remedy to prevent departure from quality. A prior breach of contract would excuse the licensor from continuing to supply a raw material ingredient, and that might be the practical answer to a prompt termination of a trade-mark abuse by the licensee. Many risks in the future can be avoided by an explicit contract provision that the licensor has the right to reclaim its mark upon any departure from specifications, even though other contract provisions continue in effect for some longer period.

A nice question in practical control over quality arises when the licensor authorizes use of his mark on a different product. We know the attractiveness of "Seventeen," the title of a magazine, to manufacturers of 'teen-age clothing.¹⁰⁰ The nice problem is the degree of control that must be exercised where, instead of appropriation, a license is granted. In ordinary circumstances the products would be some-

⁹⁸ The name of the licensee alone on goods was held sufficient in Stratton & Terstegge Co. v. Stiglitz Furnace Co., 258 Ky. 678, 81 S. W. 2d 1 (1935).

O'C Crown Fabrics Corp. v. American Viscose Corp., 145 F. 2d 246 (C. C. P. A. 1944) (one day's notice); Smith v. Dental Products Co., 140 F. 2d 140 (C. C. A. 7th 1944), cert. denied, 322 U. S. 743 (1944) (ninety days' notice); The Coca-Cola Bottling Co. v. The Coca-Cola Co., 269 Fed. 796 (D. Dela. 1920) (perpetual contract); Associated Perfumers, Inc. v. Andelman, 316 Mass. 176, 55 N. E. 2d 209 (1944) (two weeks' notice).

¹⁰⁰ Triangle Publications, Inc. v. Rohrlich, 167 F. 2d 969 (C. C. A. 2d 1948); Hanson v. Triangle Publications, Inc., 163 F. 2d 74 (C. C. A. 8th 1947), cert. denied, 332 U. S. 885 (1948).

what related—men's hats and suits, for example. Here the problem is to assure that the licensor is really in the driver's seat in controlling quality. If the item is noncompetitive, and if stock ownership is not involved, there may be a tendency for the licensor, though nominally in control, simply to approve whatever changes in the product the licensee desires to adopt. It is doubtful whether this will suffice. Certainly the licensor in cases of trade-mark use on related products should scrupulously follow the accepted pattern of regular factory inspection, sampling, and other checks to assure uniformity of quality and to maintain the dominant position in the licensing arrangement.

What is needed, above all, is an end to the fantasy that trade symbols cannot be licensed, and a willingness to recognize that protection of the public interest requires the courts carefully to scrutinize the kind of control actually exercised to assure that the public gets what it expects, whether that be its money's worth or a sop to its vanity.

A realistic appraisal of questions of control over production or sale by another company which is nominally independent must recognize the lurking dangers of antitrust violations. ¹⁰¹ It is, for example, but one step from control of ingredients to control of price. As has been stressed, whether that step is taken is not dependent on the trade-mark license but on the will of the parties. It is anomalous, but true, that the more effective the quality control, the more likely it becomes that a transgression of the Sherman Act will result. The size of the companies, the competitive condition of the industry, and the extent of the licensing will all play a role in the final outcome.

Standardization of product by competitors is a common tool to remove the stringency of competition. It is frequently necessary to achieve standardization in order to make a price-fixing conspiracy effective. A licensing plan for binding competitors together and regulating quality may, therefore, be immediately suspect. The standardization problem can prove to be the greatest stumbling block to valid licensing in some fields.

The presence of very practical antitrust problems does not point to permitting looser standards of control over quality. It simply indicates the desirability of not allowing additional controls for collateral reasons under the guise of regulation of quality. It may even point to the advisability of more confined licensing in certain fields in circumstances where a freer rein would lead to monopoly.

¹⁰¹ When the mark is thought to be a material factor in the Sherman Act offense, the court may decree forfeiture. See United States v. A. B. Dick Co. (N. D. Ohio 1948), CCH TRADE REG. SERV. ¶62,233.