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### What If, After All, Trademarks Were 'Traded in Gross'?

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# WHAT IF, AFTER ALL, TRADEMARKS WERE “TRADED IN GROSS”?

*Irene Calboli\**

2008 MICH. ST. L. REV. 345

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\* Assistant Professor of Law, Marquette University Law School. Email: Irene.Calboli@marquette.edu. This Article expands upon my presentation at the Michigan State University College of Law 4th Annual Intellectual Property and Communications Law Program Symposium: “What Ifs and Other Alternative Intellectual Property and Cyberlaw Stories” (March 30-31, 2007), and combines, for the first time, the positions that I have previously expressed with respect to the transfer and licensing of trademark rights in the articles *Trademark Assignment “With Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771 (2005) and *The Sunset of “Quality Control” in Modern Trademark Licensing*, 57 AM. U. L. REV. 341 (2007). I would like to thank Peter Yu for his invitation to the Conference and for the insightful comments he provided on earlier drafts of this Article. I also would like to thank Marquette University Law School for research support, Natalie Sturicz for research assistance, and Emma Haas and the editorial board and staff of the *Michigan State Law Review* for their help during the editing process of this Article.

## INTRODUCTION

The conditions under which trademarks<sup>1</sup> should be “traded”—that is, assigned and licensed in the marketplace—have traditionally been at the center of the debate on trademark functions and trademark protection.<sup>2</sup> Historically, based upon the assumption that trademarks cannot be protected as commodities per se, but only as conveyers of commercial information and as symbols of business goodwill,<sup>3</sup> trademark law has prohibited trading in trademarks “in gross.”<sup>4</sup> Instead, the law has required that trademarks be assigned “with the goodwill” of the business to which they refer,<sup>5</sup> and has allowed trademark licensing<sup>6</sup> only as long as licensors control the quality of the products bearing the licensed marks.<sup>7</sup>

Ever since their adoption, however, these criteria have proven controversial and difficult to enforce because they hinge on two concepts that are ambiguous and difficult to frame in a legislative context: “trademark goodwill” and “quality control.”<sup>8</sup> In addition, trading in trademarks per se has

1. For definitions of “trademark” and “service mark,” see 15 U.S.C. § 1127 (2005). This Article will use the words “trademark” and “mark” interchangeably and as encompassing all the symbols protected by the Trademark Act of 1946 [hereinafter Lanham Act].

2. On the history and rationale for trademark protection, see 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 24-25 (4th ed. 2007); FRANK I. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS (1925); Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975); Benjamin G. Paster, *Trademarks—Their Early History*, 59 TRADEMARK REP. 551 (1969); Gerald Ruston, *On the Origin of Trademarks*, 45 TRADEMARK REP. 127 (1955).

3. On the economic functions of trademarks, see generally William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265 (1987) (highlighting that trademark protection has historically been based on the information provided by trademarks as to the origin and quality of the marked products, thus reducing consumer search costs).

4. See, e.g., *Marshak v. Green*, 746 F.2d 927, 929 (2d Cir. 1984); *Mister Donut of Am., Inc. v. Mr. Donut, Inc.*, 418 F.2d 838, 842 (9th Cir. 1969).

5. See Grover C. Grismore, *The Assignment of Trade Marks and Trade Names*, 30 MICH. L. REV. 489 (1932); Walter J. Halliday, *Assignments Under the Lanham Act*, 38 TRADEMARK REP. 970 (1948); Wallace R. Lane, *The Transfer of Trademarks and Trade Names*, 6 U. ILL. L. REV. 46 (1911). This Article will use the terms “assignment in gross” and “assignment with or without goodwill” interchangeably.

6. This Article will use the terms “trademark licensing,” “licensing,” “trademark licenses,” “licenses,” and “licensing agreements” interchangeably.

7. See *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 415 (1916), superseded by statute, Lanham Act, ch. 540, 60 Stat. 427 (1946), as recognized in *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1995); *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959); see also Alfred M. Marks, *Trademark Licensing—Towards a More Flexible Standard*, 78 TRADEMARK REP. 641 (1988); Kevin Parks, “Naked” is Not a Four-Letter Word: Debunking the Myth of the “Quality Control Requirement” in Trademark Licensing, 82 TRADEMARK REP. 531 (1992).

8. See discussion *infra* Sections II.A & II.B.

always been common in the business world, and trademark owners have traditionally argued that trademarks often represent the most valuable assets of their businesses and, accordingly, should be traded freely.<sup>9</sup>

Not surprisingly, the result of such uncertainty has been inconsistent case law and much ambiguity as to what currently represents a valid trademark assignment and a valid trademark license.<sup>10</sup> Still, in the past few decades, the discrepancy between the current rules on assignment and licensing and their enforcement in practice has escalated. Notably, in several instances, courts have drifted away from the goodwill and quality control requirements and decided on the validity of the agreements case-by-case by looking primarily at the ultimate result—particularly, whether the quality of the marked products has changed and whether the public was confused as a result of such changes. Hence, this trend has neither officially abandoned the current statutory requirements nor established a clear path to what represents a valid assignment or license.<sup>11</sup> Accordingly, much confusion continues to surround the application of these rules, and competitors are left wondering how to structure valid agreements.

This Article advocates for a change in the current standards. Specifically, the Article proposes the adoption of new rules that would allow trading of trademarks “in gross”—that is, assignment “with or without goodwill” and licensing “with or without control.” In support of these changes, this Article demonstrates that the current rules are negatively affecting market competition and promoting unnecessary legal actions by unfair competitors. Building upon the recent judicial trend, this Article proposes that the courts should assess the validity of assignments and licenses by focusing directly on the result of the agreements at issue—i.e., whether the use of the assigned or licensed marks will confuse or deceive the public. These changes would not hinder but would rather foster market competition. Finally, they would not affect the existing rules that are already available to the judiciary to prevent and sanction unlawful assignments and licenses.

## I. THE CURRENT STANDARDS FOR “TRADING” TRADEMARKS

Part I provides an overview of the current rules on trademark assignment and licensing and briefly elaborates on their history and rationale. The

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9. See, e.g., Nathan Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210 (1931).

10. See generally Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19 (1995) (illustrating such confusion and how trademark protection has drifted toward allowing trademark rights in gross in several areas of trademark law).

11. See discussion *infra* Sections I.A-B; see also 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:10 (4th ed. 2007) (highlighting inconsistent case law on trademark assignment); Parks, *supra* note 7, at 538 (criticizing inconsistency in judicial decisions on trademark licensing).

rule against assignments “in gross”—or in favor of assignments “with goodwill”—was originally developed at common law, later codified into the federal trademark statute in 1905 (1905 Act), and finally confirmed in the Lanham Trademark Act of 1946 (Lanham Act).<sup>12</sup> The rule that licensors ought to control the quality of the products manufactured by their licensees was also developed by the judiciary in the 1920s and later introduced into the statute with the adoption of the Lanham Act.<sup>13</sup> Previously, however, both at common law and under the rule of the 1905 Act, licensing was prohibited as a violation of the primary function of a mark—namely, to indicate the origin of the marked products.

#### A. The Rule of Trademark Assignment “With Goodwill”

Section 10(a)(1) of the Lanham Act sets forth the conditions for the assignment of trademarks, specifically that “[a] registered mark or a mark for which an application . . . has been filed shall be assignable *with the goodwill* of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark.”<sup>14</sup> According to Section 14 of the Act, trademark assignments without associated goodwill are invalid and can lead to the cancellation of the assigned mark if they are used to misrepresent the source of the marked products.<sup>15</sup> Assignments “in gross” can also lead to the abandonment of the assigned mark as indicated in Section 45,<sup>16</sup> “[w]hen any course of conduct of the owner, including acts of omission as well as commission, causes the mark . . . to lose its significance as a mark.”<sup>17</sup>

Section 10(a)(2) limits the assignment of goodwill to those marks that are effectively assigned and not to any additional mark that may also be

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12. See Irene Calboli, *Trademark Assignment “With Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 784-88 (2005) [hereinafter Calboli, *Trademark Assignment*] (reconstructing the legislative and judicial history of the rule of assignment “with goodwill”).

13. See Irene Calboli, *The Sunset of “Quality Control” in Modern Trademark Licensing*, 57 AM. U. L. REV. 341 (2007) [hereinafter Calboli, *Trademark Licensing*] (providing an analytical overview of the history and rationale of the current rule of trademark licensing).

14. 15 U.S.C. § 1060(a)(1) (2005) (emphasis added).

15. *Id.* § 1064(3). “A petition to cancel . . . a mark . . . may . . . be filed . . . [a]t any time . . . if the registered mark is being used by, or with the permission of, the registrant so as to misrepresent the source of the goods or services on or in connection with which the mark is used.” *Id.*

16. See, e.g., *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 290 (8th Cir. 1969); *Pilates, Inc. v. Current Concepts, Inc.*, 120 F. Supp. 2d 286, 310 (S.D.N.Y. 2000); *Hiland Potato Chip Co. v. Culbro Corp.*, 216 U.S.P.Q. (BNA) 352, 354 (S.D. Iowa 1981).

17. 15 U.S.C. § 1127.

used by the assignor in the same business.<sup>18</sup> Section 501.06 of the Trademark Manual of Examination Procedure (TMEP) of the United States Patent and Trademark Office (USPTO)<sup>19</sup> further limits the extent of Section 10, providing that trademark owners are free to assign their marks only with respect to some of the products for which the mark is registered, while still retaining the right to use the mark to identify other products.<sup>20</sup> The provision also allows joint ownership of a mark and states that joint owners may assign their interest in a mark independently.<sup>21</sup> Similarly, the sole owner of a mark can assign only “a portion (e.g., 50%) of his or her interest in the mark to another party,”<sup>22</sup> while retaining control of the remaining portion of the mark.

Finally, to prevent trafficking in trademark applications, Section 10 of the Lanham Act also forbids the assignment of intent-to-use (ITU) trademark applications and states that “no application to register a mark under Section 1051(b) . . . shall be assignable prior to the filing of an amendment under Section 1051(c).”<sup>23</sup>

As mentioned above, the rationale for the rule against assignments in gross rests on the general principle of trademark protection that trademarks cannot be protected per se and are only protectable because of the information they convey to consumers.<sup>24</sup> On the contrary, protecting common words as trademarks per se would necessarily hinder competition and deprive society of access to common language.<sup>25</sup> To prevent unfair competition, however, courts have also articulated the principle that if trademarks cannot be protected per se, their goodwill may enjoy direct protection.<sup>26</sup> As a corollary to this principle, courts have developed the rule that if marks

18. *Id.* § 1060(a)(2). Section 1060(a)(2) provides that in an assignment, “it shall not be necessary to include the good will 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.” *Id.*

19. U.S. PATENT & TRADEMARK OFFICE, TRADEMARK MANUAL OF EXAMINING PROCEDURE § 501.06 (5th ed. 2007).

20. *Id.*

21. *Id.* “A trademark may be owned by two or more persons . . . and a co-owner may assign his or her interest in a mark.” *Id.*

22. *Id.*

23. 15 U.S.C. § 1060(a)(1).

24. See 4 MCCARTHY, *supra* note 2, §§ 23-24.

25. See, e.g., *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918), *superseded by statute*, Lanham Act, ch. 540, 60 Stat. 427 (1946).

26. See *Kemp v. Bumble Bee Seafoods, Inc.*, 398 F.3d 1049, 1056-57 (8th Cir. 2005); *Playboy Enters., Inc. v. Netscape Commc’ns Corp.*, 354 F.3d 1020, 1024-25 (9th Cir. 2004).

exist and can be protected as symbols of goodwill, they must be assigned with that goodwill.<sup>27</sup>

Though courts have established that trademarks ought to be transferred with their associated goodwill, they have never provided a satisfactory definition of goodwill,<sup>28</sup> and the past decades have witnessed the judiciary's use of ambiguous and open-ended definitions that have often led to inconsistent case law in this area.<sup>29</sup> Likewise, no clarification of what represents goodwill was provided by the trademark statute after the introduction of this rule into the Act of 1905 or the Lanham Act.<sup>30</sup> As criticized in this Article, the lack of a clear definition of goodwill and the ambiguity surrounding its current interpretation constitute the primary failures of the current rule on trademark assignment.

#### B. The Rule of Trademark Licensing "With Quality Control"

Sections 5 and 45 of the Lanham Act state the conditions for the validity of trademark licensing. As indicated earlier, licensing was not allowed at common law or under the Trademark Act of 1905. Presumably because of the economic changes that took place in the early twentieth century, however, the Lanham Act follows the position that had already been adopted by some courts and acknowledges that a mark can be validly used by "related companies." Still, the statute construes the requirements for the validity of this practice based upon the primary function of a mark—namely, to identify the origin of the marked products.

In particular, Section 5 of the Lanham Act states that while a "registered mark or a mark sought to be registered . . . may be used legitimately by related companies," this use "shall inure to the benefit of the registrant or applicant for registration" and "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.*"<sup>31</sup> The same principle applies to the licensing of ITU

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27. See Grismore, *supra* note 5, at 491. "[I]t is obviously a truism to say that one cannot assign a trade mark in gross . . . since one does not own a mark in gross . . . [and] all one can do is to transfer to another one's acquired good will or expectation of custom . . . ." *Id.*

28. See JAMES LOVE HOPKINS, *THE LAW OF UNFAIR TRADE: INCLUDING TRADEMARKS, TRADE SECRETS, AND GOOD-WILL* § 61, at 132 (1900). "[T]here is difficulty in deciding accurately what is included under [Goodwill]." *Id.*

29. See 3 MCCARTHY, *supra* note 11, § 18:10. "While some courts will apply the . . . rule with myopic vigor, other courts will interpret 'good will' so as to focus on the nature of the assignee's use, not the formalism of what assets passed to the assignee." *Id.* at 18-23.

30. See Calboli, *Trademark Assignment*, *supra* note 12, at 802.

31. Lanham Act § 5, 15 U.S.C. § 1055 (2005) (emphasis added); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b (1995). "If the trademark owner exercises reasonable control over the nature and quality of the licensee's goods or services, the benefits of the licensee's use accrue to the trademark owner." *Id.*

trademark applications.<sup>32</sup> According to Section 5, “[i]f first use of a mark . . . is controlled by the registrant or applicant for registration of the mark with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant or applicant, as the case may be.”<sup>33</sup> As elaborated in Part II *infra*, this language seems to lay the legal foundation for promotional licensing or trademark merchandising.<sup>34</sup>

Section 45 of the Lanham Act provides the definitions of “such use” and “related companies” that are used in Section 5. Specifically, the provision defines a “related company” as “any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used.”<sup>35</sup>

Similar to assignments “in gross,” licensing without quality control can entail the forfeiture of trademark rights and is subject to the provision of Section 14 if consumers are misled as a result of the agreement.<sup>36</sup> Invalid licenses can also lead to the abandonment of the licensed mark per Section 45,<sup>37</sup> regardless of whether the owner intended to abandon the mark.<sup>38</sup> Finally, lack of quality control and resulting differences in product quality can result in liability for false advertising under the Federal Trade Commission Act when the marks are used as instruments to defraud the public by inducing consumers to believe that product quality is different from reality.<sup>39</sup>

32. This part of the provision was introduced into the original text as a result of the Trademark Revision Act of 1988. *See* Trademark Law Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (codified as amended throughout 15 U.S.C. § 1060).

33. 15 U.S.C. § 1055.

34. This type of licensing has become increasingly important in the past decades and is used, for example, for MCDONALD’S T-shirts, RED SOX hats, or WESTLAW candies, which are usually not directly related to the goods and services manufactured or distributed by the trademark owners. *See* Marks, *supra* note 7, at 641. *But see* Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461 (2005).

35. 15 U.S.C. § 1127. Originally, a “related company” was defined as “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.” Lanham Act § 45, 15 U.S.C. § 1127 (1946). This definition was amended by deleting the word “legitimately” in 1988 with the adoption of the Trademark Law Revision Act. *See* Trademark Law Revision Act of 1988, § 134.

36. 15 U.S.C. § 1064(3). *See* Barcamerica Int’l USA Trust v. Tyfield Imps., Inc., 289 F.3d 589 (9th Cir. 2002); Stanfield v. Osborne Indus., Inc., 52 F.3d 867 (10th Cir. 1995).

37. 15 U.S.C. § 1127. *See, e.g.,* Oberlin v. Marlin Am. Corp., 596 F.2d 1322 (7th Cir. 1979); Haymaker Sports, Inc. v. Turian, 581 F.2d 257 (C.C.P.A. 1978); Westco Group, Inc. v. K.B. & Assocs., Inc., 128 F. Supp. 2d 1082 (N.D. Ohio 2001).

38. *See* Barcamerica Int’l, 289 F.3d at 589.

39. *See* 3 MCCARTHY, *supra* note 11, § 18:48, at 18-103 (citing Waltham Watch Co. v. FTC, 318 F.2d 28 (7th Cir. 1963) (FTC Act violation); Scotch Whiskey Ass’n v. Barton Distilling Co., 338 F. Supp. 595 (N.D. Ill. 1971) (false advertising in violation of Lanham Act § 43(a)), *aff’d in part and rev’d in part*, 489 F.2d 809 (7th Cir. 1973)).



As indicated earlier, the “quality control” requirement was first created by the courts prior to the enactment of the Lanham Act.<sup>40</sup> To justify the validity of licensing, courts stretched the interpretation of the origin function of a mark and argued that such function was respected even if the original trademark owners did not produce the marked products, as long as they controlled the actual manufacturers.<sup>41</sup> While establishing such limits for the validity of licensing, however, the judiciary never defined “quality control” nor elaborated on how much control was necessary or sufficient for licensing agreements to be considered valid in practice. Similarly, neither Sections 5 nor 45 provided any clarification in this sense once the requirement was introduced into the statute. As elaborated below, this lack of statutory or judicial guidance represents the major problem in the application of the quality control requirement.

## II. THE INCREASING UNSUSTAINABILITY OF THE CURRENT STANDARDS

Part II highlights the unsustainability of the current rules for the validity of trademark assignments and licensing in the modern economy. Even if the language of these rules has remained untouched until today, their interpretation has been plagued by judicial inconsistency since their introduction into the law. For the most part, this inconsistency can be attributed to the difficulty in interpreting the concepts of “trademark goodwill” and “quality control.” As a result, courts have drifted away from the task of interpreting these concepts and have increasingly adopted a pragmatic position—declaring the assignments or licenses at issue valid as long as the public is not deceived as a result of the agreements. Modern trademark practices such as assignments, licenses-back, and promotional licensing have also contributed to widening this disconnect between trademark theory and reality in the past decades.

### A. Problems and Inconsistencies of Assignment “With Goodwill”

As stressed earlier, since its adoption, the major flaw of the rule of assignment “with goodwill” has been the lack of a clear definition of “goodwill.”<sup>42</sup> As a result, courts often struggled to assess whether the assignments at issue were valid, and ultimately adopted a case-by-case approach to the issue.<sup>43</sup> To resolve this impasse, shortly after the creation of the rule of as-

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40. See *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916), *superseded by statute*, Lanham Act, ch. 540, 60 Stat. 427 (1946), *as recognized in* *Park ‘N Fly, Inc. v. Dollar Park & Fly, Inc.*, 469 U.S. 189 (1995); *Kidd v. Johnson*, 100 U.S. 617 (1879).

41. See, e.g., 3 MCCARTHY, *supra* note 11, § 18:40.

42. See discussion *supra* Sections I.A-B.

43. See 3 MCCARTHY, *supra* note 11, § 18:10.

signment “with goodwill,” courts started to consider the “reality of the transaction[s],” which allowed them to assume that a mark’s goodwill had been transferred, rather than defining and tracking the transfer of the goodwill per se.<sup>44</sup> For this purpose, common law courts relied upon the transfer of the whole business, or part of it, to confirm that goodwill had been transferred as well. This practice was in place under the 1905 Act and continued even after enactment of the Lanham Act.<sup>45</sup>

Toward the 1950s, however, due to changes in the economy that followed the end of the war, courts started to accept that trademark transfers did not necessarily have to entail the transfer of business assets.<sup>46</sup> Accordingly, courts started to rely on the “substantial similarity” of the marked products in order to once again assume transfer of goodwill.<sup>47</sup> With the passing of the decades, however, this “substantial similarity” became “sufficient similarity,”<sup>48</sup> and in some instances courts held that as long as the products were not totally different from each other, they still satisfied the requirement of Section 10.<sup>49</sup> More recently, courts’ approaches have become even more radical, and the judiciary has often upheld assignments clearly “in gross” as long as the public was not deceived as a result of the agreements.<sup>50</sup> Still, the courts have never explicitly acknowledged that assignments “without” goodwill are valid. Instead they have adopted an in-

44. See *Archer Daniels Midland Co. v. Narula*, No. 99C6997, 2001 WL 804025, at \*7 (N.D. Ill. July 12, 2001).

45. See *MacMahan Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474-75 (8th Cir. 1901); see also Calboli, *Trademark Assignment*, *supra* note 12, at 789.

46. Instead, courts started to rely on the “continuity” of the marked products. See *Vittoria N. Am., L.L.C. v. Euro-Asia Imps. Inc.*, 278 F.3d 1076, 1083 (10th Cir. 2001) (“Transfer of assets is not a *sine qua non* for transferring the goodwill associated with a trademark.”); *Visa, U.S.A., Inc. v. Birmingham Trust Nat’l Bank*, 696 F.2d 1371, 1375 (Fed. Cir. 1982) (“A valid transfer of a mark . . . does not require the transfer of any physical or tangible assets. All that is necessary is the transfer of the goodwill to which the mark pertains.”); *J. C. Hall Co. v. Hallmark Cards, Inc.*, 340 F.2d 960, 963 (C.C.P.A. 1965) (“It is a matter of no significant import with reference to . . . the validity of the assignment . . . that no tangible assets were transferred . . .”).

47. See generally Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 411-14 (1999) (criticizing the increasing use by the judiciary of the test of “substantial similarity”).

48. See *Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc.*, 841 F. Supp. 1339, 1350 (E.D.N.Y. 1994).

49. See *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 678 (7th Cir. 1982) (upholding an assignment where the assignee did not offer “a service different from that offered by the assignor”).

50. See *Archer Daniels Midland Co. v. Narula*, No. 99C6997, 2001 WL 804025, at \*7 (N.D. Ill. July 12, 2001). “The focus should be on protecting customers’ legitimate expectation of continuity under the mark, not on searching for a ‘stereo-typed set of formalities.’” *Id.* (quoting 3 MCCARTHY, *supra* note 11, § 18:24). “[U]nder the modern view, the assignment should be upheld if the transaction is such that the buyer is enabled to go on in real continuity with the past . . .” 3 MCCARTHY, *supra* note 11, § 18:24, at 18-54.

creasingly broad interpretation of “goodwill”—i.e., intangible value attached to a mark—and held that the transfer of a mark per se could imply the transfer of the attached goodwill as long as the assignee’s use of the assigned mark did not harm or deceive the purchasing public.<sup>51</sup>

In addition to this judicial trend clearly in favor of free assignments, the current practice of trademark law has also created legal maneuvers to bypass Section 10. In particular, the past years have seen an increasing use of trademark assignments and licenses-back where trademark owners assign their marks to assignees who in turn license the marks back to the original owners.<sup>52</sup> Most often this practice is used to settle claims of trademark infringement or to secure priority in the ownership of a specific mark.<sup>53</sup> This practice is also increasingly used by trademark owners as collateral for loans.<sup>54</sup> The purpose of this type of agreement, however, is not to continue to produce products that are “substantially similar” to those produced by the assignee, since the assignee was not producing the original products in the first place. Instead, the real purpose of these contracts is to acquire control of the assigned mark per se. In line with their recent approach in favor of assignments “in gross,” courts have generally supported the validity of this practice, which they have characterized as a “well-settled commercial practice”<sup>55</sup> that has the benefit of “bringing ‘commercial reality into congruence with customer perception.’”<sup>56</sup>

Finally, recent years have also seen trademark owners increasingly using their marks as collateral for loans, once again with the blessing of the majority of the judiciary.<sup>57</sup> As indicated above, secured transactions involving trademarks are usually structured as conditional assignments and licenses-back, since lenders do not have any interest in using the marks, which only secure the lenders against the borrowers’ default.<sup>58</sup> Still, to serve as future notice to third parties, these contracts need to be registered with the USPTO, and since the USPTO does not distinguish between final and conditional assignments, these contracts are also subject to the goodwill

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51. See Calboli, *Trademark Assignment*, *supra* note 12, at 814-16.

52. See *Glow Indus., Inc. v. Lopez*, 273 F. Supp. 2d 1095 (C.D. Cal. 2003).

53. See 3 MCCARTHY, *supra* note 11, § 18:9.

54. See Calboli, *Trademark Assignment*, *supra* note 12, at 795.

55. *Visa, U.S.A., Inc. v. Birmingham Trust Nat’l Bank*, 696 F.2d 1371, 1377 (Fed. Cir. 1982).

56. *E. & J. Gallo Winery v. Gallo Cattle Co.*, 967 F.2d 1280, 1290 (9th Cir. 1992) (quoting 1 J. THOMAS MCCARTHY, *TRADEMARKS AND UNFAIR COMPETITION* § 18:1(I) (2d ed. 1984)).

57. See Allison Sell McDade, Note, *Trading in Trademarks—Why the Anti-Assignment in Gross Doctrine Should Be Abolished When Trademarks Are Used as Collateral*, 77 TEX. L. REV. 465 (1998).

58. See Calboli, *Trademark Assignment*, *supra* note 12, at 797-98.

requirement.<sup>59</sup> In practice, however, courts have confirmed the validity of these agreements when no tangible assets are transferred as part of the secured transaction, as long as the public was not harmed as a result, once again confirming courts’ de facto abandonment of a strict interpretation of the rule of Section 10.<sup>60</sup>

#### B. Problems and Inconsistencies of Licensing “With Quality Control”

As mentioned above, judicial inconsistency has also characterized the application of the rule of licensing “with quality control,” and as of today, licensors and licensees continue to be left with much uncertainty as to what constitutes valid licensing.<sup>61</sup> In this context, the main reason for such uncertainty can traditionally be attributed to the lack of a clear definition of quality control, both in the statute and by the judiciary.<sup>62</sup> As a result, courts have generally adopted a case-by-case approach to the issue, which has often led to diverging conclusions.<sup>63</sup> Similar to their approach to trademark assignment, however, courts have also increasingly demonstrated a favorable attitude toward licensing in recent decades and have invalidated agreements only sporadically.<sup>64</sup>

In particular, during the pre- and immediately post-Lanham Act years, the judiciary consistently held that trademark owners had an affirmative duty to police their licenses, including the actual quality of their products, or their licenses would be held invalid.<sup>65</sup> Starting in the 1960s, however, courts started to drift away from such strict enforcement of the requirement and repeatedly held that “adequate” control was sufficient to comply with

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59. 37 C.F.R. § 3.56 (2006). “Assignments which are made conditional on the performance of certain acts or events, such as the payment of money or other condition subsequent, if recorded in the Office, are regarded as absolute assignments for Office purposes . . . .” *Id.*

60. See *In re Roman Cleanser Co.*, 802 F.2d 207 (6th Cir. 1986); see also 3 MCCARTHY, *supra* note 11, § 18:7.

61. See Ann E. Doll, *Trademark Licensing: Quality Control*, 12 J. CONTEMP. LEGAL ISSUES 203 (2001). “How much control must the licensor exercise to assure consumers and to protect against mark abandonment? The courts do not provide specific answers . . . .” *Id.* at 205.

62. See discussion *supra* Section I.B.

63. See Calboli, *Trademark Licensing*, *supra* note 13, at 364.

64. See Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1710 (1999) (criticizing this judicial trend).

65. See, e.g., *Huber Baking Co. v. Stroehmann Bros.*, 252 F.2d 945, 952-53 (2d Cir. 1958); *E. I. du Pont de Nemours & Co. v. Celanese Corp. of Am.*, 167 F.2d 484, 489 (C.C.P.A. 1948); *Arthur Murray, Inc. v. Horst*, 110 F. Supp. 678, 679 (D. Mass. 1953); *Broeg v. Duchaine*, 67 N.E.2d 466 (Mass. 1946).

quality control.<sup>66</sup> In the following years, “adequate” control became “sufficient”<sup>67</sup> or even “minimal”<sup>68</sup> control, and recent decades have invariably confirmed this trend, thus showing the reluctance of the judiciary to declare trademark licenses invalid.<sup>69</sup> Still, courts never held that quality control had become an unnecessary burden for trademark owners. Instead, they increasingly turned their attention to the actual quality of the licensed products, assuming that if the products were the same or substantially similar to each other, quality control could be implied and, accordingly, the licenses under scrutiny were valid.<sup>70</sup> Accordingly, although not officially, this approach has greatly contributed to distancing the judiciary from the application of quality control and has thus rendered the requirement increasingly empty and sterile.

In addition to this judicial trend, current trademark practices have contributed to the growing distance between the quality control requirement and its de facto application. In particular, during the past twenty years, a new form of licensing has become increasingly important in the marketplace: promotional licensing.<sup>71</sup> This practice—which is also called trademark merchandising—usually involves the use of a licensed mark on unrelated products, and its direct goal is not to increase production as in traditional licensing, but instead to build and enhance brand image and consumer affiliation by affixing the licensed mark to various types of promotional products (for example, T-shirts, mugs, pens, etc.).<sup>72</sup> As critics of the quality

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66. See, e.g., *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959); *Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 212 F. Supp. 715, 740 (E.D. Pa. 1962).

67. See Karin Segall, *Trademark Licensing: The Quality Control Requirement; International Trademark License Provisions; Click Licenses*, 775 PLI/PAT 353, 358 (2004) (surveying judicial decisions that only required “sufficient control”).

68. *Id.* at 386. For other examples in which mere minimal control was deemed sufficient, see *Penta Hotels Ltd. v. Penta Tours*, 9 U.S.P.Q.2d (BNA) 1081 (D. Conn. 1988); *Bureau National Interprofessional Du Cognac v. International Better Drinks Corp.*, 6 U.S.P.Q.2d (BNA) 1610 (T.T.A.B. 1988); *Nestle Co. v. Nash-Finch Co.*, 4 U.S.P.Q.2d (BNA) 1085 (T.T.A.B. 1987); *Embedded Moments, Inc. v. International Silver Co.*, 648 F. Supp. 187 (E.D.N.Y. 1986).

69. See, e.g., Karen Marie Kitterman, *Quality Control in Trademark Licensing*, 821 PLI/PAT 509, 515 (2005).

70. See, e.g., *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991), *aff'd*, 505 U.S. 763 (1992); *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 330 F.2d 667 (7th Cir. 1964).

71. The recognition of this practice dates back to the decision in *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Manufacturing, Inc.*, 360 F. Supp. 459 (N.D. Tex. 1973), *rev'd in part*, 510 F.2d 1004 (5th Cir. 1975). But see Dogan & Lemley, *supra* note 34, at 471-73 (criticizing the decision and the foundation of trademark merchandising *per se*).

72. See W. J. Keating, *Promotional Trademark Licensing: A Concept Whose Time Has Come*, 89 DICK. L. REV. 363 (1985).

control requirement have repeatedly pointed out, this practice has traditionally proven incompatible with a meaningful enforcement of quality control, since trademark owners most often lack expertise in the promotional goods industry.<sup>73</sup> Clearly aware of this fact, the judiciary has rarely questioned the validity of licenses based on lack of quality control and instead has commonly relied on the consistent quality of the marked products—that is, on the “reality of the transaction” test—to assume that such control has been exercised.<sup>74</sup>

Similarly, the rise of assignments and licenses-back has added to the growing acceptance of *de facto* licensing “in gross.” As indicated earlier, the rationale behind this practice profoundly deviates from a traditional trademark transfer or license.<sup>75</sup> Instead, assignees/licensors enter this type of agreement to acquire control over a mark—often to settle infringement claims and to prevent future claims of abandonment or “dirty hands”—and rarely do they have the interest or the expertise to control the quality of the products manufactured. At the same time, the assignors/licensees accept these contracts merely to avoid being held liable for infringement while continuing their economic activity under the same mark.<sup>76</sup> Trademark control in case of a borrower’s default is also the primary reason why lenders use these agreements when marks are used as collateral for loans<sup>77</sup>—quality control again being outside the practical scope of these transactions since lenders rarely have the expertise, or the interest, to supervise the quality of the products produced under the now-licensed mark.<sup>78</sup>

Finally, as additional evidence of its pragmatic approach to the issue, the judiciary has further undermined the possibility of strictly enforcing quality control by developing the so-called doctrine of licensee estoppel.<sup>79</sup> Under this doctrine, licensees are barred from bringing claims of lack of quality control against licensors for the whole duration of the licensing

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73. See generally Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19, 35 (1995) (noting that “[t]he argument for abolishing the quality control requirement focuses on the fact that in promotional merchandising the consumer does not expect a preordained quality level”).

74. See Calboli, *Trademark Licensing*, *supra* note 13, at 371.

75. See discussion *supra* Section II.A.

76. See 3 MCCARTHY, *supra* note 11, § 18:9 n.4.

77. See, e.g., *Visa, U.S.A., Inc. v. Birmingham Trust Nat’l Bank*, 696 F.2d 1371 (Fed. Cir. 1982).

78. To avoid the duty of monitoring the quality of the products, secured transactions are also generally structured as conditional assignments, which do not vest legal title under the UCC and become operative only if lenders enforce or foreclose the security upon borrowers’ default. See U.C.C. § 9-108 (2000).

79. See 3 MCCARTHY, *supra* note 11, § 18:63; see also James M. Treece, *Licensee Estoppel in Patent and Trademark Cases*, 53 IOWA L. REV. 525 (1967).

agreement.<sup>80</sup> As stated by the courts, this doctrine is based on equitable principles and aims primarily at safeguarding predictable contractual relations.<sup>81</sup> In reality, however, this doctrine represents a further step toward courts' acceptance of licensing without control.

### III. WHAT IF, AFTER ALL, TRADEMARKS WERE "TRADED IN GROSS"?

Part III advocates for a change allowing free trademark assignment and licensing. As illustrated above, the current rules have reached a state of "sterile formalism"<sup>82</sup> and are out of touch with the needs of modern manufacturing and distribution.<sup>83</sup> Accordingly, this Article proposes a change in favor of assignment "with or without goodwill"<sup>84</sup> and licensing "with or without control,"<sup>85</sup> where agreements would be held valid as long as they did not deceive or harm consumers. Despite common criticisms, these changes would benefit competition in the marketplace and prevent frivolous legal actions. Likewise, they would not allow misleading trading in trademarks because the courts would have alternative, and better, tools to prevent deceptive assignments and licensing.

#### A. The Case for "Trading" Trademarks "In Gross"

For the reasons outlined above, the best way to resolve the conflict between the current rules on trademark assignment and licensing and their application in practice seems to be to allow free trading in trademarks. With particular respect to trademark assignment, as I have previously argued, this Article advocates for a change in the wording of Section 10, either eliminating "with goodwill" from the provision or adding new language that would allow assignment "with or without goodwill."<sup>86</sup> With respect to licensing, this Article also advocates a change in the statutory language of Section 45 by eliminating any text directing trademark owners to exercise "control" over their licenses.<sup>87</sup> Instead, as I have previously suggested, a

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80. See *Prof'l Golfers Ass'n of Am. v. Bankers Life & Cas. Co.*, 514 F.2d 665 (5th Cir. 1975) (dismissing claim of abandonment based on uncontrolled licensing because estoppel barred the defense). But see RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. d (1995) ("The case for estoppel is weaker when the licensee asserts a lack of control by the licensor over other users.").

81. See 3 MCCARTHY, *supra* note 11, § 18:63.

82. *Id.* § 18:10.

83. Parks, *supra* note 7, at 531.

84. Calboli, *Trademark Assignment*, *supra* note 12, at 833.

85. Calboli, *Trademark Licensing*, *supra* note 13, at 389.

86. See Calboli, *Trademark Assignment*, *supra* note 12, at 833.

87. Lanham Act § 45, 15 U.S.C. § 1127 (2000). See discussion *supra* Section I.B.

“related company” should be defined as “any person whose use of a mark is authorized by the owner of the mark provided that such mark is not used to deceive the public with respect to the nature and quality of the goods or services on or in connection with which the mark is used.”<sup>88</sup>

As elaborated earlier, the suggested amendments build upon recent judicial trends in assignment and licensing, respectively.<sup>89</sup> They also resolve the major problem of the current rules: interpreting the indefinable concepts of trademark goodwill and quality control. This problem will be avoided because the proposed amendments shift attention directly onto the impact of the transaction on the market.<sup>90</sup> Courts have already begun to embrace this thinking and have repeatedly acknowledged that the validity of an assignment or license should be assessed by looking at the overall extent of the transaction.<sup>91</sup> Thus, these changes will bring the language of the rules in line with reality.<sup>92</sup> With specific respect to licensing, amending the wording of Section 45 will also restore consistency to the statutory definition of “related company” and the language of Section 5, which does not require trademark owners to “control”<sup>93</sup> their licenses, but rather focuses on the effects of the agreements at issue in the market, requiring only that the mark not be “used in such manner as to deceive the public.”<sup>94</sup>

Equally important, a change in favor of the suggested standards will also reduce frivolous claims by trademark infringers during judicial proceedings. As indicated above, the current rules base their rationale on consumer protection, yet it is litigants, and not consumers, that generally utilize these rules in order to raise—often valid—“unclean hands” defenses against allegations of trademark infringement.<sup>95</sup> As explained below, defendants would still be able to claim the invalidity of the agreements at issue under the new standards. This invalidity, however, would not depend on the in-

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88. See Calboli, *Trademark Licensing*, *supra* note 13, at 396.

89. See discussion *supra* Sections II.A-B.

90. See Calboli, *Trademark Assignment*, *supra* note 12, at 833 (stressing this point against the rule of assignment “with goodwill”); Calboli, *Trademark Licensing*, *supra* note 13, at 397 (making a similar observation in the context of licensing).

91. See, e.g., *Money Store v. Harriscorp Fin., Inc.*, 689 F.2d 666, 676 (7th Cir. 1982) (determining that the words of the agreement are not enough to show transfer of goodwill, and instead looking to the entire transaction and the actions of the parties to make this determination); *Archer Daniels Midland Co. v. Narula*, No. 99C6997, 2001 WL 804025, at \*7 (N.D. Ill. July 12, 2001) (basing its decision on the “reality of the transaction”); see also discussion *supra* Sections II.A-B.

92. See discussion *supra* Sections II.A-B.

93. Lanham Act § 5, 15 U.S.C. § 1055 (2000).

94. *Id.*; see also Keating, *supra* note 72, at 378.

95. See, e.g., *Bourdeau Bros. v. Int’l Trade Comm’n*, 444 F.3d 1317 (Fed. Cir. 2006); *Worthington v. Anderson*, 386 F.3d 1314 (10th Cir. 2004); *Citizens Fin. Group v. Citizens Nat’l Bank of Evans City*, 383 F.3d 110 (3d Cir. 2004); see also Parks, *supra* note 7, at 531.



terpretation of ambiguous factors. Rather, it would depend on the actual result of the use of the mark by assignees or licensees.<sup>96</sup>

Amending the current rules would also resolve the current discrepancy between the language of the statute and the “well-settled” practice of assignment and license-back.<sup>97</sup> Likewise, the suggested amendments would assist trademark owners who wish to use their marks as collateral for loans.<sup>98</sup> In the licensing area, the suggested amendment would also better support the legitimacy of promotional licensing, which has become an increasingly relevant business practice, the importance of which is sure to grow in the future.<sup>99</sup> In addition, the proposed changes would eliminate the difference in treatment between original trademark owners and trademark owners who are assignees and licensors. While assignees and licensors are subject to the transfer of goodwill and quality control requirements, respectively, and have to provide the public with products of substantially similar quality, original trademark owners do not share the same duty and can change the quality of the products they sell under a mark as long as the public is not confused or deceived.<sup>100</sup> Under the new rules, assignees and licensors would be as free as original trademark owners to change the quality of their products. In addition, the suggested amendments would bring U.S. trademark law closer to the approach followed by the majority of other jurisdictions, thus eliminating many inconsistencies in the treatment of international assignment and licensing, to the advantage of international trade.<sup>101</sup>

Lastly, in addition to restoring consistency to the rules and their application, allowing free trading in trademarks could also increase competition in the marketplace to the advantage of consumers. Able to assign or license

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96. See Michelle S. Friedman, Note, *Naked Trademark Licenses in Business Format Franchising: The Quality Control Requirement and the Role of Local Culture*, 10 J. TECH. L. & POL'Y 353, 364 (2005) (citing Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1174 (1963)); see also *Baglin v. Cusenier Co.*, 221 U.S. 580 (1911); *Canal Co. v. Clark*, 80 U.S. (13 Wall.) 311, 324 (1871); *Bulte v. Igleheart Bros.*, 137 F. 492, 498 (7th Cir. 1905).

97. See *Visa, U.S.A., Inc. v. Birmingham Trust Nat'l Bank*, 696 F.2d 1371, 1377 (Fed. Cir. 1982).

98. See McDade, *supra* note 57, at 491.

99. See Marks, *supra* note 7, at 647-48.

100. Section 2(a) of the Lanham Act expressly prohibits the registration of trademarks that are “deceptive.” Lanham Act § 2(a), 15 U.S.C. § 1052(a) (2000). Deceptive trademarks are subject to cancellation according to Section 14(3). Lanham Act § 14(3), 15 U.S.C. § 1064(3). See discussion *supra* Sections I.A-B; see also *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959); *Nat'l Lead Co. v. Wolfe*, 223 F.2d 195, 199 (9th Cir. 1955); *Geo. Wash. Mint, Inc. v. Wash. Mint, Inc.*, 349 F. Supp. 255, 263 (S.D.N.Y. 1972).

101. See Calboli, *Trademark Assignment*, *supra* note 12, at 816-28; 2 STEPHEN P. LADAS, PATENTS, TRADEMARKS, AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION 1303-17 (1975); see also MARY M. SQUYRES, 1-2 TRADEMARK PRACTICE THROUGHOUT THE WORLD §§ 6-17 (2006).

their marks freely and without the concern of risking frivolous legal actions, trademark owners could save costs and, in turn, offer better and cheaper products to consumers. In the case of assignment, assignors could also continue to produce similar products under a different mark without the risk of having the assignment declared void because goodwill was not transferred. This, in turn, would increase the number of comparable products available in the market for consumers. As long as they inform the public, trademark owners would also be allowed to change the quality of marked products to better respond to market demands and consumer needs.<sup>102</sup>

The economic argument in favor of free trademark trading is particularly strong when one considers that the cancellation of a mark following a finding of naked assignment or licensing causes trademark owners to discontinue the production and distribution of the products bearing that mark.<sup>103</sup> Amending the current rules to allow trading without goodwill and quality control would limit these cancellations—and the resulting reduction in products available to consumers—to agreements that actually deceive the public. The same applies when trademark owners have to incur extra costs to rename their products and market them under the new name, considering that trademark cancellation allows other interested parties to use the mark.<sup>104</sup> Not surprisingly, these extra costs, which impact the ability of trademark owners to compete, will ultimately be carried, at least in part, by consumers.<sup>105</sup> To amend the current requirements as suggested will prevent these developments by limiting trademark cancellation to agreements that are truly misleading and unfair for the market.

## B. Trading “In Gross” and Consumer Protection

As demonstrated above, to allow trademark owners to trade their trademarks “in gross” could both restore consistency to the language of the trademark statute and its application by the judiciary, and benefit the market by increasing competition and preventing frivolous law suits. Still, a

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102. See Marks, *supra* note 7, at 651 (“Trademark theory should provide for consumer protection, but it should also be flexible enough to permit satisfactory adaptation to new situations.”) (quoting William M. Borchard & Richard M. Osman, *Trademark Sublicensing and Quality Control*, 70 TRADEMARK REP. 99, 114 (1980)); see also Elmer William Hanak, III, *The Quality Assurance Function of Trademarks*, 43 FORDHAM L. REV. 363, 367 (1974).

103. See Calboli, *Trademark Licensing*, *supra* note 13, at 399-400.

104. See, e.g., R. Darryl Burke, *Intellectual Property*, 29 TEX. TECH L. REV. 711, 723 (1998) (citing *Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1077 (5th Cir. 1997), in which a finding of naked license ultimately caused Exxon to forfeit its right to use the trademarked symbol of interlocking x’s).

105. See Marks, *supra* note 7, at 648-49 (considering the costs incurred by companies that are less sophisticated in policing and controlling a popular trademark in licensing contexts).

change toward a regime of assignments “with or without goodwill” and licensing “with or without control” should not happen to the detriment of consumers—that is, even under a regime of free trademark trading, the primary concern of trademark law should continue to be the protection of the public against the fraud that could result from abusive assignments and licenses.

“In other words, even if consumers are not always legally entitled to receive goods and services of the same quality, they nonetheless have the right not to be deceived in making their purchases,”<sup>106</sup> and should expect that the products they purchase are of the same quality, regardless of the actual manufacturers.<sup>107</sup> Accordingly, if assignees or licensees decide to market products of different quality, they must alert the public to the changes before consumers carry out their purchases in the market.<sup>108</sup> Despite the continued judicial skepticism of this solution,<sup>109</sup> targeted advertising campaigns before the release of new products as well as the use of labels directly on the products and on the premises where the products are sold could fulfill this duty to the public and serve as adequate notice of any changes. Even if some consumers might not notice the new commercial or read the new label alerting them to changes in product quality, labels and disclaimers would nevertheless show that a reasonable effort was made on the part of the trademark owners or licensees to inform them of the new quality standards or product features.<sup>110</sup>

Still, labels and disclaimers may not preclude negative consequences for consumers when unscrupulous individuals attempt to take unfair advan-

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106. Calboli, *Trademark Assignment*, *supra* note 12, at 836.

107. See, e.g., Magnuson-Moss Warranty-Federal Trade Commission Improvement Act, 15 U.S.C. §§ 2301-12 (2004); Sherman Act, 15 U.S.C. §§ 1-7 (2004); Consumer Product Safety Act, 15 U.S.C. §§ 2051-85 (2000); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987) (finding consumer confusion because licensee imported Cabbage Patch dolls manufactured abroad, contrary to the terms of the license agreement); *DC Comics v. Kryptonite Corp.*, 336 F. Supp. 2d 324 (S.D.N.Y. 2004) (finding for plaintiff where defendant's actions could cause consumer confusion, in a trademark infringement case arising from breach of an agreement); *Bay Summit Cmty. Ass'n v. Shell Oil Co.*, 59 Cal. Rptr. 2d 322 (Cal. Ct. App. 1996) (holding the licensor strictly liable for harm to the consumers where licensees' products proved defective); see also RESTATEMENT (SECOND) OF TORTS: MISREPRESENTATION BY SELLER OF CHATTELS TO CONSUMER § 402B (1965) (amended in 1998 by RESTATEMENT (THIRD) OF TORTS: PRODUCT LIABILITY § 9).

108. See *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947, 950 (C.C.P.A. 1962); see also Hanak, *supra* note 102, at 374. “Courts have uniformly held that an adequate explanation negates the possibility of deception and hence the loss of trademark rights.” Hanak, *supra* note 102, at 374.

109. See, e.g., *Burgess v. Gilman*, 475 F. Supp. 2d 1051, 1058 n.1 (D. Nev. 2007) (indicating in a footnote the court's skepticism toward the idea that advertisements convey accurate information about products and product quality).

110. See Hanak, *supra* note 102, at 374.

tage of the public's expectations of a particular mark.<sup>111</sup> In these situations, however, it would be irrelevant whether a mark had been assigned or licensed “in gross.” Rather, these would be instances of commercial fraud, where the owners of a mark use it to deceive the public. Accordingly, those owners should be prevented from continuing such use and punished under the appropriate statutes. In this sense, amending the current requirement would not diminish trademark owners' civil and criminal liability with respect to their accountability to consumers for the quality of their products. Even though some authors have called for more accountability for trademark owners in these areas,<sup>112</sup> products liability and consumer protection laws<sup>113</sup> would continue to guarantee that assignees and licensees respect the required product standards and do not deceive consumers, since they would face civil and criminal liability for commercial fraud.<sup>114</sup>

In addition, from a strict trademark law standpoint, Sections 14 and 45 of the Lanham Act would still continue to prohibit fraudulent uses of a mark under a system of free trademark trading.<sup>115</sup> Specifically, the proposed amendments would not affect the current language or application of these provisions, and the judiciary would continue to be able to refer to Sections 14 and 45 to protect the public against misleading assignments and licenses. Likewise, the proposed amendments would not affect the language of Section 43(a) of the Lanham Act, and competitors would still be able to bring civil actions under this provision if they believed they had suffered damages due to the misleading use of an assigned or licensed mark.<sup>116</sup> Simply put,

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111. Calboli, *Trademark Assignment*, *supra* note 12, at 837; *see also* Hanak, *supra* note 102, at 374.

112. *See* David J. Franklyn, *The Apparent Manufacturer Doctrine, Trademark Licensors and the Third Restatement of Torts*, 49 CASE W. RES. L. REV. 671, 721 (1999).

113. *See, e.g.*, 15 U.S.C. §§ 2301-12 (2000) (consisting of statutes governing consumer product warranties and the FTC); *id.* § 2051 (demonstrating congressional intent that the public should be protected from unreasonable risks associated with consumer products); *see also* Franklyn, *supra* note 112, at 675.

114. *See, e.g.*, 15 U.S.C. § 2069 (consisting of civil penalties under the Consumer Product Safety Act); *id.* § 2070 (consisting of criminal penalties under the Consumer Product Safety Act).

115. *See* discussion *supra* Sections I.A-B.

116. *See* Lanham Act § 43(a), 15 U.S.C. § 1125(a) (2000).

(a) Civil action.

(1) Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which--

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

under a regime of trading trademarks “in gross,” rather than canceling a mark or declaring it abandoned because of the absence of transfer of goodwill or lack of quality control, courts would directly invalidate those agreements that are likely to deceive or mislead consumers.<sup>117</sup>

In particular, when assessing whether the use of a mark is in line with Sections 14, 45, or 43(a), under the new standards, courts should consider whether quality alterations exist among the products distributed under that mark. If courts find any difference in quality, they should look at whether those differences are likely to harm even a small sector of the public. In the cases where these differences could lead to confusion or deception, courts should void the agreement at issue and cancel the mark or declare it abandoned.<sup>118</sup> At the same time, when the public is not likely to be deceived, courts should allow the agreement to stand. Generally, courts should also consider whether any quality variation is required by law or by market needs<sup>119</sup> and, if this is the case, courts should presume the agreement valid as long as all new products follow the new quality guidelines and trademark owners and licensees put forth all reasonable efforts to inform the public of the changes.<sup>120</sup> However, if quality variation applies only to some of the products distributed by the trademark owner or licensee, and if there is no valid reason for this variation,<sup>121</sup> courts should presume the agreement to be void because of the likelihood that consumers would be deceived.<sup>122</sup>

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(B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

*Id.*

117. *But see* Parks, *supra* note 7, at 552.

118. *See* discussion *supra* Sections I.A-B.

119. MCDONALD'S, for example, has recently changed well-known recipes in order to eliminate trans fats from its menus, in response to a demand for healthier products. *See* Jeannine DeFoe, *Food Makers Get on a Health Kick: PepsiCo, Kraft, and Others Are Making Strides in Reducing Trans Fats and Producing Healthier Foods to Meet Consumer Demand*, BUS. WK., Dec. 14, 2006, [http://www.businessweek.com/investor/content/dec-2006/pi20061214\\_187559.htm](http://www.businessweek.com/investor/content/dec-2006/pi20061214_187559.htm). *See also* 21 C.F.R. § 101.45 (2006) (detailing strict labeling requirements for foods containing trans fats).

120. *See* Carter v. Joseph Bancroft & Sons Co., 360 F. Supp. 1103 (E.D. Pa. 1973); Franklyn, *supra* note 112, at 707.

121. *See, e.g.*, Friedman, *supra* note 96, at 375.

122. For a detailed analysis of the steps that the courts should follow in the proposed regime of trading trademarks “in gross,” see Calboli, *Trademark Assignment*, *supra* note 12, at 838-39 (describing the steps with respect to the judicial application of Sections 14, 45, and 43(a) under a rule of assignment “with or without goodwill”) and Calboli, *Trademark Licensing*, *supra* note 13, at 404-05 (describing the steps with respect to the judicial application of the same provisions under a rule of licensing “with or without control”).

Finally, the suggested amendments of assignment “with or without goodwill” and licensing “with or without control” would not affect the language of Section 14(5) of the Lanham Act,<sup>123</sup> under which the Federal Trade Commission (FTC) can cancel trademark registrations when trademark owners use their marks misleadingly to induce consumers to purchase products that do not meet their expectations.<sup>124</sup> Under Section 5 of the Federal Trade Commission Act,<sup>125</sup> the FTC also has the authority to prevent acts of unfair competition in general.<sup>126</sup> This power includes preventing all acts that involve the use of deceptive marks.<sup>127</sup> The FTC has often sent cease-and-desist orders to companies to prohibit “the use of trademarks that inherently are deceptive.”<sup>128</sup> Again, a shift toward a system of “free trademark trading” would not affect the FTC’s role in these areas, and the FTC would continue to be in charge of protecting the interests of consumers and the market by canceling deceptive marks.

### CONCLUSION

During the past century, trademarks have become increasingly important due to the rise of consumer society and the transformation of the manufacturing sectors because of globalization. So far, however, these changes have not reached the statutory language that dictates the conditions that trademark owners have to observe to validly assign and license their marks.

123. Section 14 of the Lanham Act states: “[T]he Federal Trade Commission may apply to cancel . . . any mark registered on the principal register established by this chapter.” 15 U.S.C. § 1064 (2000).

124. See, e.g., *Jacob Siegel Co. v. FTC*, 327 U.S. 608, 611-12 (1946) (“The Commission has wide discretion in its choice of a remedy deemed adequate to cope with the unlawful practices in this area of trade and commerce.”); *Sears, Roebuck & Co. v. FTC*, 95 F.T.C. 406, 517 n.9 (1980), *quoted in* *FTC v. Wolf*, No. 94-8119-CIV-Ferguson, 1996 U.S. Dist. LEXIS 1760, at \*14 (S.D. Fla. Jan. 30, 1996); see also *Bart Schwartz Int’l Textiles, Ltd. v. FTC*, 289 F.2d 665 (C.C.P.A. 1961).

125. Federal Trade Commission Act, ch. 311, 38 Stat. 717 (1914) (codified as amended at 15 U.S.C. §§ 41-58 (2000)).

126. See, e.g., Arthur Best, *Controlling False Advertising: A Comparative Study of Public Regulation, Industry Self-Policing, and Private Litigation*, 20 GA. L. REV. 1, 20-25 (1985); Thomas L. Ruffner, Note, *The Failed GE/Honeywell Merger: The Return of Portfolio-Effects Theory?*, 52 DEPAUL L. REV. 1285, 1299 (2003).

127. Section 5(a)(1) of the Federal Trade Commission Act provides that “[u]nfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are hereby declared unlawful.” 15 U.S.C. § 45(a)(1). “Unfair” practices are defined in § 5(n) as those that “cause[] or [are] likely to cause substantial injury to consumers which is not reasonably avoidable by consumers themselves and not outweighed by countervailing benefits to consumers or to competition.” *Id.* § 45(n).

128. Calboli, *Trademark Assignment*, *supra* note 12, at 841 (quoting Hanak, *supra* note 102, at 373); see also *R. Neumann & Co. v. Overseas Shipments, Inc.*, 326 F.2d 786, 788 (C.C.P.A. 1964); *Gaffrig Performance Indus., Inc. v. Livorsi Marine, Inc.*, Nos. 99C7778, 99C7822, 2003 U.S. Dist. LEXIS 23018 (N.D. Ill. Dec. 19, 2003).

As a result, trademark owners and the market continue to be subject to provisions that are outdated and plagued by inconsistency in their interpretation. Well aware of these problems, the judiciary has increasingly drifted away from the current standards and de facto adopted a trend that favors trading trademarks “in gross.” Such a judicial rule of reason still leaves gaps for ambiguity, however, and competitors are often left wondering what represents a valid agreement.

Because such uncertainty is not acceptable, the time has come to revise the current standards and adopt a system that would allow trading trademarks “in gross,” i.e., trademark assignment “with or without goodwill” and trademark licensing “with or without control.” As this Article has demonstrated, these changes would finally bring the statutory language in line with judicial interpretation and business reality. Furthermore, the changes would also not affect consumers and the market since the courts have alternative instruments to prevent misleading assignments and licenses. Accordingly, despite possible criticism against them, these changes should be welcome as positive advancements in trademark law and practice.