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TRADEMARK ASSIGNMENT "WITH GOODWILL": A CONCEPT WHOSE TIME HAS GONE

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I. INTRODUCTION

Imagine that tomorrow, when you order your morning STARBUCKS Caramel Macchiato, the coffee tastes richer than usual; you then notice a label on the shop door, and on your coffee cup, announcing that a new owner has purchased the mark STARBUCKS and has changed the quality of some of the STARBUCKS products. Now, imagine that you have planned to purchase a Volkswagen BEETLE and, immediately prior to your purchase, you learn that BMW has acquired Volkswagen and has discontinued the current model of the BEETLE. Instead, the company plans to release a new car, also named the BEETLE, but considerably different in design and technical features from the car that you wanted to purchase. Finally, imagine that a South-African corporation has acquired the Coca-Cola Company and announces that it will not continue to produce the well-known soft drink. Instead, it will use the mark COCA-COLA on a variety of salty snacks.

These scenarios illustrate how, as a result of a trademark assignment, an assignee could choose to change the ingredients or technical features of the products identified by a trademark.[1] As long as these changes do not come unexpectedly and do not harm or defraud consumers, there is no apparent reason why assignees should be prevented from carrying them out. Yet, based on the assumption that such changes could result in consumer confusion because of the breach in the continuity of the product quality or kind they are likely to create, trademark law has traditionally discouraged the use of a mark on substantially dissimilar products by expressly requiring that trademarks are assigned "with the goodwill"[2] of the business to which they refer.[3]

This rule, also called the rule "against assignment in gross,"[4] is currently incorporated in Section 10 of the Trademark Act of 1946 (Lanham Act),[5] and rests on the assumption that trademarks do not exist per se but only as symbols of the goodwill that has been established by businesses while using the marks.[6] This principle was developed by the courts in the nineteenth century to define the appropriate scope of trademark protection.[7] The adoption of this principle directly affected the

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1. Section 45 of the Trademark Act of 1946 (Lanham Act), Pub. L. No. 79 489, 60 Stat. 427 (codified as amended at 15 U.S.C. §§ 1051 1141 (n) (2000 & Supp. II 2003)) defines "trademark" as "any word, . . . symbol, or device . . . used . . . to identify and distinguish . . . goods . . . from those manufactured or sold by others . . . ." 15 U.S.C. § 1127 (2000). The Lanham Act contains a similar definition of "service mark." *Id.* This Article will use the words "trademark" and "mark" interchangeably and as encompassing all the symbols and indicia protected by the Lanham Act.

2. Lanham Act § 10, 15 U.S.C. § 1060 (Supp. II 2003). *See generally* 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:3 (4th ed. 2005) (discussing the history and the significance of the transfer of goodwill requirement within the context of the rule on trademark assignment).

3. *See* DAPHNE ROBERT, THE NEW TRADE MARK MANUAL 22 24 (1947); Grover C. Grismore, *The Assignment of Trade Marks and Trade Names*, 30 MICH. L. REV. 489, 495 97 (1931 1932); Walter J. Halliday, *Assignments Under the Lanham Act*, 38 TRADEMARK REP. 970, 970 71 (1948); Nathan Isaacs, *Traffic in Trade Symbols*, 44 HARV. L. REV. 1210, 1210 (1931); Wallace R. Lane, *The Transfer of Trademarks and Trade Names*, 6 ILL. L. REV. 46, 46 47 (1911 1912); Edward S. Rogers, *Some Suggestions Concerning the Assignment of Trade Marks*, 25 BULL. U.S. TRADE MARK ASS'N 231, 232 (1930); Note, *Marketable "Goodwill" The Assignability in Gross of a Trade Name*, 35 YALE L.J. 496, 499 (1925 1926).

4. This Article will use the terms "the rule against assignment in gross" and "the rule of assignment with goodwill" interchangeably.

5. Lanham Act § 10, 15 U.S.C. § 1060(a)(1) (Supp. II 2003).

6. *See* JAMES L. HOPKINS, THE LAW OF UNFAIR TRADE, INCLUDING TRADE MARKS, TRADE SECRETS, AND GOOD WILL § 113 (1900); 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:1 124 (4th ed. 2005) (discussing the likelihood of confusion associated with trademark assignment and infringement and the goal of trademark law to prevent such confusion); EDWARD S. ROGERS, GOOD WILL, TRADE MARKS AND UNFAIR TRADING 29, 52 53 (1914).

7. For a reconstruction of trademark history, see generally The Trade Mark Cases, 100 U.S. 82 (1879); FRANK I. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE MARKS (The Law Book Exchange 1999) (1925); Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975); Benjamin G. Paster,

rule on trademark transferability: if a mark could not exist apart from its goodwill, the mark could not be assigned without it.

Regardless of this rule, however, trading in trademarks per se has always been a custom in the business world.[8] Generally, this trade has been conducted "through a widespread ignorance" or by "making the most of the exceptions" recognized by the law.[9] Unsurprisingly, trademark practices have traditionally provided instruments to minimize, if not legally overcome, the effects of Section 10. In the past decades, the development of the consumer society and the growing role of trademarks in the economy only have accelerated this trend.

Arguing against the disconnect between the legal requirements for trademark transferability and the reality of business practices, trademark owners and practitioners have thus repeatedly advocated for a regime of free trademark alienability, or assignment without goodwill. In support of this contention they have stressed that, contrary to common criticisms, assignments in gross are not harmful for consumers because consumer deception has nothing to do with trademark transfers, but only with the subsequent use of the marks by assignees.

In this sense, to elaborate on the examples above, what harm could be inflicted on the public if the new owner of the mark STARBUCKS chooses to change the quality of the STARBUCKS products? Likewise, would consumers be misled if BMW decides to change the style of the BEETLE car, or if the new owner of the mark COCA-COLA discontinues the production of COCA-COLA soft drinks? As long as the new owners of the marks adopt all reasonable means to inform the public, it seems in principle unlikely that the changes in the product quality or kind will harm or mislead the purchasing public.

Fully aware of the contradictions characterizing the rule on trademark assignment, the courts have traditionally adopted a pragmatic position in the enforcement of Section 10. In the past decades, however, this pragmatic approach has increasingly tolerated assignments de facto without goodwill. More recently, this trend has led the courts to uphold assignments whose direct purpose was not product continuity, but rather control of the assigned mark. Specifically, an analysis of the case law on trademark assignment indicates how the courts have provided trademark owners with a growing flexibility to transfer their marks by gradually relaxing the interpretation of what represents goodwill, a concept per se ambiguous and thus susceptible to inconsistent interpretations. Only in

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Trademarks Their Early History, 59 TRADEMARK REP. 551 (1969); Edward S. Rogers, *Some Historical Matter Concerning Trade Marks*, 9 MICH. L. REV. 29 (1910); Gerald Ruston, *On the Origin of Trademarks*, 45 TRADEMARK REP. 127 (1955).

8. Isaacs, *supra* note 3, at 1210.

9. *Id.*

very limited instances have the courts interpreted the rule conservatively and declared assignments invalid.

Trademark scholars have vehemently criticized the gradual judicial shift away from the goodwill requirement. This approach, they have argued, represents evidence that the courts are leaning toward protecting trademarks in gross contrary to the general principles of trademark law.[10] Practitioners and trademark owners, by contrast, have cheerfully saluted this trend and requested that Section 10 be changed accordingly.[11] Yet, whether arguing against or for it, neither scholars nor practitioners have provided a satisfactory analysis of the reasons behind the recent judicial approach. Particularly, they have neither considered if this approach amounts to a de facto abandonment of the current rule to the advantage of business practices, nor asked if it indicates a modern definition of trademark goodwill, reflecting the changes in the role of trademarks in the economy. Specifically, since the enactment of the Lanham Act, neither scholars nor practitioners have considered how the ambiguities surrounding the meaning of the concept of goodwill have affected the debate about trademark protection and, more specifically, the rule on trademark assignment.

Still, the major problem with the idea of trademark goodwill and the rule on trademark assignment is precisely that after almost a century since its introduction into trademark law, the definition of what represents goodwill remains vague and open-ended. As such, the concept of goodwill has traditionally been interpreted inconsistently by the courts, which have often exploited its ambiguity in support of their conclusions.[12] Unsurprisingly, the result has been contradictory case law and inconsistency as to what represents a valid assignment.

Arguing for an end to this inconsistency, this Article fills an important gap in the legal literature and provides an in-depth analysis of the concept of goodwill with particular attention to the rule on trademark assignment. The Article proceeds as follows. Part II offers an overview of the rule against assignment in gross, explores its rationale and legislative history, and considers the inconsistencies that have characterized its application in

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10. *See, e.g.*, Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1687 88 (1999).

11. *See generally* 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) (discussing whether there is a need for quality control in trademark licensing); 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) (advocating a change in the rule on trademark assignment for trademarks used as collateral).

12. *See generally* Lisa B. Martin & Stacey M. Berg, *Trademark Assignment: Avoiding a Naked Transfer*, 5 J. PROPRIETARY RTS. 8 (1994) (discussing several cases that consider the validity of trademark assignments).

the last century. Part III explores the concept of trademark goodwill. It summarizes the history and developments of this concept in trademark law, underlines the difficulties in providing a clear definition of goodwill, and considers the consequences of the lack of such a definition. Part IV provides a comprehensive study of international legislation on trademark assignment and considers how they have affected, and constrained, the interpretation of Section 10.

Part V concludes the Article and advocates for a change toward free trademark transferability, or assignment "with or without" goodwill, to eliminate the ambiguities and inconsistencies created by the current wording of Section 10. Part V argues that the rule of assignment "with goodwill" is failing to meet its purpose and suggests that, rather than focusing on a sterile and confusing requirement, the courts should focus directly on the assignee's use of the mark. If this use is likely to deceive the public, the courts should declare the assignments at issue void. Yet, if no likelihood of confusion or deception results from the transaction, the courts should allow the assignments to stand.

II. AN OVERVIEW OF THE RULE ON TRADEMARK ASSIGNMENT

Originally developed at common law, the rule against assignment in gross was codified in the federal trademark statute in 1905 and has remained untouched ever since. Its interpretation, however, has changed profoundly and has often led to inconsistent conclusions.

Part II provides an in-depth analysis of the rule on trademark assignment and highlights the problems relating to its enforcement. Traditionally, the courts required substantial or sufficient similarity between the marked products to uphold the validity of trademark transfers. In the past decades, however, the majority of the courts have upheld transactions where this similarity, at minimum, was doubtful. Still, judicial decisions remain contradictory and much confusion continues to characterize the application of the rule.

A. *The Trademark Debate and the Rule on Trademark Assignment*

The issue of trademark assignment has historically been at the center of the debate about the scope of trademark protection. Unsurprisingly, arguing that a mark often represents the most valuable aspect of a business, trademark owners have usually advocated for minimal restrictions on their ability to assign their marks.[13] Yet, while aware of

13. *See, e.g.*, Isaacs, *supra* note 3, at 1217 20 (summarizing the differences between the law on trademark assignment and business reality).

these requests, trademark law has traditionally construed the conditions for trademark transferability by focusing on consumer protection.[14]

Despite repeated discussion, it has in fact long been accepted that the rationale for trademark protection focuses primarily on consumer welfare.[15] Trademarks are not protected in gross, but merely as symbols of goodwill and as conveyers of information to consumers, and only as long as their improper use is likely to confuse the purchasing public. These limits on the scope of protection have historically been justified by the social cost of trademarks, that is, the right to exclude third parties from using common words or symbols to identify identical or similar products for a virtually unlimited period of time.[16] Accordingly, to prevent unjustified monopolies on words and symbols on the part of trademark owners, trademark law has generally protected only the goodwill of a mark and its function of informing consumers about the origin and the quality of the marked products.[17] As a direct result of this position, trademark law

14. 2 MCCARTHY, *supra* note 2, § 18:3. "The central purpose of the technical rules regarding the assignment of trademarks is to protect consumers . . . ." *Id*.

15. *See* William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 265 66 (1987). Trademarks have been protected, historically, because they provide information about the products to which they are affixed, guarantee a predictable quality, and reduce consumer costs of collecting information when they decide to make a purchase. *Id*. ("[T]rademark law . . . can best be explained on the hypothesis that the law is trying to promote economic efficiency."); *see also* Nicholas Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 523 (1988); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEM. ST. U. L. REV. 199, 213 (1991).

16. 2 MCCARTHY, *supra* note 2, § 18:2. *See generally* 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 24 25 (4th ed. 2005) (discussing different types of infringing uses and the infringing use of trademarks in noncompetitive goods and services). For a discussion on the monopolistic effect of trademarks, see GEORGE J. ALEXANDER, HONESTY AND COMPETITION 26 27 (1967); EDWARD HASTINGS CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 57 64 (8th ed. 1969); A.G. Papandreou, *The Economic Effect of Trademarks*, 44 CAL. L. REV. 503, 505 (1956).

17. *See* S. Rep. No. 79 1333, at 4 (1946). The report in the Senate that introduced the Lanham Act recognized the intertwining on goodwill and a trademark:

> Trade marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trademarks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.

Id.

has traditionally required that trademarks be assigned with their goodwill.[18]

Yet, the argument that a trademark can itself represent the most valuable asset of a business, and as such should deserve absolute protection and free alienability, has been repeated throughout the decades.[19] As this Article elaborates in Part III, common-law courts originally protected trademarks as property rights. This interpretation was abandoned at the beginning of the twentieth century on the grounds of consumer protection.[20] The adoption of the Lanham Act in 1946 confirmed this position and represented a milestone in trademark theory until present.[21]

Nevertheless, the idea that trademarks should be protected per se as property was never forgotten, and the past century has witnessed continued attempts to expand trademark protection beyond the limits of consumer protection.[22] In the past twenty years, these expansive efforts have reached unprecedented success. Trademark legislation has undergone several changes that have invariably pointed toward increased protection of trademarks per se.[23] This trend has also characterized the line of reasoning of the courts, which have increasingly protected trademarks beyond consumer welfare and adopted an approach based on property rights.[24]

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18. *See supra* notes 2 3; *see also* Thomas F. Cotter, *Do Federal Uses of Intellectual Property Implicate the Fifth Amendment?*, 50 FLA. L. REV. 529, 566 n.219 (1998) (highlighting that [t]rademarks are assignable, though only if the owner also transfers to the assignee the goodwill symbolized by the mark").

19. *See* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 819 (1926 1927). Schechter promoted the idea, originally espoused in Germany in the late nineteenth century, that a trademark represents one of the most valuable business assets in establishing product acceptance and consumer loyalty. *Id*. "The true functions . . . are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public." *Id.* at 818; *cf.* Ralph S. Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1205 06 (1948) *reprinted in* 108 YALE L.J. 1619, 1657 59 (1999). "In an acquisitive society, the drive for monopoly advantage is a very powerful pressure. Unchecked, it would no doubt patent the wheel, copyright the alphabet, and register the sun and moon as exclusive trade marks." *Id.* at 1659.

20. *See* discussion *infra* Part III.A.

21. *See supra* note 17, at 3.

22. *See, e.g.*, Frank H. Easterbrook, *Intellectual Property is Still Property*, 13 HARV. J.L. & PUB. POL'Y 108, 118 (1990) (arguing that "we should treat intellectual and physical property identically in the law").

23. One of the most explicit examples of amendment of national trademark law was the adoption of the Federal Trademark Dilution Act of 1995, Pub. L. No. 104 98, §§ 3(a) & 4, 109 Stat. 985 (codified as amended at 15 U.S.C. §§ 1125, 1127 (2000)).

24. *See, e.g.*, K Mart Corp. v. Cartier, Inc., 485 U.S. 176, 185 (1988) ("Trademark law, like contract law, confers private rights, which are themselves rights of exclusion."); San Francisco Arts & Athletics, Inc. v. United States Olympic Comm., 483 U.S. 522, 525, 527 28, 532 (1987) (prohibiting the use of term "Olympic" in "Gay Olympic Games" and stating that "when a word

Particularly, the courts have often affirmed that consumer confusion does not necessarily represent the principal basis for trademark protection[25] and have repeatedly protected trademarks because of the impairment to the marks themselves.[26] As this Article elaborates in the next paragraphs, this trend has invariably affected all areas of trademark law, including the rule on trademark assignment.

B. *Trademark Assignment "with Goodwill"*

Section 10(a)(1) of the Lanham Act states the conditions for trademark transferability.[27] According to the provision, "[a] registered mark or a mark for which an application to register has been filed shall be assignable *with the good will* of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark."[28] To prevent traffic in trademark applications, Section 10(a)(1) also prohibits the assignment of intent-to-use applications before the applicant has filed a statement to verify that the mark is used in the course of trade by stating that "no application to register a mark under section 1(b) of this title shall be assignable prior to the filing of an amendment under section 1(c) of this title to bring the application into

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acquires value 'as the result of organization and the expenditure of labor, skill, and money by an entity, that entity constitutionally may obtain a limited property right in the word") (quoting Int'l News Serv. v. Associated Press, 248 U.S. 215, 239 (1918)); Krebs Chrysler Plymouth, Inc. v. Valley Motors, Inc., 141 F.3d 490, 498 (3d Cir. 1998) (stating that franchises and "[t]rademarks are property" and franchises are part of the estate for purposes of bankruptcy proceedings); Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 206 (2d Cir. 1979) (affirming that trademarks are in the nature of a "property right" and do not need to yield to the First Amendment); Int'l Bancorp, L.L.C. v. Societe Des Bains De Mer, 192 F. Supp. 2d 467, 488 (E.D. Va. 2002) ("trademark rights have the characteristics of property"); Anthony Distrib., Inc. v. Miller Brewing Co., 904 F. Supp. 1363, 1366 (M.D. Fla. 1995) ("[T]he trademark is the property of the corporation which can be independently bought or sold.").

25. *See* Lemley, *supra* note 10, at 1697 99 (noting that courts have increasingly shown their willingness to spread new legal rules, such as dilution laws, beyond their natural scope, and are repeatedly treating trademarks "as things owned in their own right, rather than as advertising connected with a particular product").

26. *See* Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 398 (1990). "McDonald's claim to control non food uses of the prefix 'Mc,' or George Lucas's attempt to exclude public interest groups from utilizing the title of his movie, 'Star Wars' are clear evidence that courts have begun giving trademark owners more control over their marks." *Id.*

27. Trademark assignment is defined as "a transfer by a party of all or part of its right, title and interest in a . . . registered mark or a mark for which an application to register has been filed." 37 C.F.R. § 3.1 (2005).

28. Lanham Act § 10, 15 U.S.C. § 1060(a)(1) (Supp. II 2003) (emphasis added).

conformity with section 1(a) of this title or the filing of the verified statement of use under section 1(d)."[29]

Trademark assignments without associated goodwill are invalid and can lead to the cancellation of the assigned mark if a mark is used to misrepresent the source of the marked products.[30] According to Section 14 of the Lanham Act, "[a] petition to cancel . . . a mark . . . may . . . be filed . . . at 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."[31] As indicated by Section 45 of the Lanham Act, trademark assignments without goodwill can also lead to the abandonment of the assigned mark[32] "[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."[33]

Section 10(a)(2) defines the extent of the rule on trademark assignment, limits the requirement of the transfer of goodwill to only the marks that are effectively transferred, and does not extend this requirement to other marks that are used by the assignor in the same business. Specifically, Section 10(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."[34]

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29. *Id.*

30. *See, e.g.*, PepsiCo, Inc. v. Grapette Co., 416 F.2d 285, 290 (8th Cir. 1969); H.H. Scott, Inc. v. Annapolis Electroacoustic Corp., 195 F. Supp. 208, 216 17 (D. Md. 1961); *see also* U.S. PATENT & TRADEMARK OFFICE, TRADEMARK MANUAL OF EXAMINATION PROCEDURES § 501.01(a) (4th ed. 2005), *available at* http://www.uspto.gov/web/offices/tac/tmep/0500.htm (last visited May 23, 2005). "The primary purpose of this provision is to ensure that a mark may only be assigned along with some business or goodwill, and to prevent 'trafficking' in marks." *Id.*

31. Lanham Act § 14(3), 15 U.S.C. § 1064(3) (2000). The text of Section 10 as enacted in 1946 included the language "*[p]rovided*, That any assigned registration may be cancelled at any time if the registered mark is being used . . . so as to misrepresent the source of the goods or services in connection with which the mark is used." Lanham Act, Pub. L. No. 489, § 10, 60 Stat. 432 (1946). This language was cancelled from the provision in 1962. Lanham Act, Pub. L. No. 87 772, Sec. 6, § 10, 76 Stat. 770 (1962); *see* discussion *infra* Part II.B.2.

32. *See, e.g.*, Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 310 (S.D.N.Y. 2000) ("'Minor activities' are not sufficient to avoid a finding of abandonment through nonuse."); Hiland Potato Chip Co. v. Culbro Corp., 216 U.S.P.Q. 352, 354 (S.D. Iowa 1981) ("I am of the opinion that defendant will nevertheless probably succeed on the merits on the basis of abandonment.").

33. Lanham Act § 45, 15 U.S.C. § 1127 (2000).

34. Lanham Act § 10, 15 U.S.C. § 1060(a)(2) (Supp. II 2003). The provision was introduced into the Lanham Act in 1946. *See* discussion *infra* Part II.B.2.

Section 501.06 of the Trademark Manual of Examination Procedure (TMEP) of the United States Patent and Trademark Office (USPTO)[35] further limits the extent of the rule of Section 10, providing that trademark owners are free to assign their marks with the associated goodwill 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.[36] According to the provision, two or more parties may also own a mark jointly, and a joint owner may assign her interest in the mark independently from the other owners.[37] Likewise, the sole owner of a mark can assign only "a portion of his or her interest (e.g., fifty percent) in the mark to another party," while retaining control of the remaining portion of the mark.[38]

As for required formalities, Section 10(a)(3) of the Lanham Act provides that "[a]ssignments shall be by instruments in writing duly executed."[39] Acknowledgment or record of the assignment with the USPTO constitutes prima facie evidence of execution[40] and guarantees the validity of the transfer against subsequent purchasers as long as it is recorded within three months from the date of the assignment or prior to the subsequent purchase.[41]

1. Rationale of the Rule

As indicated earlier, the rule of assignment "with goodwill" has traditionally been justified on the basis of the general principles of trademark protection that trademarks exist only as symbols of goodwill and that they are not protected per se but for the information they convey to consumers.[42]

The principle that trademarks do not exist per se but only as symbols of goodwill was first adopted at common law and subsequently codified into the federal trademark statute.[43] This principle originated in the

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35. U.S. PATENT & TRADEMARK OFFICE, *supra* note 30, at § 501.06.

36. *Id*.

37. *Id.* "A trademark may be owned jointly by two or more persons . . . and a joint owner may assign his or her interest in a mark." *Id.*

38. *Id*.

39. Lanham Act § 10, 15 U.S.C. § 1060(a)(3) (Supp. II 2003).

40. *Id.* "Acknowledgement shall be prima facie evidence of the execution of an assignment, and when the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office, the record shall be prima facie evidence of execution." *Id.*

41. Lanham Act § 10, 15 U.S.C. § 1060(a)(4) (Supp. II 2003). "An assignment shall be void against any subsequent purchaser for valuable consideration without notice, unless the prescribed information reporting the assignment is recorded in the United States Patent and Trademark Office within 3 months after the date of the assignment or prior to the subsequent purchase." *Id.*

42. *See* 3 MCCARTHY, *supra* note 6, § 23:1.

43. *See* discussion *infra* Part III.A.

assumption that common words and symbols belong to society as a whole and cannot be appropriated by a few trademark owners to the detriment of the general public.[44] Instead, the courts affirmed that what could be appropriated and deserved protection was a mark's goodwill, that is, the ability of a mark to attract and retain consumers and to communicate to the public the qualities and characteristics of the marked products.[45] The adoption of this principle directly affected the rule on trademark transferability: if a mark could exist only as a symbol of goodwill, it could not be assigned per se but necessarily with its goodwill.[46]

The principle that trademarks do not deserve protection per se but only for their function as conveyers of commercial information also started at common law and became a milestone in trademark theory at the beginning of the twentieth century.[47] As a corollary to this principle, the courts traditionally affirmed that this protection was linked to the fact that a mark has to convey accurate information so as to assure the public of the

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44. *See* 2 MCCARTHY, *supra* note 2, § 18:2.

45. *See, e.g.*, United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918). A trademark's "function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his; and it is not the subject of property except in connection with an existing business." *Id.*

46. *See* Grismore, *supra* note 3, at 491.

> [I]t is obviously a truism to say that one cannot assign a trade mark in gross. Of course one cannot do this, since one does not own a mark in gross, or at all, for that matter. . . . [a]ll one can do is to transfer to another one's acquired good will or expectation of custom, and confer upon that other the right which one had of keeping third persons from stealing it by preventing them from simulating the marks and symbols by which it is realized.

Id.; *see, e.g.*, Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) ("A trade name or mark is merely a symbol of goodwill; it has no independent significance apart from the goodwill it symbolizes. . . . [A] trademark cannot be sold or assigned apart from to [sic] goodwill it symbolizes . . . ."); Mister Donut of Am. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969) ("The law is well settled that there are no rights in a trademark alone and that no rights can be transferred apart from the business with which the mark has been associated.").

47. *See* Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 TRADEMARK REP. 305, 326 29 (1978).

> The result of the realist attack brought about changes in the rhetoric of judges and commentators, though the doctrinal changes were less dramatic. The property justification of protection was replaced by arguments in favor of protecting business good will or values resulting from use. Protecting the public from confusion and deception became a more prominent rationale than protecting property.

Id. at 329.

continuity of the marked products.[48] This continuity did not mean that trademark owners necessarily had to offer identical products. Rather, the courts consistently stated that product continuity was satisfied as long as consumers were getting products that were *substantially similar* to those previously identified by the same mark.[49]

Yet, considering that trademark assignment in gross could jeopardize this substantial similarity between products,[50] the majority of the courts adopted the position that trademarks ought to be transferred with the associated goodwill, lest assignments could be deemed invalid, to reduce the likelihood that assignees might change the quality of the products while still using the same mark.[51] Notably, the courts argued, assignment without goodwill could create a breach in product continuity that could in turn lead to confusion if consumers were unaware of the transfer and continued to purchase the new products, relying on the quality of the previous ones.[52] Hence, to require that trademarks be transferred with

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48. *See, e.g.*, Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 363 64 (2d Cir. 1959); Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co., 221 F. Supp. 576, 582 84 (E.D. Wis. 1963), *aff'd*, 330 F.2d 667 (7th Cir. 1964).

49. *See, e.g.*, *Marshak*, 746 F.2d at 930 (stating that courts have upheld assignments when the assignee is producing a product substantially similar to that of the assignor so that consumers will not be deceived or harmed).

50. *See, e.g.*, PepsiCo, Inc. v. Grapette Co., 416 F.2d 285, 287 88 (8th Cir. 1969). "Inherent in the rules involving the assignment of a trademark is the recognition of protection against consumer deception." *Id.* at 288; *see also* Glow Indus. v. Lopez, 273 F. Supp. 2d 1095, 1107 (C.D. Cal. 2003). "Goodwill must accompany the assignment of a trademark 'to maintain the continuity of the product or service symbolized by the mark and thereby avoid deceiving or confusing customers." *Id.* (quoting E & J. Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280, 1289 (9th Cir. 1992)); Vittoria N. Am., L.L.C. v. Euro Asia Imps., Inc., 278 F.3d 1076, 1083 (10th Cir. 2001). In *Vittoria North America*, the court stated:

> The purpose for requiring transfer of goodwill along with the transfer of the trade or service mark is to ensure that consumers receive accurate information about the product or service associated with the mark.
>
> . . . "The courts have upheld such assignments if they find that the assignee is producing a product or performing a service substantially similar to that of the assignor and that the consumers would not be deceived or harmed."

Id. (quoting *Marshak*, 746 F.2d. at 930).

51. 2 MCCARTHY, *supra* note 2, § 18:10. "[I]f a mark is assigned without associated good will, the assignee will immediately use the mark on goods or services not having any continuity with or similarity to those sold by the assignor under the mark." *Id.*

52. *See, e.g.*, Green River Bottling Co. v. Green River Corp., 997 F.2d 359, 362 (7th Cir. 1993). "A trademark cannot be sold 'in gross,' . . . . The discontinuity would be too great. The consumer would have no assurance that he was getting the same thing (more or less) in buying the product or service from its new maker." *Id.*; *see also* Sugar Busters, L.L.C. v. Brennan, 177 F.3d 258, 266 (5th Cir. 1999) (declaring the plaintiff's mark valid "only if plaintiff also acquired the goodwill that accompanies the mark"); 2 MCCARTHY, *supra* note 2, at § 18:3. "Use of the mark by

goodwill could avoid "a fraud on the purchasing public who reasonably assume that the mark signifies *the same thing*, whether used by one person or another."[53]

Additionally, the rule of assignment "with goodwill" has been traditionally justified by the assumption that transfers without goodwill can entail an undeserved economic advantage for assignees to the detriment of the purchasing public, particularly when the quality of the assignees' products is lower than those of the assignors.[54] Even if in some instances consumers may benefit from quality changes, notably when the quality of the assignees' products is higher, it has been commonly affirmed that these changes could result in increasing consumer search costs, thus frustrating one of the most important functions of a mark: to promote economic efficiency by reducing consumer search costs.[55] Finally, these changes could directly thwart consumer expectations and thereby cause damage when consumers unintentionally purchase products qualitatively different from what they expect, regardless of the high, low, or average quality level of these products.[56]

2. Legislative History

The rule against assignment in gross was first developed at the end of the nineteenth century by common-law courts, which generally required that trademarks be assigned with the associated business.[57] Congress incorporated this rule into Section 10 of the Trademark Act of 1905 that stated "every registered trade-mark . . . shall be assignable in connection with the good will of the business in which the mark is used."[58] According

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the assignee in connection with a different good will and different product may result in a fraud on the purchasing public, who reasonably assume that the mark signifies the same nature and quality of goods or services, whether used by one person or another." *Id.* (citations omitted).

53. *Marshak*, 746 F.2d at 929 (emphasis added).

54. *See* WILLIAM M. LANDES & RICHARD A. POSNER, THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW 184 85 (2003) (stressing that if consumers know about the transfer, the assignee attaching the new mark to his goodwill will not generally enable him to obtain a higher price for his products).

55. *Id.* at 168, 186.

56. In *PepsiCo, Inc. v. Grapette Co.*, the court explained:

> Inherent in the rules involving the assignment of a trademark is the recognition of protection against consumer deception. Basic to this concept is the proposition that any assignment of a trademark and its goodwill (with or without tangibles or intangibles assigned) requires the mark itself be used by the assignee on a product having substantially the same characteristics.

416 F.2d 285, 288 (8th Cir. 1969).

57. *See infra* Part II.C.

58. Trademark Act of 1905, ch. 592, § 10, 33 Stat. 724, 727 (repealed 1946).

to the provision, assignments in gross could lead to the mark's cancellation at any time if the mark was used to misrepresent the origin of the marked goods.[59]

Yet, in the 1920s, a trend questioning the validity and the rationale for the rule of assignment "with goodwill" started to grow among trademark experts. The legislative history of the Lanham Act reveals that, during the debates that preceded the adoption of the 1946 Act,[60] proponents of broader trademark protection sought to change the wording of Section 10.[61] As a result of these efforts, early versions of Section 10 authorized trademark transfers "with or without the goodwill of the business,"[62] or "upon such terms and conditions as the parties may agree."[63] Still, those who opposed a deviation from the common-law rule prevailed, and Section 10 of the Lanham Act confirmed the text of the 1905 provision into the newly adopted trademark statute.[64] Likewise, the provision confirmed the rule according to which a mark could be cancelled at any time if it were used to deceive the public.[65]

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59. *Id.*

60. In defending the case for a change from the 1905 rule, Edward S. Rogers stated to a House Committee in 1939:

> [U]nder modern conditions goodwill does not mean personal good will. It does not mean personal reputation. . . . The goodwill is appurtenant to the trade mark, not the trade mark to the goodwill. . . . It is a departure I admit from everything we have had in this country. The idea, however, that deception will result from the permission to transfer trade marks without goodwill, seems to me an entire delusion. . . . This deception has nothing to do with the assignment. It only has to do with the use of the mark by the assignee, and that can always be corrected by labeling . . . . It is just like any other commercial fraud, it hasn't anything to do with the assignment.

Trade marks: Hearings Before the Comm. on Patents Subcomm. on Trade marks *on H.R. 4744*, 76th Cong. 81 (1939) (testimony of Edward S. Rogers).

61. For a general reconstruction of the debates and drafts that preceded the adoption of the final text of Section 10 of the Lanham Act, see ROBERT, *supra* note 3, at 23 24; *see also* 2 MCCARTHY, *supra* note 2, § 18:10; Halliday, *supra* note 3, at 970 71.

62. When the trademark bill was introduced in the Seventy fifth Congress, it provided that "[a] registered trade mark shall be assignable either with or without the goodwill of the business." H.R. 9041, 75th Cong. § 10 (1938). The same language was retained when the bill was reintroduced in the Seventy sixth Congress. H.R. 4744, 76th Cong. § 10 (1939); *see* ROBERT, *supra* note 3, at 23 24; Halliday, *supra* note 3, at 970.

63. H.R. 102, 77th Cong. § 10 (1941).

64. *See* Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 411 (1999). "Under the rules of statutory interpretation, Congress's conscious consideration of this issue and its express change of the assignment provision to track the assignment provision of the 1905 Act provides the clearest possible indication that Congress intended to retain the traditional prohibition on assignment in gross." *Id.*

65. Trademark Act of 1946 (Lanham Act), Pub. L. No. 79 489, § 10, 60 Stat. 427, 432.

Nevertheless, with the adoption of the Lanham Act, the extent of the provision was partially weakened from its original version. Particularly, the language of the 1946 version of Section 10 provided that, to be valid, assignments did not require the transfer of "the good will of the business connected with the use of and symbolized by any other mark used in the business."[66] This rule, which is currently part of Section 10(a)(2),[67] represented a clear break from the previous interpretation that trademark assignment required the transfer of the business in which a mark was used.[68] Instead, the new provision recognized that a mark, and its goodwill, could be assigned separately from the business, thus incorporating some of the ideas of those who advocated free trademark transferability. Starting in 1946, trademark owners could assign their marks individually and still retain the ownership of their businesses.[69]

Throughout the past sixty years, this erosion of the original extent of the rule has continued. Notably, in 1962, the wording "*[p]rovided*, [t]hat any assigned registration may be cancelled at any time if the registered mark is being used by, or with the permission of, the assignee so as to misrepresent the source of the goods or services in connection with which the mark is used" was stricken from the original Section 10[70] to be incorporated, as a general requirement applying to all registrants, into Section 14 of the Lanham Act.[71] Despite the fact that this amendment only

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66. *Cf.* Lanham Act § 10, 15 U.S.C. § 1060 (a)(2) (Supp. II 2003).

67. *Id.*

68. *See* ROBERT, *supra* note 3, at 25 26.

69. *See* Halliday, *supra* note 3, at 973. "The purpose of this provision, as stated to the congressional committee, is to permit 'a registrant who owns more than one mark to dispose of one mark if he wishes to do so.'" *Id*; *cf.* Indep. Baking Powder Co. v. Boorman, 175 F. 448, 453 (D.N.J. 1910).

70. The originial 15 U.S.C. § 10 (1946) provided that,

> A registered mark or a mark for which application to register has been filed shall be assignable with the goodwill of the business in which the mark is used, or with that part of the goodwill of the business connected with the use of and symbolized by the mark, and in any such assignment it shall not be necessary to include the goodwill of the business connected with the use of and symbolized by any other mark used in the business or by the name or style under which the business is conducted: *Provided*, That any assigned registration may be canceled at any time if the registered mark is being used by, or with the permission of, the assignee so as to misrepresent the source of the goods or services in connection with which the mark is used.

Trademark Act of 1946, Pub. L. No. 79 489, § 10, 60 stat. 427, 431 32.

71. S. REP. NO. 87 2107, at 5 6 (1962).

> Section 6 of the bill proposes to amend section 10 of the act by canceling the following proviso: "*Provided*, That any assigned registration may be canceled at

eliminated a redundancy in the law without affecting the possibility for the courts to cancel a mark, the courts have been increasingly reticent to cancel trademarks since 1962, even when they have declared assignments void.[72]

More recently, the 1988 Trademark Revision Act[73] amended the language of Section 10 by introducing additional requirements for the assignment of intent-to-use (ITU) trademark applications[74] which were also introduced into the Lanham Act by the 1988 Act.[75] Because the assignment of ITU applications created concerns trade in trademarks not yet in use being what Section 10 intends to prevent the provision was amended by providing that ITU applications cannot be assigned until the applicant has filed a statement declaring that the mark has been used in the course of trade.[76] In 1998, however, as a result of the Trademark Law Treaty Implementation Act,[77] which followed the ratification of the Trademark Law Treaty (TLT),[78] this requirement was substituted by

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> any time if the registered mark is being used by, or with the permission of, the assignee so as to misrepresent the source of the goods or services in connection with which the mark is used." The purpose in canceling this proviso is to incorporate it in broader form, as a requirement applying to any registrant, in section 14, which is a more appropriate part of the act.

Id.

72. *See, e.g.*, Mister Donut of Am., Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969); Societé de Developments v. Int'l Yogurt Co., 662 F. Supp. 839, 841 (D. Or. 1987). *But see* Interstate Net Bank v. Netb@nk, Inc., 348 F. Supp. 2d 340, 358 (D.N.J. 2004).

73. Trademark Revision Act of 1988, Pub. L. No. 100 667, Sec. 112, § 1060, 102 Stat. 3935, 3939.

74. *Id.* at sec. 112, § 1060.

75. *Id*. at sec. 103, § 1051(b) (codified as amended at 15 U.S.C. § 1051(b) (2000)).

76. *See* S. REP NO. 100 515, at 31 (1988).

> Section 12 of the bill amends Section 10 of the Lanham Act . . . to place restrictions on the assignment of intent to use applications . . . New language is added to this section to prohibit the assignment of an intent to use application prior to the statement of use being filed, unless the application is assigned to a successor to the business of the applicant to which use of the mark pertains. This new language is consistent with the principle that a mark may be validly assigned only with the business or goodwill attached to the use of the mark and will discourage trafficking in marks.

Id.

77. Pub. L. No. 105 330, 112 Stat. 3064 (1998), *available at* http://www.uspto.gov/web/offices/com/sol/tmlwtrty/index.html (last visited May 23, 2005).

78. Trademark Law Treaty, Oct. 28, 1994, S. Treaty Doc. No. 105 35 (1998), 2037 U.N.T.S. 35 [hereinafter TLT].

permitting the assignment of ITU applications after the filing of an amendment to allege use rather than a statement of use.[79]

Still, despite these changes in favor of a less stringent standard, Section 10 has successfully resisted all attempts to eliminate the requirement of transfer of goodwill as the *sine qua non* for the validity of trademark assignments. Particularly, the provision resisted the pressure to shift toward assignment "with or without goodwill" during the international negotiations of the North America Free Trade Agreement (NAFTA)[80] and the Agreement on Trade Related Aspects to Intellectual Property Rights (TRIPS)[81] in the late 1980s.[82] Similarly, Congress disregarded an amendment proposed by the International Trademark Association (INTA) in its 1998 Model Law Guidelines that again favored a rule of assignment "with or without goodwill,"[83] though the proposed amendment provided that a mark should be cancelled when used to mislead the public.[84]

C. *Judicial Developments: Tangible, Intangible, and Irrelevant Goodwill*

Even though the language of the rule of assignment "with goodwill" has remained untouched, its application has nonetheless changed profoundly in the past century. These changes have directly followed the developments in the interpretation of the concepts of trademark goodwill and continuity between products. Unsurprisingly, due to the many

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79. Trademark Law Treaty Implementation Act, Pub. L. No. 105 330, 112 Stat. 3064 (1998), *available at* http://www.uspto.gov/web/offices/com/sol/tmlwtrty/index.html (last visited Feb. 20, 2005).

80. North American Free Trade Agreement, Dec. 17, 1992, 32 I.L.M. 289 (1993) [hereinafter NAFTA].

81. Agreement on Trade Related Aspects of Intellectual Property Rights, opened for signature April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS RESULTS OF THE URUGUAY ROUNDS vol. 31, 1869 U.N.T.S. 299 (1995) [hereinafter TRIPS].

82. *See generally* Susan Barbieri Montgomery & Richard J. Taylor, *Key Issues, in* WORLDWIDE TRADEMARK TRANSFERS: LAW AND PRACTICE 1 (Susan Barbieri Montgomery & Richard J. Taylor eds., 1995) (highlighting the differences between the United States and the majority of other countries on the approach to trademark assignment). Yet, as this Article highlights in Part IV, several inconsistencies exist between Section 10 and the provisions of TRIPS and NAFTA. *See* discussion *infra* Part IV.B.

83. International Trademark Association, *Model Law Guidelines: A Report on Consensus Points for Trademark Laws*, § 12.2 (May 1998), *available at* http://www.inta.org/downloads/tap modellaw1998.pdf (last visited May 23, 2005). "Assignment of trademarks should be permitted with or without the goodwill of a business." *Id.*

84. *Id.* at § 4.2 "[A] mark should not be registrable by the applicant to the extent that . . . it is [of] such [a] nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or services . . . ." *Id.*

ambiguities surrounding these concepts, case law has proven contradictory and difficult to predict.

At common law, the courts repeatedly affirmed that the critical inquiry for the validity of an assignment was whether a simultaneous transfer of tangible business assets had occurred.[85] Without such a concurrent transfer, the courts held that assignments were invalid and, in most instances, cancelled the mark at issue or declared it abandoned.[86] In addition, assignments were not valid if the assignor continued to sell similar products under a different trade name after the transfer of the mark.[87] This position reflected a very narrow view of trademarks as indicators of commercial origin and interpreted trademark assignment as necessarily involving a change in the ownership of the business in which the mark was used.

This conservative approach, including the fact that an assignment was void if the assignor produced similar products under another name after the transfer,[88] continued under the rule of the 1905 Act.[89] Starting in the 1930s, however, the courts drifted away from the assumption that the

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85. *See* MacMahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 468, 474 75 (8th Cir. 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. An assignment or license without such a transfer is totally inconsistent with the theory upon which the value of a trade mark depends . . . .

Id.

86. Bulte v. Iglehart Bros., 137 F. 492, 499 (7th Cir. 1905) ("To uphold such a transfer would be to ignore the fundamental office of a trade mark, would be to disregard its purpose and object, would be to sanction a fraud upon the public purchasing the article.").

87. *See, e.g.*, *id.*; *MacMahan*, 113 F. at 474 76.

88. *See, e.g.*, Indep. Baking Powder Co. v. Boorman, 175 F. 448, 453 54 (C.C.D.N.J. 1910).

> If a man can establish and then assign 4 or 5 trade marks, and still continue his original business unimpaired, he can, with almost equal facility, establish and assign 400 or 500. The ability to do this might constitute him a successful manufacturer of trade marks, . . . but the result could work only disaster [among] the public and legitimate trade mark owners.

Id. at 453.

89. *See* Sexton Mfg. Co. v. Chesterfield Shirt Co., 24 F 2d 288, 288 (D.C. Cir. 1928); Carroll v. Duluth Superior Milling Co., 232 F. 675, 680 (8th Cir. 1916); Sauers Milling Co. v. Kehlor Flour Mills Co., 39 App. D.C. 535, 542 (D.C. Cir. 1913); *Indep. Baking Powder*, 175 F. at 451; Eiseman v. Schiffer, 157 F. 473, 475 76 (C.C. S D.N.Y. 1907). The Supreme Court affirmed Section 10 of the 1905 Act in 1918 in *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918). "The asserted doctrine is based upon the fundamental error of supposing that a trade mark right is a right in gross or at large, like a statutory copyright or a patent for an invention, to either of which, in truth, it has little or no analogy." *Id*.

assignment of a mark had to necessarily entail the transfer of the whole business in which a mark was used. By acknowledging the difference between goodwill and business, the courts started to adopt the position that an assignment was valid as long as the assignee had acquired the part of the business that was necessary for producing the same goods as those manufactured by the assignor.[90]

The courts also continued to require transfer of business assets after the adoption of the Lanham Act.[91] Yet, as a result of the introduction of Section 10(a)(2), the courts started to follow a broader approach, particularly that an assignor could assign only one of her marks and still retain her business.[92] Likewise, the courts increasingly acknowledged that transfer of tangible assets was not essential for a valid transfer of goodwill as long as the assignee's products were substantially similar to those manufactured by the assignor.[93] Starting in the 1960s, the courts further relaxed this interpretation and gradually recognized that assignments were also valid if tangible assets had not been transferred and the products identified by a mark were not substantially similar but only similar in kind.[94] These changes directly reflected the mounting skepticism toward a too stringent criterion for the validity of trademark assignments, and generally, the open debate about the scope of trademark protection.

Hy-Cross Hatchery, Inc. v. Osborne represented the first break from the traditional test.[95] In 1962, the Court of Custom and Patent Appeals upheld an assignment where the assignee had used the mark on a product

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90. *See* Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc., 43 F.2d 937, 939 (2d Cir. 1930). Although the court found an assignment invalid, its focus was on the fact that the assignee did not receive the recipe for the product previously associated with the mark and the assignee could not supply the genuine 4711 Eau de Cologne. *Id.* "On the whole we think the plaintiff should not be protected in the use of a mark which he can himself use only deceptively." *Id.*; *c.f. Sauers Milling*, 39 App. D.C. at 542 ("[A]n assignment of a trademark, and nothing more, being unaccompanied *by the business or good will* in which the trademark had been used, is ineffectual for any purpose except to be evidence of an abandonment of the mark by the assignor.") (emphasis added).

91. *See* Nettie Rosenstein, Inc. v. Princess Pat, Ltd., 220 F.2d 444, 453 (C.C.P.A. 1955) (stating that trademark transfers must be accompanied by some business associated with the mark); Browning King Co. of N.Y. v. Browning King Co., 176 F.2d 105, 106 (3d Cir. 1949) (stating that trademarks and goodwill cannot be transferred in gross, but are an integral part of and go with the business); Old Charter Distillery Co. v. Ooms, 73 F. Supp. 539, 541 (D.D.C. 1947) (stating that "ownership of a trade mark may not be transferred except in connection with a conveyance of the business or of good will").

92. *See* discussion *supra* Part II.B.2. *But see Indep. Baking Powder Co.*, 175 F. at 453 ("[N]either the good will of a business, nor the business itself, can be thus split up.").

93. *See, e.g.*, Old Charter Distillery Co. v. Ooms, 73 F. Supp. 539 (D.D.C. 1947) (holding valid the assignment of a trademark applied by seller to whisky and by buyer to all kind of liquors).

94. Lunney, *supra* note 64, at 410 17 (describing how the break with the traditional rule regarding trademark assignment developed in the early 1960s).

95. Hy Cross Hatchery, Inc. v. Osborne, 303 F.2d 947, 949 50 (C.C.P.A. 1962). For a critical review of the decision, see Lunney, *supra* note 64, at 412.

that was not of the exact same kind as that of the assignor.[96] Formally, the transaction involved the transfer of the mark together with "'that part of the goodwill of the business connected with the use of and symbolized by the mark.'"[97] The assignor, however, did not transfer anything but the mark to the assignee but the court still found the transfer valid and assumed that goodwill had passed to the assignee along with the mark itself.[98]

The *Hy-Cross* ruling was heavily criticized,[99] and the decisions that followed returned to a more conservative interpretation of the rule particularly to requiring the transfer of tangible assets as evidence of the transfer of goodwill.[100] Still, by the beginning of the 1970s, most courts integrated the *Hy-Cross* principle into their rulings and started to declare assignments valid as long as sufficient continuity or substantial similarity, rather than identity, existed between the marked goods.[101] Specifically, the courts generally affirmed that trademark assignments did not require transfer of tangible assets[102] and that transfer of goodwill could

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96. *Hy Cross*, 303 F.2d at 950.

97. *Id.* at 949 (quoting Lanham Act § 10, 15 U.S.C. § 1060 (Supp. II 2003)).

98. *Id.* at 950.

99. *See, e.g.*, Lunney, *supra* note 64, at 412 14. Lunney has characterized the decision as:

> nonsensical, substituting a play on words at the key juncture for the reasoning and analysis usually associated with judicial opinions. Taken literally, the opinion appears to collapse the distinction between the trademark and its associated goodwill, and to eliminate the tie between goodwill and the underlying business in which the mark had been used.

Id. at 412 13 (citations omitted).

100. *See* PepsiCo, Inc. v. Grapette Co., 416 F.2d 285, 287 89 (8th Cir. 1969). The court declared an assignment void because the assignee "did not acquire any of the assets of Fox, did not acquire any formula or process by which the Fox syrup was made, and then changed the type of beverage altogether." *Id*. at 290 (citations omitted); *see also* Mister Donut of Am., Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969).

101. Even in 1969, the court in *PepsiCo, Inc.* explained:

> Inherent in the rules involving the assignment of a trademark is the recognition of protection against consumer deception. Basic to this concept is the proposition that any assignment of a trademark and its goodwill (with or without tangibles or intangibles assigned) requires the mark itself be used by the assignee on a product having substantially the same characteristics.

416 F.2d at 288.

102. *See* Money Store v. Harriscorp Fin., Inc., 689 F.2d 666, 677 78 (7th Cir. 1982); 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, however, 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, 984 (C.C.P.A. 1965) ("It is a matter of no significant import with

be interpreted as intangible goodwill.[103] With a few conservative exceptions, the majority of the judiciary followed this line of reasoning until the 1990s.[104]

Most likely as a result of the changes in the economy and the growth in the role of trademarks, the interpretation of the rule stretched even further in the 1990s. This trend invariably favored trademark alienability as the courts gradually shifted the standard of substantial similarity toward the broader standard of sufficient similarity.[105] In some instances, they also affirmed that the use of the mark on non-totally different products did not affect the validity of trademark transfers, as long as consumers were not likely to be confused.[106] This approach has been vehemently criticized as further evidence of the trend of propertizing trademark law and as contrary to the rationale of trademark protection.[107] Still, disregarding these criticisms, the courts continued to uphold assignments whose validity was, at a minimum, doubtful under the rule of Section 10.[108] Yet, the courts never argued that trademarks should be transferred in gross, that is, they never expressly disregarded Section 10; they simply adopted a broad definition of goodwill that the transfer of a mark implies the transfer of

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reference to its impingement upon the validity of the assignment . . . that no tangible assets were transferred thereunder nor that the assignor held the mark only one day prior to assigning same to appellee.”).

103. *See* discussion *infra* Part III.B (highlighting the differences between goodwill and business).

104. *See, e.g.*, Lunney, *supra* note 64, at 414 15 (describing the increasing use by the judiciary of the test of substantial similarity); *see also* Dial A Mattress Operating Corp. v. Mattress Madness, Inc., 841 F. Supp. 1339, 1350 (E.D.N.Y. 1994) (“Although courts historically have looked for a transfer of the assets embraced by the trademark to evidence the passage of good will, a transfer of assets is not essential to consummate an assignment of the name.”).

105. *See PepsiCo, Inc.*, 416 F.2d at 288 89; *see also Visa*, *U.S.A.*, 696 F.2d at 1376 77 (upholding an assignment where the assignee continued “sufficiently similar” services as those offered by the assignor); Main Street Outfitters, Inc. v. Federated Dept. Stores, Inc., 730 F. Supp. 289, 291 92 (D. Minn. 1989) (upholding an assignment where the assignee had for sale goods that were “substantially the same” as those sold by the assignor).

106. *See, e.g.*, *Money Store*, 689 F.2d at 678 (upholding an assignment where the assignee did not offer “a service different from that offered by the assignor”).

107. For a critical analysis of this tendency of propertizing trademark law, see Stephen L. Carter, *The Trouble with Trademark*, 99 YALE L.J. 759, 786 (1990). “The deterioration of the prohibition on transfers in gross is a reflection of the continuing judicial misunderstanding of the theoretical underpinnings of trademark law. As a matter of theory, the prohibition on transfers in gross should be a firm one.” *Id.; see also* Lemley, *supra* note 10, at 1709 (“It is hard to see how the goals of preventing consumer confusion and encouraging investments in product quality would be furthered by allowing a company to sell the rights to a mark to another who will not make the same products.”).

108. *See* Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19 (1995) (illustrating how trademark protection has drifted toward allowing trademark rights in gross in several areas of trademark law); Lemley, *supra* note 10, at 1696 715 (criticizing courts’ expansion of the scope of trademark protection).

the attached goodwill and focused directly on the assignees' use of the mark. If such use was not likely to confuse consumers, the courts considered assignments valid. By contrast, if this use was likely to confuse the public, the courts declared the transactions at issue void.[109]

This line of reasoning continued to characterize almost all recent decisions on trademark assignment, regardless of the outcomes of the disputes. In *Sugar Busters L.L.C. v. Brennan*,[110] in 1999, *Pilates, Inc. v. Current Concepts, Inc.*,[111] in 2000, and *McGraw-Hill Companies, Inc. v. Vanguard Index Trust*[112] and *Archer Daniels Midland Co. v. Narula*,[113] in 2001, the courts held the assignments under scrutiny invalid because the assignees used the mark on products that, according to the judges, were different from those of the assignors and this use could mislead consumers in their legitimate expectation of product continuity.[114] Still, the courts focused primarily on the "reality of the transaction,"[115] rather than on the transfer of goodwill to declare the assignments void.[116]

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109. *See, e.g.*, Vittoria N. Am., L.L.C. v. Euro Asia Imports, Inc., 278 F.3d 1076, 1083 (10th Cir. 2001). In reaching its decision, the court quoted RESTATEMENT (THIRD) OF UNFAIR COMPETITION:

> [C]ourts now evaluate each assignment in light of the circumstances of the particular case, including both the terms of the transfer and the nature of the assignee's subsequent use. Recent decisions recognize that the central enquiry is whether the use of the mark by the assignee is likely to confuse prospective purchasers by departing from the expectations created by the presence of the trademark. The traditional requirement of accompanying transfer of goodwill can thus be understood as requiring that the assignment not disrupt the existing significance of the mark to consumers.

Id. (alteration in original) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34, cmt. b (1995)).

110. 177 F.3d 258 (5th Cir. 1999).

111. 120 F. Supp. 2d 286 (S.D.N.Y. 2000).

112. 139 F. Supp. 2d 544 (S.D.N.Y. 2001).

113. No. 99 C 6997, 2001 WL 804025 (N.D. Ill. July 12, 2001).

114. *Sugar Busters L.L.C.*, 177 F.3d at 266; *Pilates, Inc.*, 120 F. Supp 2d at 310 ("'[A]n owner of a trademark or service mark may not assign the rights to that mark 'in gross,' i.e. divorced from the appurtenant good will that the mark engenders.'" *Id.* (alteration in original) (quoting Dial A Mattress Operating Corp. v. Mattress Madness, Inc., 841 F. Supp. 1339, 1350 (E.D.N.Y. 1994)).

115. *See Archer Daniels Midland Co.*, 2001 WL 804025, at *7.

116. *See* Pilates Inc., v. Current Concepts, Inc., 120 F. Supp. 2d 286, 311 (S.D.N.Y. 2000). "[T]here is ample evidence that [plaintiff] was interested in purchasing only naked trademarks rather than a business with accompanying good will. [Plaintiff] testified candidly that he contacted [the mark's owner] to find out if [he] was interested in 'selling the trademarks' and that he was negotiating to 'buy the trademarks.'" *Id.* at 311; *see also Archer Daniels Midland*, 2001 WL 804025, at *6 7. In *Archer Daniels Midland*, the court considered the two applicable tests: "whether the assignee is able to go on in 'real continuity with the past' or if there is a 'continuity of management,'" or whether she "is producing a product substantially similar to that of [the

This trend away from the "goodwill requirement" brought the majority of the judiciary toward an unprecedented favor for assignment in gross until 2004. Particularly, from 2001 until 2004, the courts invariably upheld, or did not invalidate, the trademark assignments under scrutiny, finding that they included the goodwill of the assigned mark. The decisions in *Vittoria North America, L.L.C. v. Euro-Asia Imports Inc.*,[117] in 2001, *International Cosmetics Exchange, Inc. v. Gapardis Health & Beauty, Inc.*,[118] in 2002, and *Glow Industries, Inc. v. Lopez*,[119] in 2003 represent the latest evidence of this trend. In these cases, the courts repeated that the validity of an assignment depends on whether "the use of the mark by the assignee is likely to confuse prospective purchasers by departing from the expectations created by the presence of the trademark."[120] They nonetheless upheld the transaction at issue either because the assignee was not using the mark misleadingly or, as in *Glow Industries*, because not enough elements were available to assess the nature of the products.[121]

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assignor.]" *Id.* at *6. The court applied neither test, however, and decided to follow "as more workable McCarthy's general formulation: [C]ourts will look to the reality of the transaction to see if 'good will' passed . . . . The focus should be on protecting customers' legitimate expectation of continuity under the mark, not on searching for a 'stereotyped set of formalities.'" *Id.* at *7 (quoting 2 MCCARTHY, *supra* note 2, § 18:24).

117. 278 F.3d 1076, 1083 84 (10th Cir. 2001). The court dismissed defendant's claim, and upheld the assignment considering that plaintiff "took significant steps . . . to ensure that the mark continued to signify high end racing tires for bicycles," and that there was sufficient continuity in the kind or quality of the products associated with the mark. *Id.* at 1083 84.

118. 303 F.3d 1242, 1246 (11th Cir. 2002). The court dismissed the claim that the agreement was in gross because the assignee was "only interested in owning the mark and did not purchase its formula or any assets," and declared, "at the time the Agreement was created, the assignment was not in gross because it continued the association of the 'FAIR & WHITE' trademark with the very goods which created its reputation." *Id.*

119. 273 F. Supp. 2d 1095 (C.D. Cal. 2003). Albeit indirectly, this decision seems to move even further away from the traditional approach. Glow Industries applied for trademark registration and began selling cosmetic products under the mark, GLOW, in 1999. *Id.* at 1097. Three years later, Lopez filed an intent to use application for the mark GLOW BY J.LO for a line of cosmetic fragrances, and Glow Industries responded by bringing an infringement suit against Lopez. *Id.* at 1103 04. Lopez counterclaimed alleging infringement of the mark, GLOW KIT, the use of which she had obtained through assignment one week after Glow Industries brought its action. *Id.* at 1097. Glow Industries sought summary judgment on the basis that the assignment from Leone was in gross. *See id.* at 1110. Though the assignment appeared to be a prima facie sham transaction, Lopez having no interest in the associated goodwill, the district court did not declare it void. *See id.* at 1129. Accordingly, even though the court did not uphold the assignment, and only declared that not enough elements were available for a summary judgement, this approach showed an unprecedented tolerance toward assignment in gross.

120. Vittoria N. Am. v. Euro Asia Imports, Inc., 278 F.3d 1076, 1083 (10th Cir. 2001) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34, cmt. b (1995)).

121. *Cf.* PepsiCo, Inc. v. Grapette Co., 416 F.2d 285, 288 90 (8th Cir. 1969) (voiding an assignment that would have misled consumers). "Inherent in the rules involving the assignment of

In 2004, however, a minority of the courts returned to a more conservative position. Specifically, the courts declared assignments void in *Pure Imagination, Inc. v. Pure Imagination Studios, Inc.*[122] and *InterState Netbank v. Netb@nk, Inc.*,[123] arguing in both cases that the transfer of a registered domain name is not a sufficient element to satisfy the requirement of Section 10.[124] Yet, rather than representing a calculated effort to apply Section 10 consistently, these decisions primarily reflected the intention of the judiciary to prevent traffic in domain names. The courts again focused on the nature of the services provided by the assignees rather than on the passing of goodwill to reach their conclusions.

D. *Inconsistencies in the Application of the Rule*

In addition to this judicial trend, trademark practices have also created legal constructions de facto, circumventing Section 10 so as to allow trademark owners to exploit the value of their trademarks. Specifically, the last two decades have witnessed a consistent increase in the practice of trademark assignment and license-back, where a trademark owner assigns a mark to an assignee, who in turn grants back to the assignor a license to use the mark.[125] In addition to securing priority for the right to use a mark, this agreement represents a useful means to assert a valid claim of opposition or trademark infringement,[126] and is often used by trademark owners wishing to use their marks as collateral for a loan.[127] The purpose of such an agreement is not, however, to continue to produce "substantially similar" goods or services but primarily, or exclusively, to acquire control of the assigned mark.[128]

Not surprisingly, as additional support for the contention that the judiciary is drifting toward the acceptance of trademark rights in gross, the

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a trademark is the recognition of protection against consumer deception." *Id*. at 288.

122. No. 03 C 6070, 2004 WL 2222269, at *6 (N.D. Ill. Sept. 30, 2004).

123. 348 F. Supp. 2d 340, 351 (D.N.J. 2004).

124. *See id.* at 349 51; *Pure Imagination*, 2004 WL 2222260, at *3.

125. *See* 2 MCCARTHY, *supra* note 2, §§ 18:8 9.

126. *See, e.g.*, Glow Indus., Inc. v. Lopez, 273 F. Supp. 2d 1095, 1104 05 (C.D. Cal. 2003).

127. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34c (1995).

> An assignee may license the assignor to use the trademark after an assignment. If the assignment satisfies the requirements stated in this Section and the subsequent license back to the assignor satisfies the requirements stated in § 33, the priority arising from the assignor's original use of the trademark is maintained.

Id.

128. *But see* S. Rep. No. 79 1333 at 3 (1946). "To protect trade marks . . . is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will . . . ." *Id*.

courts have confirmed the validity of this agreement[129] as a "well-settled commercial practice,"[130] which has "the beneficial effect of bringing 'commercial reality into congruence with customer perception'"[131] that the assignee/licensor is controlling the mark used by the assignor/licensee.[132] Furthermore, while the courts have generally affirmed that these agreements are valid only as long as they do not disrupt the continuity of the marked products and provided that assignees/licensors maintain control over their quality,[133] these limits have proved sterile and formalistic,[134] and the courts have commonly relied on the language of the agreement regardless of the effective control exercised by licensors.

This trend was highlighted most recently in *Glow Industries*.[135] There the court plainly declared,

> The language of the agreement demonstrates that [defendant] maintained control over the quality of

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129. *See* 2 MCCARTHY, *supra* note 2, § 18:9 n.4 (citing Syntex Lab., Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45 (S.D.N.Y. 1970), *aff'd on other grounds*, 437 F.2d 566 (2d Cir. 1971); Raufast S.A. v. Kicker's Pizzazz, Ltd., 208 U.S.P.Q. 699 (E.D.N.Y. 1980); Sands, Taylor & Wood v. Quaker Oats Co., 18 U.S.P.Q.2d 1457 (N.D. Ill. 1990), *aff'd in part and rev'd in part*, 978 F.2d 947 (7th Cir. 1992), *aff'd in part and vacated in part*, 34 F.3d 1340 (7th Cir. 1994), *corrected*, *substituted op.*, *in part*, 44 F.3d 579 (7th Cir. 1995); Brewski Beer Co. v. Brewski Bros. Inc., 47 U.S.P.Q. 2d 1281 (T.T.A.B. 1998)).

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

> A license back is valid if it satisfies the conditions of validity for trademark licenses generally. The principal requirement, and the only one here critical, is that "*the licensing agreement provides for adequate control by the licensor over the quality of goods or services produced under the mark by a licensee*. . . . The purpose of such a requirement is to protect the public from being misled."

Id. (alteration in original) (emphasis added) (quoting Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261 (C.C.P.A. 1978)).

131. 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)).

132. *See* 2 MCCARTHY, *supra* note 2, § 18:9. "[I]n settlement of pending litigation, plaintiff may obtain an assignment of rights in the mark and license back [to] the defendant. If there was evidence of customer confusion, this arrangement would bring commercial reality into congruence with customer perception that plaintiff was controlling defendant's use." *Id.*

133. *See, e.g.*, *Haymaker Sports, Inc.*, 581 F.2d at 261. "A licensor may license his mark if the licensing agreement provides for adequate control by the licensor over the quality of goods or services produced under the mark by a licensee." *Id.*

134. *See Visa U.S.A., Inc.*, 696 F.2d at 1376 77. "Contrary to the view of the Board, *it is not determinative* that there was 'no evidence showing to what extent Visa has actually exercised real and effective control over the nature and quality of the services performed by Alpha Beta under the licensed mark.'" *Id.* at 1377 (emphasis added).

135. Glow Indus. v. Lopez, 273 F. Supp. 2d 1095, 1114 15 (C.D. Cal. 2003).

> the . . . products distributed by [the assignor] pursuant to the license-back, and the burden thus shifts to [plaintiff] to demonstrate that [defendant] did not exercise that control. [Assignor]'s lack of recollection [of such control] is not sufficient to meet that burden, and *it must be assumed* . . . that [defendant] maintained control over the quality of the products [the assignor] distributed under the mark.[136]

This trend confirms the tendency of the judiciary toward an indirect, property-type protection for trademarks. Simply put, even though trademark owners do not trade trademarks before the marks have been in use by using assignments and licenses-back, they nonetheless trade their marks as commodities to control their use in the marketplace.

As additional evidence of the growing trend toward a revival of a property approach to trademark protection, the judiciary has also shown increasing tolerance toward security interests in trademarks in recent years.[137] Theoretically, secured transactions involving trademarks[138] can be structured as collateral assignments where title to the mark is immediately transferred to the lender; as conditional assignments, where title is not transferred to the lender until default; or as UCC security interest liens.[139] Yet, because lenders rarely have an interest in using a mark, collateral assignments are typically structured as assignments and

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136. *Id*. at 1111 (emphasis added).

137. For a discussion favoring the amending of federal law to allow the use of trademark as security, see McDade, *supra* note 11, at 481 82. *See also* 2 MCCARTHY, *supra* note 2, § 18:7 (discussing the practice of trademark owners using their marks as security interest).

138. *See, e.g.*, Creditor's Comm. of TR 3 Indus. v. Capital Bank (*In re* TR 3 Indus.), 41 B.R. 128, 131 32 (Bankr. C.D. Cal. 1984) (holding that defendant had a valid security interest in plaintiff's trademark). "Neither Section 10 of the Lanham Act nor any other section of the Lanham Act specifies a place of filing a claim of security interest in a trademark or application for registration of a trademark . . . ." *Id*. at 131 (citations omitted).

139. In this respect it is unclear whether a single filing of the security instrument with the USPTO is sufficient perfection for the security interest, or whether an additional recordation in state registries is required under the Uniform Commercial Code (UCC). *See* U.C.C. § 9 109(c) (2000); *see also* Patterson Labs., Inc. v. Roman Cleanser Co. (*In re* Roman Cleanser Co.), 802 F.2d 207, 209 (6th Cir. 1986) (holding that transfer of formulas and other intangibles were sufficient to meet the statutory requirement of goodwill). "I conclude that . . . [appellee]'s security interest in the debtor's . . . trademarks, formulas and customer lists, perfected under the Article 9 filing, did not violate federal trademark law and was valid and enforceable." *Id*. at 212 (Thomas, J., concurring). Currently, the practice has evolved in recording a financing statement under Article 9 at the state level, and a copy of the security agreement with the USPTO. *See* 2 MCCARTHY, *supra* note 2, § 18:7. Courts have generally upheld this practice, but the issue is still partially unclear. The original draft of Section 10(b) of the 1988 Revision Act introduced new provisions relating to the definition and federal registration of security interests in trademarks. *See id.* These provisions were not enacted, however, in the final version of the Act. *See id.*

licenses-back.[140] To avoid the duty of monitoring the quality of the products,[141] secured transactions are also generally structured as conditional assignments.[142]

The USPTO, however, does not distinguish between conditional and final assignments.[143] As a result, if parties want to record the transaction with the USPTO as future notice against third parties, conditional assignments should also include the transfer of goodwill. Confirming the trend toward a flexible interpretation of Section 10, the majority of the judiciary has thus lowered the standards for the validity of both collateral and conditional assignments in secured transactions in the past years.

In re Roman Cleanser Co. enunciated this shift.[144] Roman Cleanser secured a loan from a competitor using its mark as collateral.[145] When the company defaulted, the court held that the fact that no tangible assets were part of the secured transaction did not make the trademark security interest unenforceable or the assignment invalid.[146]

This decision, along with many similar rulings in the following years,[147] provides additional evidence of the shift toward a generally more flexible interpretation of Section 10. Consumer protection is not a secondary consideration for the courts.[148] The majority of the courts still require,

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140. *See generally* Gregory J. Battersby, *Trademarks as Collateral*, 4 INTELL. PROP. STRATEGIST Dec. 1997, at 2 (discussing the use of trademarks as collateral and the practice of assignment and license back).

141. Haymaker Sports, Inc. v. Turian, 581 F.2d 257, 261 (C.C.P.A. 1978) (noting that if the borrower licensee's trademark activities are not sufficiently controlled by the lender licensor, the license will be considered a "naked license" resulting in the abandonment of the trademark).

142. *See* 2 MCCARTHY, *supra* note 2, § 18:7. Technically, conditional assignments do not vest legal title under the UCC and become operative only if lenders enforce or foreclose the security upon borrowers' default. *Id.*

143. 37 C.F.R. § 3.56 (2005):

> 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 until cancelled with the written consent of all parties or by the decree of a court of competent jurisdiction.

Id.

144. *See In re Roman Cleanser Co.,* 802 F.2d at 212 (Thomas, J., concurring) (agreeing that transfer of intangibles sufficed to meet the goodwill requirement).

145. *Id.* at 208.

146. *Id.* at 208 09. "The issue here is whether a security interest in a trademark constitutes an impermissible 'assignment in gross' under the Act if the security interest fails to cover machinery and equipment needed to produce the trademarked goods. We hold that it does not . . . ." *Id.* at 208.

147. 2 MCCARTHY, *supra* note 2, § 18:7.

148. *See, e.g.*, Glow Indus. v. Lopez, 273 F. Supp. 2d 1095, 1107 (C.D. Cal. 2003) (emphasizing the importance of protecting consumers from misrepresentation).

albeit vaguely, continuity of product type and quality[149] and have declared assignments void when the transaction is likely to harm the public.[150] Trademarks, however, have become so property-like that they may serve as collateral for loans.[151]

III. EXPLORING THE CONCEPT OF TRADEMARK GOODWILL

Central to the interpretation of the rule against assignment in gross, and generally to the debate over the extent of trademark protection, is the definition of the concept of trademark goodwill, notably, what represents goodwill apart from the mark, be it the name, logo, or device that embodies it, and the business to which it refers. Yet, goodwill is an ill-defined term that is difficult to frame in a legislative context and that has taken different forms over the decades.

Part III explores the history of trademark goodwill and considers the difficulty encountered by the courts in defining this concept. Because of this difficulty, the judiciary traditionally relied on other factors in addition to, or instead of, goodwill to assess the validity of trademark transfers. Still, this approach has eroded the impact of Section 10 and has fueled the inconsistent interpretations of the provision.

A. *Brief History of the Concept of Goodwill*

The history of trademark law indicates that, in the nineteenth century, courts initially protected trademarks using a derivation of the common law of fraud.[152] Plaintiffs were allowed to recover damages when third parties were using the plaintiffs' marks to defraud the public.[153] Nevertheless,

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149. *See, e.g.*, Vittoria N. Am., L L.C. v. Euro Asia Imports, Inc., 278 F.3d 1076, 1083 (10th Cir. 2001) (finding a trademark assignment valid because it was calculated to maintain continuity); *see also*, RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34, cmt. b (1995).

150. E.H. Yacht, L.L.C. v. Egg Harbor, L.L.C., 84 F. Supp. 2d 556, 566 (D.N.J. 2000).

151. "Indeed, '[t]he notion of security interests in intellectual property presupposes the capacity of such property to attain significant values in and of themselves.'" McDade, *supra* note 11, at 466 (quoting Ian Jay Kaufman et al., *Securities Interests in Intellectual Property*, N.Y.L.J., June 28, 1991, at 5).

152. *See, e.g.*, McClure, *supra* note 47, at 314 (explaining that fraudulent intent was generally a prerequisite for relief). "The development of trademark law in America paralleled that of English law. It developed as an offshoot of the tort of fraud and deceit, and was called 'passing off.'" *Id.*; *see also* Beverly W. Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADEMARK REP. 121, 129 33 (1978) (explaining that evil intent was generally a prerequisite for legal relief in these early cases).

153. *See, e.g.*, Thomson v. Winchester, 36 Mass. (19 Pick.) 214, 217 (1837) ("[I]mposition, falsehood and fraud on the part of the defendant, in passing off his own medicines as those of the plaintiff, would be a ground of action . . . ."); Partridge v. Menck, 5 N.Y. Ch. Ann. 572 (N.Y. Ch. 1847); *cf.* Palmer v. Harris, 60 Pa. 156, 160 (Pa. 1869) (refusing to issue an injunction to prevent counterfeiting of a mark where the mark itself had been designed to deceive the public). *See*

prior to the merger of law and equity, the equity courts struggled in finding a legal ground for trademark protection on the basis of fraud because the claimed fraud was not perpetrated against the plaintiffs but against the public at large.[154] Accordingly, it was doubtful whether this fraud could represent a sufficient ground for the plaintiffs to sue third parties for using the marks.[155]

To solve this problem, the equity courts considered trademarks as property and based their jurisdiction on protecting trademark owners from the invasion of their property.[156] The courts based this protection on natural rights,[157] arguing that trademark owners acquired the property of

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generally Milton Handler & Charles Pickett, *Trade Marks and Trade Names   An Analysis and Synthesis (Part I)*, 30 COLUM. L. REV. 168 (1930) (providing a detailed analysis of the case law on trademarks until the 1930s).

154. *See* HOPKINS, *supra* note 6, § 113, at 246.

155. "The fraud upon the public is no ground for the plaintiff coming into court." Webster v. Webster, 3 Swanst. 490 (1791), *quoted in* HOPKINS, *supra* note 6, § 113, at 246. Likewise, Lord Westbury said,

> Imposition on the public occasioned by one man selling his goods as the goods of another cannot be the ground of private action or suit. . . . It is, indeed, true, that, unless the mark used by the defendant be applied by him to the same kind of goods as the goods of the plaintiff, and be in itself such that it may be and is mistaken in the market for the trade mark of the plaintiff, the court cannot interfere, because there is no invasion of the plaintiff's right; and thus the mistake of the buyers in the market, under which they, in fact, take the defendant's goods as the goods of the plaintiff, that is to say, imposition on the public, becomes the test of the property in the trade mark having been invaded, and not the ground on which the court rests its jurisdiction.

Leather Cloth Co. v. Am. Leather Cloth Co., 4 DeG. J. & S. 137 41 (1863), *quoted in* HOPKINS, *supra* note 6, § 113, at 246.

156. *See generally* McClure, *supra* note 47, at 314 16 (summarizing the problems faced by the courts of equity in protecting trademarks and the recourse to the concept of property); Kenneth J. Vandevelde, *The New Property of the Nineteenth Century: The Development of the Modern Concept of Property*, 29 BUFF. L. REV. 325, 335 38 (1980) (explaining the development of the concept of property for business goodwill). In the *Trade Mark Cases*, 100 U.S. 82 (1879), the Supreme Court referred to the right to use a mark as "a property right." *Id.* at 92; *see also* Edward S. Rogers, *Comments on the Modern Law of Unfair Trade,* 3 ILL. L. R. 551, 552 (1909). "[I]n 1838 Lord Cottenham, in *Millington v. Fox*, held that an innocent intention did not exonerate from the charge of infringement. About this time the notion of property in trade marks was announced." *Id.* at 552 (footnote omitted).

157. *See, e.g.*, McClure, *supra* note 47, at 315.

> The early development of trademark law in America was thus based firmly on notions of morality, focusing on the fraudulent activity of the defendant. . . . The "morality" of forcing business competitors to behave in a substantially equitable manner was posited against a developmental policy that would allow open competition and free use of trademarks.

their marks throughout their possession and control.[158] A property theory in trademarks nonetheless was difficult to reconcile with the fact that most of the words and symbols that were used as trademarks are common property, thus incapable of private appropriation.[159]

To overcome this impasse, the courts started to distinguish between two groups of trademarks.[160] The first group was composed of common terms and symbols, which could not be appropriated by anyone, and could be protected only against unfair competition, a tort developed from the English tradition to provide relief against commercial passing off.[161] The second group was composed of newly created words and logos called "technical trademarks" that could be protected against trademark infringement, a strict liability tort focused on the appropriation of marks as property.[162] Plaintiffs who could prove ownership of technical marks could obtain injunctive relief in a court of equity if the defendant was using an identical or similar mark for similar goods, regardless of the defendant's intent to deceive the public or confuse consumers.[163]

It was soon understood, however, that the major purpose of trademark law was not to protect words and symbols, whether common or newly created, as things of value per se. Instead, what trademark law intended to protect was the ability of a mark to communicate a message to the public its customer patronage and the ability to sell the products to which the mark was affixed.[164] Thus, adopting a concept familiar to the law of

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Id.

158. *See* Rogers, *supra* note 156, at 552 54 (providing a detailed list and analysis of the relevant case law until the early 1900s).

159. *See* Avery & Sons v. Meikle & Co., 81 Ky. 73, 90 (1883).

> The alphabet, English vocabulary, and Arabic numerals, are to man, in conveying his thoughts, feelings, and the truth, what air, light, and water are to him in the enjoyment of his physical being. Neither can be taken from him. They are the common property of mankind, in which all have an equal share and character of interest. From these fountains whosoever will may drink, but an exclusive right to do so cannot be acquired by any.

Id. at 90; *see also* Handler & Pickett, *supra* note 153, at 170.

160. *See* McClure, *supra* note 47, at 314, 316.

161. *Id*.

162. *See generally* McClure, *supra* note 47, at 316 (describing the respective requirements for the two sets of marks); Handler & Pickett, *supra* note 153, at 168 69 (stressing the fundamental difference between these two categories of trademarks); JAMES L. HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES AND UNFAIR COMPETITION 7 12 (2d ed. 1905) (highlighting the natural principles at the basis of their respective protection).

163. *See* Handler & Picket, *supra* note 153, at 169 (explaining the breadth of trademark owner's monopoly over the mark); McClure, *supra* note 47, at 316.

164. *See, e.g.*, Rogers, *supra* note 156, at 555.

partnerships, courts and scholars started to refer to this ability to sell as the goodwill of a mark.[165] Gradually, they adopted the view that the tort of trademark infringement did not protect a mark, even a technical mark, per se.[166] Instead, the law protected the mark's goodwill,[167] for the "[g]oodwill was the property and the mark merely a device to reap its benefits."[168]

While undoubtedly useful in addressing the tension relating to the scope of trademark protection, and particularly in reducing the opposition to property protection of trademarks, the concept of trademark goodwill was nonetheless difficult to fully grasp. This complication originated directly from the fact that goodwill was intangible property that, as such, could refer without distinction to all aspects of customer patronage.[169] Additionally, the open-ended nature of goodwill made framing this concept in a normative context particularly complicated.[170] The adoption of the 1905 Act and the Lanham Act, respectively, reflected this difficulty. Both the statutes' language and also their legislative histories failed to provide any guidance for defining goodwill. As a result, courts and trademark scholars were puzzled by this concept for decades and were unable to offer a precise definition of goodwill.[171]

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165. *See id.*

166. *Id.*

167. In this sense, Rogers said,

> Recently . . . judges have begun to appreciate that the trade mark in and by itself is of little importance, that it is but the visible manifestation of a much more important thing, a business good will, that the good will is the substance, the trade mark merely the shadow, and that this business good will is the property to be protected against invasion.

Rogers, *supra* note 156, at 555 (footnote omitted).

168. Robert T. Bone, Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law 24 (Oct. 2004) (unpublished manuscript, on file with the author); *see also* John E. Hale, *Good Will As Property*, 10 ST. LOUIS L. REV. 62, 62 63 (1924 1925) (explaining that goodwill amounts to valuable property at the sale of a business); Vandevelde, *supra* note 156, at 335 36.

169. *See, e.g.*, FRANK S. MOORE, LEGAL PROTECTION OF GOODWILL 6 (1936); C.J. Foreman, *Economies and Profits of Goodwill*, 13 AM. ECON. REV. 209 (1923) (differentiating between internal and external economics of goodwill); C.J. Foreman, *Conflicting Theories of Goodwill*, 22 COLUM. L. REV. 638 (1922) (exploring the conflict between legal and economic theories of tangible and intangible goodwill).

170. See A.S. Biddle, *Good will*, 23 AM. LAW REG. 1 (1875) for an overview of the conflicting case law on the definitions of goodwill in the nineteenth century.

171. *See, e.g.*, Comm'rs of Inland Revenue v. Muller & Co.'s Margarine, Ltd., [1901] A.C. 217, 223, *quoted in* Grismore, *supra* note 3, at 492 n.12 (Goodwill is a "thing very easy to describe, very difficult to define."); *see also* A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923) (finding that one cannot convey trademarked goods free from restrictions that the seller was subject to). *See generally* 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:15 (4th ed. 2004) (reconstructing the multiple definitions of goodwill).

Regardless of these definitional problems, the idea of trademark goodwill was nonetheless integrated into trademark law and became a pillar of trademark protection.[172] The interpretation of this concept, however, has changed profoundly over the past two centuries.[173] Particularly in the 1930s, the idea of goodwill-as-property was attacked and debunked by legal realists,[174] and the concept of goodwill was recast onto the ground of trademark policy.[175] Yet, the interpretation of goodwill-as-property was never completely forgotten. From a means to justify trademark protection goodwill nonetheless became primarily a tool for limiting such protection,[176] and the courts started to use this concept to defend consumers against confusion.[177] As noted in Part II, the adoption of the Lanham Act reiterated the social importance of trademark goodwill for consumers and the market. On this basis, the idea of goodwill has continued to influence trademark decisions until the present.

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172. *See* discussion *supra* Part II.B.1.

173. For a comprehensive reconstruction of the history of the concept of goodwill, see generally Bone, *supra* note 168.

174. *See* Felix Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 815 (1935).

> The current legal argument runs: One who by the ingenuity of his advertising or the quality of his product has induced consumer responsiveness to a particular name, symbol, form of packaging, etc., has thereby created a thing of value; a thing of value is property; the creator of property is entitled to protection against third parties who seek to deprive him of his property. . . .
>
> The vicious circle inherent in this reasoning is plain. It purports to base legal protection upon economic value, when, as a matter of actual fact, the economic value of a sales device depends upon the extent to which it will be legally protected.

Id.

175. Under the rule establishing the 1905 Act, Justice Holmes stated, "A trade mark only gives [the] right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his." Prestonettes, Inc. v. Coty, 264 U.S. 359, 368 (1924). A few years earlier, in E. I. Du Pont De Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917), Justice Holmes also said, "[t]he word property as applied to trade marks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith."

176. *See* discussion *supra* Part II.B.1.

177. *See* Am. Steel Foundries v. Robertson, 269 U.S. 372, 380 (1926) ("There is no property in a trade mark apart from the business or trade in connection with which it is employed."); United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918) ("There is no such thing as property in a trade mark except as a right appurtenant to an established business or trade in connection with which the mark is employed."); Marshak v. Green, 746 F.2d 927, 929 (2d Cir. 1984) ("A trade name or mark is merely a symbol of goodwill; it has no independent significance apart from the goodwill it symbolizes."); Mister Donut of Am., Inc. v. Mr. Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969) ("The law is well settled that there are no rights in a trademark alone . . . .").

B. *The Intrinsic Difficulty of Defining Goodwill*

Traditionally, the difficulties in defining goodwill have been directly linked to the ambiguous nature of the idea of goodwill itself.[178] As indicated in the previous paragraph, since its introduction into trademark law, the meaning of goodwill was extended to cover all aspects that contribute to the customer patronage of a business.[179] Accordingly, while the courts originally identified goodwill as the value attached to tangible business assets, they soon affirmed that goodwill could also have a value per se, as an intangible asset, regardless of the tangible aspects of a business to which it was attached.[180]

As a result, it was commonly accepted that the concept of trademark goodwill did not represent a particular aspect or a thing belonging to the business. Rather, since its introduction into trademark law, the idea of goodwill always indicated a *course of conduct* extending to all factors that could contribute to the creation of customer patronage.[181] Because of this

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178. "There is considerable difficulty in defining accurately what is included under this term *good will* . . . ." Wedderburn v. Wedderburn, 22 Beavan 84 104, *quoted in* HOPKINS, *supra* note 6, § 62, at 134; *see also In re* Estate of Borden, 159 N.Y.S. 346, 348 (Sur. Ct. 1916) ("The definitions of 'good will' are many and irregular . . . ."); HOPKINS, *supra* note 6, § 61, at 132 (asserting that goodwill is difficult to define); Vandevelde, *supra* note 156, at 335 36 (discussing changing definitions of goodwill).

179. *See* Newark Morning Ledger Co. v. United States, 507 U.S. 546, 555 56 (1993). "Although the definition of goodwill has taken different forms over the years, the shorthand description of goodwill as 'the expectancy of continued patronage,' provides a useful label with which to identify the total of all the imponderable qualities that attract customers to the business." *Id.* at 555 56 (citation ommitted); *see also* Rogers, *supra* note 156, at 555.

> It was realized that business good will could be and was represented in many other ways than by technical trade marks; by names not trade marks, by labels, by the get up or dress, by the form of the goods themselves or the style of the enclosing package, in short by the numberless ways in which a purchaser is enabled to recognize the particular article he wants.

Id.

180. *See, e.g.*, Metro. Bank v. St. Louis Dispatch Co., 149 U.S. 436, 446 (1893) ("As applied to a newspaper, the good will usually attaches to its name rather than to the place of publication. The probability of the title continuing to attract custom in the way of circulation and advertising patronage, gives a value which may be protected and disposed of, and constitutes property."); Washburn v. Nat'l Wall Paper Co., 81 F. 17, 20 (2d Cir. 1897) (observing that goodwill is not "indissolubly connected" with a particular location or the tangible assets of a business); Brett v. Ebel, 29 A.D. 256, 258 59 (N.Y. App. Div. 1898) (affirming that property could exist in goodwill without any physical reference).

181. Lord Eldon defined goodwill as "nothing more than the probability, that the old customers will resort to the old place." Crutwell v. Lye, 34 Eng. Rep. 129, 134 (1810), *quoted in* Grismore, *supra* note 3, at 491 92. Lord Eldon's definition was criticized by Biddle for being too

nature of goodwill as a course of conduct as opposed to as a thing, to define goodwill exhaustively thus required a careful analysis of all the elements that contributed to customer patronage.[182] In other words, a comprehensive definition of trademark goodwill had to include all the reasons that could induce repeated purchases on the part of public.[183] Yet, considering that the reasons that drive customers toward a business are innumerable, and many of them are subjective and irrational, to identify all these reasons has historically been highly complicated, if not impossible.[184]

To solve this impasse, the courts consistently defined goodwill by adopting an open-ended and vague terminology, susceptible to non-exclusive interpretations.[185] Particularly, to avoid omitting some of the elements that contribute to the creation of goodwill, the courts consistently defined the boundaries of the concept in probabilistic terms by equating goodwill with the likelihood that consumers will resort to the same place for future purchases.[186] In this sense, the courts provided a list of

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narrow. Biddle, *supra* note 170, at 1 2.

182. *See* Glosband v. Watts Detective Agency, Inc., 21 B.R. 963, 975 (D. Mass. 1981) (Goodwill constitutes "all that goes with a business in excess of its mere capital and physical value, such as reputation for promptness, fidelity, integrity, politeness, business sagacity and commercial skill in the conduct of its affairs, solicitude for the welfare of customers and other intangible elements which contribute to successful commercial adventure.") (quoting Martin v. Jablonski, 253 Mass. 451, 457 (1925)).

183. *See* Grismore, *supra* note 3, at 492.

> [Goodwill] means that state of mind in people which causes them to continue to patronize a certain place, or person, or to purchase a certain commodity, or to seek certain services. This state of mind is engendered by the existence of certain factors which cause people to continue to act in a certain way. . . .
>
> These factors are various. It may be merely a matter of place. . . . It may be a matter of the person dealt with. . . . *It may be a matter of name or trade mark*.

Id. (emphasis added).

184. *See* JOHN R. COMMONS, INDUSTRIAL GOODWILL 19 20 (1919),

> Goodwill . . . is that unknown factor pervading the business as a whole, which cannot be broken up and measured off in motions and parts of motions, for it is not science but personality. It is the unity of a living being which dies when dissected. . . .
>
> It is this corporate character of goodwill that makes its value uncertain and problematical. A corporation is said to have no soul. But goodwill is its soul.

Id.

185. *See, e.g.*, 1 MCCARTHY, *supra* note 171, § 2:15.

186. Many of these descriptions build upon the famous definition of goodwill given in the 1800s by Judge Story in the context of partnership:

definitions based on consumer attitudes and habits and described goodwill as the customers' favorable reactions to a mark,[187] "the lure of the place," "the lure to return," "buyer momentum," "the legal and economic recognition of buying habits," and "the expectancy of continued patronage."[188] Still, rather than defining what goodwill was, these definitions merely identified goodwill with a group of behaviors that vaguely indicated the presence of business goodwill.

Trademark scholars, for their part, provided a set of definitions of goodwill similar to those of the courts.[189] Similar to the courts, they initially struggled while attempting to define goodwill as property.[190] Around the turn of the century, the majority of scholars abandoned the attempts to find an appropriate definition for goodwill as property and started to focus on the economic effects of goodwill rather than the concept itself to justify its protection.[191] After recasting the idea of goodwill as a policy tool in the 1930s, trademark scholars continued to provide vague definitions of goodwill as a course of conduct in line with the majority of the courts.[192]

> This good will may be properly enough described to be the advantage or benefit, which is acquired by an establishment, beyond the mere value of the capital, stock, funds, or property employed therein, in consequence of the general public patronage and encouragement, which it receives from constant or habitual customers, on account of its local position, or common celebrity, or reputation for skill or affluence, or punctuality, or from other accidental circumstances, or necessities, or even from ancient partialities, or prejudices.

JOSEPH STORY, COMMENTARIES ON THE LAW OF PARTNERSHIP § 99 (1841).

187. 1 MCCARTHY, *supra* note 171, § 2:15.

188. *Id.* at § 2:18 (summarizing existing case law and doctrines on goodwill). Goodwill is "the best semantic term we have to describe the consumer recognition or drawing power of a trademark." *Id*. § 2:15.

189. For a comprehensive survey of these definitions, see generally Note, *An Inquiry Into the Nature of Goodwill*, 53 COLUM. L. REV. 660 (1953).

190. *See* Vandevelde, *supra* note 156, at 338.

191. *Id.*

> By the beginning of the twentieth century, the commentators had lost interest in classifying goodwill as a particular species of property, such as incorporeal personality. . . . Later discussions of goodwill in legal literature made no attempt to place in any category of property. Perhaps it made little sense to the commentators to attempt to fit a dephysicalized form of property into a scheme which was based on a taxonomy of things.

Id. (footnotes omitted).

192. *See, e.g.*, 1 MCCARTHY, *supra* note 171, §§ 2:15 17.

Accountants traditionally provided more detailed definitions of goodwill than lawyers.[193] They described goodwill as "the intangible resources, factors, and conditions that allow a business to earn above-normal income with the identifiable assets employed in the business"[194] and as "the excess of net earnings over and above a fair return on the net tangible assets."[195] In the case of the transfer of a business with the associated trademarks, they identified goodwill as the difference between the purchase price and the current value of the net identifiable assets of a company.[196]

Still, although undoubtedly useful for quantifying the value of the goodwill as a business's "earning capacity" in commercial transactions or for tax purposes, these definitions again did not define what goodwill was. Instead, similar to the descriptions of courts and legal scholars, they identified goodwill as the sum of intangible factors that give value to a business[197] and continued to rely on probabilistic terms to identify the

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193. *See, e.g.*, Note, *An Inquiry Into the Nature of Goodwill, supra* note 189, at 686 96. But more recently, see Todd Jacobsen, *Trademarks and Goodwill Relationships and Valuation*, 12 J. CONTEMP. LEGAL ISSUES 193, 193 (2001).

194. JAY M. SMITH. ET AL., INTERMEDIATE ACCOUNTING: COMPREHENSIVE VOLUME 437 (12th ed. 1995).

195. Jacobsen, *supra* note 193, at 193. One of the most accurate definitions of goodwill is provided by the Internal Revenue Service:

> In the final analysis, goodwill is based upon earning capacity. The presence of goodwill and its value, therefore, rests upon the excess of net earnings over and above a fair return on the net tangible assets. While the element of goodwill may be based primarily on earnings, such factors as the prestige and renown of the business, the ownership of a trade or brand name, and a record of successful operation over a prolonged period in a particular locality, may also furnish support for the inclusion of intangible value.

Id. (citing Rev. Rul. 59 60 § 4.02, 1959 1 C.B. 237). This definition uses "two primary criteria to determine the existence of goodwill in a business: (1) the presence of earnings in excess of a fair return on the assets; (2) components that may generate goodwill whether or not the business has earnings." *Id.* at 193 n.6.

196. *See* Jacobsen, *supra* note 193, at 195; *see also* Albert P. Lilienfeld, *Valuation of Intellectual Property Assets: Trademarks, Copyrights and Goodwill*, 526 PRACTISING L. INST.: PAT., TRADEMARK, & LITERARY PROP. COURSE HANDBOOK SERIES 199 (1998) (providing a detailed analysis of intellectual property valuation creteria).

197. *See* Jacobsen, *supra* note 193, at 195 96 (describing different valuation techniques: purchase (the value of goodwill is the value of the price purchase for a company minus the value of its net tangible assets); capitalization, divided in "premium profits approach" (the revenues that a company can earn by selling a marked product versus an unnamed generic) and "excess earnings" (identifying as goodwill the result of the difference between the average annual earning of a business and the value of net tangible assets multiplied by a required rate of return); relief from royalty (defining goodwill as the projected cost for licensing the mark if the company did not own it); cost (looking at what it would cost to recreate the value of the mark and its goodwill in the

effects of goodwill rather than identifying the concept itself. In addition, they generally merged all the intangible assets belonging to a business within the concept of goodwill, thus blurring the distinction between the value of goodwill and the marks that embody it.[198] If translated into the context of trademark assignment, these definitions undermine the extent of Section 10 by equating transfer of a mark with the transfer of its goodwill.

As a result, the idea of goodwill continues to remain vague and uncertain and it is still unclear how the concept of goodwill should be interpreted in the context of trademark law and with respect to the rule on trademark assignment.

1. Goodwill v. Trademark

Traditionally, one of the major challenges in defining goodwill has been to conceptually separate it from the mark, meaning the word or symbol to which it refers. Such a distinction is particularly relevant in the context of the rule on trademark assignment. Hence, if a mark and its goodwill could not be identified separately, the transfer of the right to use the word, logo, or device that represents a mark would necessarily imply the transfer of the mark's goodwill, reducing the rule of assignment "with goodwill" to a sterile requirement.

In fact, even if they are intrinsically intertwined, a mark and its goodwill are not the same. Technically, a mark represents "any word, name, symbol, or device" that is used to "identify and distinguish" the products to which the mark is affixed.[199] Still, such a word, symbol, or device constitutes something more than a container for the mark's goodwill: it constitutes an instrument that creates goodwill or, as stated by McCarthy, "a distinguishable token devised or picked out with the intent to appropriate it to a particular class of goods and with the hope that it will come to symbolize good will."[200] Specifically, as underlined by Schecter, "[t]o describe a trademark merely as a symbol of good will, without

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market). *Id*. at 195 96.

198. *See* Jacobsen, *supra* note 193, at 196 ("Goodwill has long been recognized as legally protected property. Because a trademark is the symbol for goodwill, the value of a trademark is also the value of the goodwill it represents.").

199. *See* Lanham Act § 45, 15 U.S.C. § 1127 (2000).

200. 1 MCCARTHY, *supra* note 171, § 2:15 (quoting Beech Nut Packing Co. v. P. Lorillard Co., 273 U.S. 629 (1927)); *see also* Joseph Schlitz Brewing Co. v. Houston Ice & Brewing Co., 241 F. 817, 820 (5th Cir. 1917), *aff'd*, 250 U.S. 28 (1919); Premier Pabst Corp. v. Elm City Brewing Co., 9 F. Supp. 754, 757 58 (D. Conn. 1935); Coca Cola Bottling Co. v. Coca Cola Co., 269 F. 796, 806 (D. Del. 1920).

recognizing in it an agency for the actual creation and perpetuation of good will, ignores the most potent aspect of the nature of a trademark."[201]

Marketing and advertising strategists have repeatedly underlined this value of a mark per se. Historically, the search for appealing, evocative, and interesting trademarks has brought companies to develop brand strategies aimed at finding the right names for their products, derived from the assumption that the more effective the mark chosen to identify a product, the better the goodwill it likely creates.[202] This tendency has continued to grow in recent years as a result of the increased role of trademarks in the consumer society.[203]

Accordingly, to say that a mark is the name or the logo of a product while goodwill represents the positive feelings that consumers associate with that name or logo indicates the difference between a mark and its goodwill. Though simple to understand in theory, such a distinction has nonetheless proved very challenging to apply in practice because the boundaries between the concepts of goodwill and trademark often overlap. Specifically, a mark's goodwill cannot be "seen, felt and tasted,"[204] but exists only "in the minds of the buying public,"[205] and becomes relevant only when a consumer makes a purchase because he or she wants the product that is identified by a certain mark. Hence, goodwill relies on the mark to communicate feelings and information to the public. To separate goodwill from its mark would inevitably result in dividing it from, and

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201. Schechter, *supra* note 19, at 818. Schechter argued that a trademark has a dual function:

> [T]oday the trademark is not merely the symbol of good will but often the most effective agent for the creation of good will, imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions. The mark actually *sells* the goods. And, self evidently, the more distinctive the mark, the more effective is its selling power.

Id. at 819; *cf.* Rogers, *supra* note 7, at 43 ("The good will of a business is often of greater value than all the tangible property [of the business], and a trade mark is nothing but good will symbolized.").

202. *See, e.g.*, Old Dearborn Distrib. Co. v. Seagram Distillers Corp., 299 U.S. 183, 194 (1936); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916); *see also Untangling Intangibles: Company Balance Sheets*, THE ECONOMIST, Feb. 8, 1992, at 84, 84. "Putting the Coca Cola logo on a can of drink, or a Mars wrapper around a bar of chocolate, raises at a stroke the price that can be charged for the product." *Id*.

203. *See The Year of the Brand*, THE ECONOMIST, Dec. 24, 1988, at 95, 95. "A brand is a name that stands for something positive in the [consumer's] mind." AL RIES & LAURA RIES, THE FALL OF ADVERTISING AND THE RISE OF PR 62 (2002); *see also* Thomas D. Drescher, *The Transformation and Evolution of Trademarks From Signals To Symbols to Myth*, 82 TRADEMARK REP. 301, 303 (1992).

204. 1 MCCARTHY, *supra* note 171, § 2:17.

205. *Id*. "As early as 1620, the English courts defined goodwill as 'the friendly attitude and patronage of customers.'" *Id*. (quoting Broad v. Jollyfe, 79 Eng. Rep. 509 (1620)).

depriving it of, the vehicle that allows the mark to communicate to the public.[206]

Still, even if goodwill cannot exist separately from the mark that embodies it, the idea of goodwill represents something more than the intangible expression of a mark. As indicated earlier, goodwill has historically constituted the reasons why consumers buy the product identified by a mark over similar ones.[207] These reasons include, but are not limited to, the fact that a product carries a certain mark.[208] For example, a product's quality, technical features, price, or simply the expression of brand loyalty[209] also drive consumer purchases and accordingly usually represent parts of a mark's goodwill.[210]

In other words, as repeated by courts and scholars, in addition of being the intangible essence of the mark, the idea of goodwill extends to everything belonging to a product that can induce repeated consumer purchases. However, what this *everything* means has long remained, and still is, uncertain, as the idea of goodwill can technically attach to most aspects of a business and is likely to vary depending on consumer preferences.

Consequently, the difference between a mark and its goodwill continues to remain vague and difficult to assess in practice. Undoubtedly, a mark is something more than an expression of goodwill, and goodwill is something more than the intangible value of a mark. Yet, what this

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206. *See* 2 MCCARTHY, *supra* note 2, § 18:2. "Good will and its trademark symbol are as inseparable as Siamese Twins who cannot be separated without death to both." *Id*.

207. Vice Chancellor Wood defined goodwill as

> [E]very advantage, every *positive* advantage, . . . as contrasted with the *negative* advantage of the late partner not carrying on the business himself, that has been acquired by the old firm in carrying on its business, whether connected with the premises in which the business was previously carried on, or with the name of the late firm, or with any other matter connected with the benefit of the business.

Churton v. Douglas, Johns. (Eng.) (1859) 174, *quoted in* J. Roberton Christie, *Goodwill in Business*, 8 JURID. REV. 71, 72 73.

208. Promotional goods are probably the most noticeable example where a mark represents, almost entirely, the goodwill of a product. In most instances, consumers purchase a Harley Davidson, Chicago Bulls, or MIT t shirt not because of the product itself the t shirt but largely for the logo it presents on its front. *See, e.g.*, Boston Athletic Ass'n v. Sullivan, 867 F.2d 22, 33 (1st Cir. 1989); Boston Prof'l Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1010 11 (5th Cir. 1975); *see also* Dreyfuss, *supra* note 26, at 402.

209. *See* Economides, *supra* note 15, at 531. "Even though the consumer is an infrequent buyer of a particular kind of electronic product, he may be a frequent buyer of the overall category of electronic products, and thus he is likely to have previous experience in the consumption of goods with the same trade name." *Id*.

210. *Cf.* discussion *infra* Part IV.B.

something more is, and whether goodwill and its trademark symbol can be separated, remain uncertain.

2. Goodwill v. Business

To solve the interpretative dilemma of defining goodwill apart from the mark, the courts have traditionally linked the concept of goodwill to that of business,[211] arguing that the success of an economic activity, and accordingly the creation of goodwill, largely depends upon a company's business structure. As noted in Part II, the courts repeatedly adopted this approach in the context of trademark assignment where the transfer of business assets historically represented the *sine qua non* or irrefutable evidence for the validity of trademark transfers.[212]

Still, even if the judiciary long used the concepts of goodwill and business interchangeably, goodwill and business are not the same, and to conceptually separate the idea of goodwill from that of business is fundamental to enable an accurate definition of goodwill. As this Article elaborates in Part IV, the possibility of drawing such a distinction has also become increasingly necessary after the enactments of TRIPS and NAFTA,[213] for both agreements allow trademark assignment "with or without the transfer of the business."[214]

Generally, however, to separate a mark's goodwill from the business in which the mark is used has proven to be as challenging, as it is to separate goodwill from the mark, for the concepts of goodwill and business are also intrinsically intertwined and often overlap. As underlined in the previous paragraph, the best tentative definition of goodwill is the sum of the aspects of a business that induce customer patronage. Business, by contrast, is technically defined as the industrial or commercial

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211. *See, e.g.*, Red Wing Malting Co. v. Willcuts, 15 F.2d 626, 629 30 (8th Cir. 1926) (holding that "[g]ood will has no existence, except in connection with a continuing business," and may be bought and sold in connection therewith); Knoedler v. Boussod, 47 F. 465, 466 (S.D.N.Y. 1891) (defining goodwill as applied to a business as "those advantages which may inure to the purchaser from holding himself out to the public as succeeding to an enterprise which has been identified in the past with the name and repute of his predecessor"); Sheldon v. Houghton, 21 F. Cas. 1239, 1241 (S.D.N.Y. 1865) (holding that goodwill could arise from "corporeal property," the manufactured good, but corporeal property cannot adhere, as an incident, to goodwill). *But see* Premier Pabst Corp v. Elm City Brewing Co., 9 F. Supp. 754, 757 (D. Conn. 1935) ("[G]ood will is . . . vaguely considered as the favorable regard of the purchasing public for a particular person, or for goods or services known to . . . emanate from a particular source; . . . [it] is not property in any technical sense . . . .").

212. *See* discussion *supra* Part II.C.

213. *See* discussion *infra* Part IV.B.

214. TRIPS, *supra* note 81, art. 21; NAFTA, *supra* note 80, art. 1708(11).

establishment of an economic activity and particularly as the sum of the tangible instruments that are necessary to carry on that activity.[215]

Despite this lexical distinction, the difference between goodwill and business is most often unclear.[216] Rather than being something else apart from the business, goodwill represents a fundamental component of the business itself; it represents what makes the result of a business activity special, so special in fact that it induces repeated purchases on the part of the public.[217] This something special can depend, for example, on the quality of a product that is derived from tangible assets such as specific formulas, ingredients, or customized service.[218] Undoubtedly, these formulas, ingredients, and services are business assets. Yet, they also represent the reason for the company's success, making its products special and attractive to consumers. These formulas, ingredients, and services thereby embody the company's goodwill.[219]

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215. Webster's Dictionary defines "business" as follows: "3 a: a usu[ally] commercial or mercantile activity engaged in as a means of livelihood . . . b: a commercial or sometimes an industrial enterprise . . . c: usu[ally] economic dealings." MERRIAM WEBSTER'S COLLEGIATE DICTIONARY (10th ed. 1996).

216. *See, e.g.*, Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc., 43 F.2d 937, 939 (2d Cir. 1930) (holding that assignment of recipe for type of cologne is essential to assignment of trademark to type of cologne); Sexton Mfg. Co. v. Chesterfield Shirt Co., 24 F.2d 288, 288 (D.C. Cir. 1928) (holding that the "attempted sale of [a] mark, unaccompanied by any business, conferred no rights upon" purchaser); Carroll v. Duluth Superior Milling Co., 232 F. 675, 680 (8th Cir. 1916) ("[i]t is well known that a trade mark or name cannot be assigned, except in connection with the assignment of the particular business . . . ."); Sauers Milling Co. v. Kehlor Flour Mills Co., 39 App. D.C. 535, 542 (D.C. Cir. 1913) (stating that assignment of trademark without underlying business is ineffectual for any purpose except to show abandonment of mark by assignor); Indep. Baking Powder Co. v. Boorman, 175 F. 448, 451 52 (C.C.D.N.J. 1910) (comparing a trademark to goodwill); Eiseman v. Schiffer, 157 F. 473, 475 76 (C.C.S.D.N.Y. 1907) ("[t]he trade mark shall not be conveyed to one, and the particular business in which it was used remain with the other.").

217. *See* Christie, *supra* note 207, at 72. "'The goodwill,' . . . 'which has been the subject of sale is *nothing more than the probability that the customers will resort to the old place*.'" *Id.* (quoting Cruttwell v. Lye, 34 Eng. Rep. 129, 134 (1810)); *see also* Vandevelde, *supra* note 156, at 335 38.

218. *See, e.g.*, *Mulhens*, 43 F.2d at 938.

219. *See* Christie, *supra* note 207, at 72 73.

> Attracting customers to a business is a matter connected with carrying it on. It is the *formation of that connection* which has made the value of the thing the late firm sold, and they really had nothing else to sell in the shape of goodwill . . . . It is the *connection thus formed together with the circumstances,* whether of habit or otherwise, *which tend to make it permanent* that constitutes the goodwill of a business.

Id. (footnotes omitted).

The fact that the same assets can simultaneously represent a part of the business as well as a part of its goodwill confirms the difficulty in conceptually separating goodwill apart from the business.[220]

Particularly, any definition of goodwill that does not include the whole business or the majority of its assets is likely to be imprecise for it can omit a key element contributing to the creation of customer patronage.[221] In fact, as mentioned above, while some business assets do not represent a part of a company's goodwill because they do not induce customer patronage, others are a fundamental component of it.[222] Still, to consider as goodwill the tangible assets that contribute to an economic endeavor blurs any distinction between goodwill and business.

On the contrary, to exclude from the concept of goodwill any tangible business asset directly limits the scope of Section 10 and confines the interpretation of goodwill to an intangible domain where little room is left for its use. This seems, however, to be the path that the courts have been

220. "For goodwill has no independent existence. It cannot subsist by itself. It must be attached to a business. Destroy the business and the goodwill perishes with it . . . ." Comm'rs of Inland Revenue v. Muller & Co.'s Margarine Ld., [1901] A.C. 217, 223, *quoted in* Mark A. Greenfield, *Goodwill as a Factor in Trademark Assignments A Comparative Study*, 60 TRADEMARK REP. 173, 173 74 (1970).

221. In *Smith v. Davidson*, 31 S.E.2d 477 (Ga. 1944), Justice Grice stated,

> It is difficult to conceive of the good will of a business apart from the tangible properties used in such business, or as a thing of form and substance. It is more like a spirit that hovers over the physical, a sort of atmosphere that surrounds the whole; the aroma that springs from the conduct of the business; the favorable hue or reflection which the trade has become accustomed to associate with a particular location or under a certain name. As fragrance may add loveliness to the flower from which it emanates, so good will may add value to the physical from which it springs . . . .

Id. at 479 80.

222. *See* Bear U.S.A., Inc. v. Kim, 993 F. Supp. 894, 895 96 (S.D.N.Y. 1998)

> A trademark is a designation of origin. "It serves to inform the public of the source of the goods." In consequence, it cannot be transferred except in connection with a business. Nor may it be licensed unless the licensor retains "some degree of control over the quality of the goods under the trademark by the licensee."

(footnotes omitted) (quoting Liebowitz v. Elsevier Sci. Ltd., 927 F. Supp. 688, 695, 696 (S.D.N.Y. 1996))); Archer Daniels Midland Co. v. Narula, No. 99C6997, 2001 WL 804025 (N.D. Ill. 2001), at *7 ("ADM received no tangible assets of NII through the assignment other than the internet domain name NUTRISOY.COM. ADM also admits that NII, now doing business as Mothersoy, Incorporated, continues to sell the same products . . . . This evidence tends to show that good will was not transferred in connection with the NII Assignment.") (footnote omitted).

following in the past decades[223] and that has also recently been adopted by international trademark law.[224]

C. *Consequences of the Lack of a Clear Definition of Goodwill*

As noted earlier, the uncertainty surrounding the idea of goodwill created many misunderstandings in its application. Trademark owners used goodwill to protect the investments in their brands and exploited the vagueness of its definition to argue in favor of extended trademark protection.[225] The courts, on their part, relied on the ineffableness of goodwill to interpret it as they saw fit and often used it to protect trademarks beyond the likelihood of consumer confusion.[226]

This ambiguity directly affected the interpretation of the rule on trademark assignment.[227] As described in Part II, the courts drifted away from the challenging task of defining and tracking the transfer of goodwill almost immediately after the enactment of the rule in the early 1900s. Instead, the courts turned to other factors, and particularly to "the reality of the transaction,"[228] to assume that a mark's goodwill was transferred. If these other factors were satisfied, they considered trademark assignments valid and declared that goodwill had been transferred to the assignee.[229]

As elaborated earlier, initially the courts relied on the transfer of the business to affirm the transfer of goodwill. Tracking the transfer of tangible business assets was simpler than tracking the assignment of a course of conduct. Business assets could be materially seen and their value objectively assessed, and the fact that the assignee continued the physical activity of the assignor represented the most reliable evidence of the transfer of goodwill because it guaranteed continuity in the economic endeavor.

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223. *See* discussion *supra* Part II.C.

224. *See* discussion *infra* Part IV.

225. *See, e.g.*, ROGERS, *supra* note 6, at 1.

226. *See generally* 1 MCCARTHY, *supra* note 171, §§ 2:15 17 (providing an exhaustive overview of case law on the issue).

227. *See* 2 MCCARTHY, *supra* note 2, § 18:10.

> Defining 'goodwill' in an assignment provides the opening to inject resiliency into the somewhat rigid and formalistic anti assignment in gross rule. . . . While some courts will apply the anti assignment in gross rule with myopic vigor, other courts will interpret 'goodwill' so as to focus on the nature of the assignee's use, not the formalism of what assets passed to the assignee.

Id.

228. *See Archer Daniels Midland Co.*, 2001 WL 804025, at *7.

229. *See* discussion *supra* Part II.C.

Following changes in the economy, the need for a more flexible standard in the transferability of trademarks brought the courts to rely on the continuity of the products rather than on the transfer of tangible business assets.[230] As long as such continuity was guaranteed, trademark assignments were deemed valid. As elaborated in Part II, while traditionally intended as substantial product similarity,[231] this continuity has also been interpreted as sufficient continuity or similarity in the kind of products. Most recently, the majority of the courts went further and suggested that trademark assignments are valid as long as the assignee's use of a mark does not mislead the purchasing public.[232]

Despite the fact that the courts generally focused on the result of the transaction rather than on the passing of goodwill to declare trademark transfers valid, the wording "assignment with goodwill" has nonetheless continued to be an essential part of the rule on trademark transferability. Yet, as this Article considers in Part V, instead of assisting the courts in preventing fraudulent assignments, this language has become a major reason for confusion in the application of Section 10. Specifically, the

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230. *See, e.g.*, Int'l Cosmetics Exch., Inc. v. Gapardis Health & Beauty, Inc., 303 F.3d 1242, 1246 (11th Cir. 2002) ("Although an assignment [of trademark or trade name] must be accompanied by attendant good will, there need not be any transfer of tangible assets."); Vittoria N. Am., L.L.C. v. Euro Asia Imports, 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."); J.C. Hall Co. v. Hallmark Cards, Inc., 340 F.2d 960, 962 (C.C.P.A. 1965) (suggesting that a valid transfer of a mark does not require the transfer of physical or tangible assets but only the transfer of the goodwill to which the mark pertains); Glow Indus. v. Lopez, 273 F. Supp. 2d 1095, 1108 (C.D. Cal. 2003) ("Because goodwill may be valued separately from the physical assets of a company, '[i]t is not necessary that the entire business or its tangible assets be transferred' to a trademark assignee in order to find that the assignment included goodwill." (alteration in original) (quoting E & J Gallo Winery v. Gallo Cattle Co., 967 F.2d 1280, 1289 (9th Cir. 1992))); Dial A Mattress Operating Corp. v. Mattress Madness, Inc., 841 F. Supp. 1339, 1350 (E.D.N.Y. 1994) ("Although courts historically have looked for a transfer of the assets embraced by the trademark to evidence the passage of good will, a transfer of assets is not essential to consummate an assignment of the name.").

231. "Where a transferred trademark is to be used on a new and different product, any goodwill which the mark itself might represent cannot legally be assigned." PepsiCo, Inc. v. Grapette Co., Inc., 416 F.2d 285, 289 (8th Cir. 1969); *see also* Mister Donut of Am., Inc. v. Mister Donut, Inc., 418 F.2d 838, 842 (9th Cir. 1969); G's Bottoms Up Soc. Club v. F.P.M. Indus., 574 F. Supp. 1490, 1496 (S.D.N.Y. 1983); Uncas Mfg. Co. v. Clark & Coombs Co., 200 F. Supp. 831, 835 (D.R.I. 1962); Eiseman v. Schiffer, 157 F. 473, 473 (S.D.N.Y 1907).

232. *See Archer Daniels Midland Co.*, 2001 WL 804025, at *7. "'[C]ourts will look to the reality of the transaction to see if 'good will' passed. . . . 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.* (alteration in original) (quoting 2 MCCARTHY, *supra* note 2, § 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, either as evidenced in the tangible or intangible assets acquired by the buyer or as evidenced by the buyer's post transaction actions." 2 MCCARTHY, *supra* note 2, § 18:24.

goodwill requirement has allowed the courts to interpret the provision as they see fit, thereby reaching divergent conclusions in similar circumstances. The current rule has also increasingly permitted attacks among competitors, often regardless of consumer confusion, further undermining the effectiveness of Section 10.

IV. THE INTERNATIONAL DRIFT TOWARD ASSIGNMENT "WITHOUT GOODWILL"

Intellectual property is one of the most internationally harmonized areas of law.[233] The need to establish comparable standards to protect intangible assets originated in the nineteenth century, and has fostered international negotiation ever since. These negotiations have resulted in the adoption of international agreements aimed at creating common standards of protection, which have in turn led to the introduction of new rules into the domestic laws of the many countries.[234]

Part IV explores the development of international provisions on trademark assignment. Initially, the international community allowed member states to retain their own regimes on trademark assignment.[235] More recently, however, most countries have shown an increasing preference for trademark assignment in gross, and the international community has adopted the rule that trademark owners should not be obliged to assign their marks with the associated business.[236]

A. *The Early Approach: Article 6quater of the Paris Convention*

In the context of the 1934 London revision of the Paris Convention,[237]

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233. *See, e.g.*, 4 MCCARTHY, *supra* note 16, §§ 29:25 36.

234. *See generally* G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY AS REVISED AT STOCKHOLM IN 1967 (1968) (elaborating on the history of the Paris Convention for the Protection of Industrial Property); INTRODUCTION TO INTELLECTUAL PROPERTY THEORY AND PRACTICE (World Intellectual Property Organization ed., 1997) [hereinafter INTRODUCTION TO IP] (providing an introduction to international treaties on intellectual property).

235. *See* discussion *infra* Part IV.A.

236. For a historical reconstruction of various countries' approaches on trademark assignment, see Montgomery & Taylor, *supra* note 82, at 1, and 2 STEPHEN P. LADAS, PATENTS, TRADEMARKS, AND RELATED RIGHTS: NATIONAL AND INTERNATIONAL PROTECTION § 617 (1975).

237. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 53 Stat. 1748, 828 U.N.T.S. 108 [hereinafter Paris Convention 1934]. The Paris Convention is the principal international treaty governing patents, trademarks and unfair competition. The Paris Convention was originally enacted in 1883 and subsequently revised in Brussels in 1900, Washington in 1911, The Hague in 1925, London in 1934, Lisbon in 1958, and Stockholm in 1967. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention 1967]. *See generally* WIPO INTELLECTUAL PROPERTY HANDBOOK: POLICY, LAW AND USE (2d ed. 2004) *at* http://www.wipo.int/about ip/en/iprm/index.htm (last visited May 23,

the members of the Paris Union attempted, for the first time, to regulate the conditions for the validity of trademark transfers.[238] Because the contracting parties could not reach an agreement on the issue,[239] they ultimately decided in favor of a compromise rule that did not modify the *status quo*. As a result of these negotiations, member states introduced Article 6*quater* of the Paris Convention (Article 6*quater*), according to which,

> (1) When, in accordance with the law of a country of the Union, the assignment of mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs, it shall suffice for the recognition of such validity that the portion of the business or goodwill located in that country be transferred to the assignee, together with the exclusive right to manufacture in the said country, or to sell therein, the goods bearing the mark assigned.
> (2) The foregoing provision does not impose upon the countries of the Union any obligation to regard as valid the assignment of any mark the use of which by the assignee would, in fact, be of such a nature as to mislead the public, particularly as regards the origin, nature, or essential qualities, of the goods to which the mark is applied.[240]

From the language of the provision, it was immediately clear that the primary concern behind the rule was to protect the national sovereignty and territorial independence of member states.[241] The provision gave in fact equal weight to all existing national choices in favor of or against assignment in gross underlining that national rules against assignment in gross had to be respected but could not be extended to the parts of a mark's goodwill or business located outside the national territory.[242] Likewise, domestic policies forbidding assignment in gross could not penalize trademark owners transferring their mark without the goodwill in

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2005) (providing an introduction to intellectual property and discussing international treaties and conventions on intellectual property rights); *Member States*, *at* http://www.wipo.int/about wipo/en/members/index.html (last visited May 23, 2005) (presenting a list of the current member countries of the WIPO, which includes members of the Paris Convention for the protection of Industrial Property).

238. *See* BODENHAUSEN, *supra* note 234, at 104.

239. At the time that the language of Article 6*quater* was discussed, some jurisdictions required trademark transfer with the simultaneous transfer of the business. *See* BODENHAUSEN, *supra* note 234, at 104 05. The United States already allowed assignment with only the transfer of goodwill. Trademark Act of 1905, ch. 592, § 10, 33 Stat. 724, 727 (repealed 1946).

240. Paris Convention 1934, *supra* note 237, art. 6*quater*.

241. *See* BODENHAUSEN, *supra* note 234, at 104; INTRODUCTION TO IP, *supra* note 234, at 217.

242. *See* Paris Convention 1934, *supra* note 237, art. 6*quater*.

those jurisdictions where domestic rules allowed for such transfers.[243]

Yet, despite its compromising nature, Article 6*quater* did more than merely accept the possibility of assignment in gross. Rather, the actual wording of the provision, "the assignment of mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs,"[244] suggested that free assignment was not just an option but also the general rule unless the laws of some member countries provided otherwise. This approach was especially interesting considering that several countries in the 1930s still required that trademarks be transferred not just with their associated goodwill but also with the businesses to which they referred.[245]

Even more ambiguous was the second part of the provision, according to which, "[t]he foregoing provision does not impose upon the countries of the Union any obligation to regard as valid the assignment of any mark the use of which by the assignee would . . . mislead the public."[246] Rather than plainly stating that misleading assignments are invalid, the provision stated that these agreements *may* be considered invalid.[247] Despite this awkward language, the question was solved by Article 10*bis* of the Paris Convention, which forbids any act that could mislead consumers, including deceptive or confusing trademark assignments, as acts of unfair competition.[248]

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243. Section 10 does not extend to the assignment of trademark registrations owned by American or foreign trademark owners in other countries. Termed the "territoriality principle" or "territoriality doctrine," it posits that "a trademark is recognized as having a separate existence in each sovereign territory in which it is registered or legally recognized as a mark." 4 MCCARTHY, *supra* note 16, § 29:1; *see* Person's Co. v. Christman, 900 F.2d 1565, 1568 69 (Fed. Cir. 1990); J. Atkins Holdings Ltd. v. English Discounts, Inc., 729 F. Supp. 945, 951 (S.D.N.Y. 1990).

244. Paris Convention 1934, *supra* note 237, art. 6*quater*.

245. *See generally* Greenfield, *supra* note 220 (providing a survey of the laws of trademark assignments in several foreign countries).

246. Paris Convention 1934, *supra* note 237, art. 6*quarter*.

247. *Id.*

248. *See* Paris Convention 1934, *supra* note 237, art. 10*bis*.

> (1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.
>
> (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.
>
> (3) The following in particular shall be prohibited:
>
> 1. all acts of a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
>
> 2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
>
> 3. indications or allegations the use of which in the course of trade is

Undoubtedly critical in raising awareness of the importance of adopting similar standards for the alienability of trademarks, the extent of Article 6*quater* was nonetheless limited to restating the principles of territoriality and national treatment in the context of international trademark law. In addition, despite the expansive breadth of the provision, most national legislatures continued to embrace a system of trademark transfer with the business goodwill in the United States for several decades after the adoption of Article 6*quater*.[249]

In the United States, the 1905 Act was still in force when Article 6*quater* was introduced into the Paris Convention.[250] In line with the *laisséz faire* policy set forth by the provision, Congress did not modify the language of Section 10 of the 1905 Act and confirmed the rule of assignment "with . . . good will" in the Lanham Act.[251] Still, the language of the Paris Convention undoubtedly fueled, ultimately unsuccessfully, the attempts to reform the domestic provision on trademark assignment during the Congressional hearings prior to the adoption of the final version of Section 10 in 1946.[252]

B. *Watering Down the "Goodwill Requirement"*

After several decades and important changes in trademark law and policy, the equilibrium created by Article 6*quater* came under scrutiny in the 1980s during the international negotiations that led to the adoption of

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> liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

Id.; *see also* INTRODUCTION TO IP, *supra* note 234, at 217.

> This is the approach of Section 21 of the Model Law, whose paragraph (1) allows the assignment of trademark registrations or applications independently of the transfer of all or part of the enterprise using the mark, but which provides in its paragraph (2) that such assignment is null and void if its purpose or effect is liable to mislead the public.

Id. at 214 15.

249. *See generally* Montgomery & Taylor, *supra* note 82, at 1 (observing that until the end of World War II the majority of countries linked the validity of trademark assignments to the transfer of the associated business or goodwill).

250. Article *6quarter* of the Paris Convention was signed on June 2, 1934. Paris Convention 1934, *supra* note 237, art. *6quater*, at 1748. Section 10 of the 1905 Act was not repealed until 1946. Trademark Act of 1946 (Lanham Act), Pub. L. No. 79 489, § 46(a), 60 Stat. 427, 444.

251. *Compare* Lanham Act § 10, 15 U.S.C. § 1060(a)(1) (Supp. II 2003), *with* Trademark Act of 1905, ch. 592, § 10, 33 Stat. 724, 727 (repealed 1946). For a general discussion of the impact of the Paris Convention on the Lanham Act, see 4 MCCARTHY, *supra* note 16, § 29:25.

252. *See Hearings on H.R. 4744 Before the House Subcommittee on Trade Marks*, 76th Cong. 81 (1939) (testimony of Edward S. Rogers) [hereinafter *Hearings on H.R. 4744*].

the TRIPS Agreement, as an Annex of the World Trade Organization (WTO) Agreement.[253] At the same time, the North American countries the United States, Canada, and Mexico discussed their respective rules on trademark assignment during the negotiations that led to the adoption of NAFTA.[254] Even though NAFTA was adopted one year before TRIPS, the NAFTA negotiations started after the TRIPS negotiations were already in session, and the diplomatic process that resulted in the adoption of TRIPS heavily influenced the terms of NAFTA, including the provision on trademark assignment.[255]

The world had changed considerably between the adoption of Article 6*quater* and the start of the TRIPS negotiations. To respond to the changes in the economy, the majority of the members of the Paris Union generally allowed trademark owners to assign their marks with minimal requirements.[256] Still, WTO members continued to prove divided on the issue, and particularly the United States refused to change its rule of assignment "with goodwill" in line with the principle that trademarks exist only as symbols of goodwill and as indicators of commercial origin.[257]

Accordingly, to avoid the same result or lack thereof achieved by the Paris Convention, the TRIPS negotiators thus agreed on the only issue they could: that no member country should require trademark owners to transfer their marks with the associated business.[258] Most countries, including the United States, had already adopted, implicitly or explicitly, such a policy in their domestic legislations.[259] Presumably because of the lack of consensus, the term "goodwill" was left out of the language of TRIPS.[260] The same approach characterized the result of the NAFTA

253. *See* TRIPS, *supra* note 81.

254. *See* NAFTA, *supra* note 80, at art. 1708. NAFTA is the principal agreement regulating trade relations between the Unites States, Canada, and Mexico, and became effective January 1, 1994. *See id.* at preamble; North American Free Trade Implementation Act, H.R. REP. NO. 103 361 (1993), *reprinted in* 1993 U.S.C.C.A.N. 2552.

255. *See* Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 AM. U.J. INT'L L. & POL'Y 769, 791 (1997); *see also* TRIPS, *supra* note 81; NAFTA, *supra* note 80. For an extensive analysis of the relationship between TRIPS and NAFTA, see Hicks & Holbein, *supra* at 783 801; *see also* W. Lee Webster, *The Impact of NAFTA, GATT and TRIPS Provisions on Trademark and Copyright Law*, 455 PRACTISING L. INST.: PATS., COPYRIGHTS, TRADEMARKS, & LITERARY PROP. COURSE HANDBOOK SERIES 21, 26 29 (1996).

256. *See, e.g.*, Montgomery & Taylor, *supra* note 82, at 1 ("an ever decreasing minority of countries impose[s] some form of [goodwill] requirement").

257. *See* discussion *supra* Part II.A (discussing the trademark debate and the rule on trademark assignment).

258. TRIPS, *supra* note 81, art. 21; *see, e.g.*, DANIEL GERVAIS, THE TRIPS AGREEMENT: DRAFTING HISTORY AND ANALYSIS 183 84 (2003).

259. *See* Montgomery & Taylor, *supra* note 82, at 1.

260. *See* GERVAIS, *supra* note 258, at 184.

negotiation.[261] NAFTA members opted for a similar compromise and limited the scope of the provision on assignment to the principle that no member of NAFTA should impel trademark owners to transfer their businesses while transferring their marks.[262]

These compromises nonetheless proved fragile, for they were based on the ability to differentiate the concept of goodwill from that of business,[263] leaving unsolved many questions as to the consistent interpretation of Section 10.

1. Article 21 of TRIPS

Even though the issue of trademark assignment continued to prove divisive, the adoption of Article 21 of TRIPS[264] (Article 21) moved toward a bolder approach in favor of the acceptance of trademark assignment in gross[265] by establishing that "[m]embers may determine conditions on the . . . assignment of trademarks, it being understood . . . that the owner of a registered trademark shall have the right to assign his trademark with or without the transfer of the business to which the trademark belongs."[266]

As a result, a less stringent standard was adopted as the general rule on trademark transferability. Particularly, Article 21 explicitly imposed on national legislatures the responsibility to enact domestic policies allowing trademark owners to assign their trademark rights "with or without" their businesses.[267] Yet, by referring to the transfer of the "business" without mentioning "goodwill," the wording of the provision reached only a minimum denominator rather than an identical standard, and so continued to perpetuate the existing compromise between the positions favoring and opposing assignment in gross.[268]

Formally, because Article 21 literally extended only to the requirement of the transfer of the "business," Article 6*quater* of the Paris Convention continued to apply to the requirement of the transfer of goodwill, and

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261. NAFTA, *supra* note 80, art. 1708(11). For a critical overview of the effect of NAFTA on the Lanham Act, see generally Elke Elizabeth Werner, Comment, *Are We Trading our Lanham Act Away? An Evaluation of Conflicting Provisions Between the NAFTA and North American Trademark Law*, 2 SW. J.L. & TRADE AM. 227 (1995).

262. NAFTA, *supra* note 80, art. 1708(11).

263. *See* discussion *supra* Part III.B.

264. TRIPS, *supra* note 81, art. 21. The TRIPS Agreement, which entered into force on January 1, 1995, sets forth the minimum standards of intellectual property protection by which the member countries of the WTO must abide. TRIPS allows a member state to provide legal protection that is more extensive than the agreement's as long as the legislation does not contravene it. *See* TRIPS, *supra* note 81, art. 1(1); 4 MCCARTHY, *supra* note 16, § 29:36.

265. *Cf.* GERVAIS, *supra* note 258, at 183 84.

266. TRIPS, *supra* note 81, art. 21.

267. *Id.*

268. *Cf.* GERVAIS, *supra* note 258, at 184.

members of the Paris Union continued to be free to choose their respective domestic policies.[269] Still, the wording of Article 21 reduced significantly the possibility that TRIPS members would continue to apply a regime of trademark transfers "with goodwill."[270] If no member country could require trademark owners to assign their marks with business assets, the effectiveness of any national provision requiring assignment "with goodwill" was left to requiring the transfer of "intangible goodwill."[271] Additionally, neither TRIPS nor the Paris Convention provided any guidelines as to how to interpret the concept of goodwill apart from the business to which it refers.[272]

On December 8, 1994, the United States signed into law the Uruguay Round Agreements Act to implement the General Agreement on Tariffs and Trade (GATT).[273] In the years that followed, the United States amended its national trademark law in several ways.[274] No changes occurred, however, in the language of Section 10 that, according to the United States, seemed already to comply with the requirement set forth by Article 21.[275] Still, despite this alleged formal compliance, strong doubts

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269. *See* TRIPS, *supra* note 81, art. 21; Paris Convention, 1967, *supra* note 237, art. 6*quater*. Particularly, Article 2 of TRIPS states:

> (1) In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 12 and 19 of the Paris Convention (1967).
>
> (2) Nothing in Parts I to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

TRIPS, *supra* note 81, art. 2.

270. *See* TRIPS, *supra* note 81, art. 21.

271. *Id.*

272. *See id.*; Paris Convention 1967, *supra* note 237, art. 6*quarter*. Gervais suggests that, within the meaning of TRIPS, the "business to which the trademark belongs" is intended as the material basis of the activity, while "goodwill" has been intended as the more intangible basis of the activity. *See* GERVAIS, *supra* note 258, at 184.

273. *See* Uruguay Round Agreements Act, Pub. L. No. 103 465, 108 Stat. 4809 (1994). The effect of GATT in the United States is through an executive agreement, not as a treaty; Congressional legislation is required for it to come into force as a national law. Memorandum for the United States Trade Representative, 58 Fed. Reg. 67,263, 67,267 (Dec. 15, 1993) (executive summary of the result of the Uruguay Round, affirming that TRIPS "will not take effect with respect to the United States, and will have no domestic legal force, until the Congress has approved [it] and enacted any appropriate implementing legislation"); *see also* 4 MCCARTHY, *supra* note 16, § 29:36.

274. *See, e.g.*, Federal Trademark Dilution Act of 1995, Pub. L. No. 104 98, 109 Stat. 985.

275. *Compare* TRIPS, *supra* note 81, art. 21, *with* Lanham Act § 10, 15 U.S.C. § 1060 (Supp. II 2003). Even if the USPTO has never acknowledged any conflict between Article 21 of TRIPS and Section 10, a conflict certainly does exist. *Cf.* Werner, *supra* note 261, at 228 n.14.

exist as to whether Section 10 in practice complies with TRIPS.[276] Particularly, Section 10 complies with the international legislation only if the definition of goodwill does not extend to the concept of business. On the contrary, any trademark assignment that includes a nonvoluntary transfer of tangible business assets would necessarily fall outside the scope of TRIPS.[277]

Accordingly, notwithstanding Congress's resistance to change Section 10, the wording of Article 21 contributed to the watering down of the rule of assignment "with goodwill."[278] Even if it is unlikely that the shift among the courts toward a flexible application of the rule is directly attributable to judges intentionally deciding to apply the domestic rule in line with TRIPS, Article 21 has in fact left no room for the courts to hold assignments invalid on the basis that tangible assets have not been transferred,[279] thus objectively increasing the grounds to interpret goodwill expansively.

2. Article 1708(11) of NAFTA

By adopting literally the same language that was used in Article 21 of TRIPS one year later, Article 1708(11) of NAFTA also resolved the debate over trademark assignment by drafting a compromise rule.[280] According to Article 1708(11), the NAFTA members must abide by the principle that "[a] Party may determine conditions on the . . . assignment of trademarks, it being understood that . . . the owner of a registered trademark shall have the right to assign its trademark with or without the transfer of the business to which the trademark belongs."[281]

The provision reflected again the modern trend toward a more flexible rule on assignment that allows trademark owners to use their marks almost as property[282] and repeated TRIPS's strategic choice to focus on the

276. *See generally* Daniel R. Bereskin, *A Comparison of the Trademark Provisions of NAFTA and TRIPS*, 83 TRADEMARK REP. 1 (1993) (discussing the differences between NAFTA and TRIPS relating to the transfer of goodwill).

277. *See* GERVAIS, *supra* note 258, at 184.

278. For a critical discussion see Lemley, *supra* note 10, at 1709 10.

279. *See, e.g.*, 2 MCCARTHY, *supra* note 2, § 18:10 (noting that some courts vigorously apply the "with goodwill" rule while others concentrate on the nature of the assignees use and not the assets transferred).

280. *See* TRIPS, *supra* note 81, art. 21; NAFTA, *supra* note 80, art. 1708(11). NAFTA provides minimum standards of intellectual property protection to which member states "shall, at a minimum, give effect." NAFTA, *supra* note 80, art. 1701(2). In line with the position adopted by TRIPS, NAFTA allows its member states to "implement in its domestic law more extensive protection of intellectual property rights than is required . . . provided that such protection is not inconsistent with [NAFTA]." *Id*. art. 1702.

281. NAFTA, *supra* note 80, art. 1708(11).

282. For a critical discussion, see Werner, *supra* note 261, at 228 29.

transfer of the business rather than on goodwill. Likewise, by omitting any reference to the transfer of goodwill, the provision made it clear that under NAFTA, as well as under TRIPS, the language of Article 6*quater* of the Paris Convention continued to apply to national policies relating to the transfer of goodwill,[283] and accordingly member countries were free respectively to choose their preferred policy.

Essentially, Article 1708(11) of NAFTA represented a compromise between the different approaches to trademark protection in common-law and civil-law systems.[284] As a result of NAFTA, Canada embraced the language of Article 1708(11) in its Trademark Act, which states that trademarks are "deemed . . . transferable, either in connection with or separately from the goodwill of the business and in respect of either all or some of the wares or services in association with which it has been used,"[285] as long as the public is not confused by the transfer of the mark.[286] Mexico, on its part, implemented into its national law a policy of free alienability of trademarks similar to most civil-law jurisdictions.[287]

The United States signed NAFTA in December 1993 and, following the ratification and implementation of the Agreement, partially amended its national trademark law.[288] Still, Section 10 was not amended since the provision was considered already in agreement with Article 1708(11) of NAFTA.[289] Hence, NAFTA further reduced the original extent of Section 10 by stating that no transfer of tangible business assets could be required as part of a trademark transfer. In fact, even though the USPTO has denied the existence of a conflict between the two provisions,[290] since the

283. Canada, Mexico, and the United States are members of the WIPO. *See Member States*, *supra* note 238.

284. *See* Rayle, *supra* note 260, at 240 46; *see also* NAFTA, *supra* note 80, art. 1708(11).

285. Trademark Act, R.S.C., ch. T 13 § 48(1) (2004) (Can.).

286. Although it is not required, some form of disclaimer or advertisement is advisable in cases of trademark transfers in order to avoid consumer deception. *See* McDade, *supra* note 11, at 473 n.51; Werner, *supra* note 261, at 259.

287. *See Ley de la Propiedad Industrial*, Article 143 (D.O.F. June 27, 1991) (amended Aug. 2, 1994, Dec. 26, 1997, May 17, 1999, Jan. 26, 2004, and June 16, 2005) (Mexico), http://www.impi.gob.mx/impi/jsp/indice all.jsp?OpenFile docs/marco i/3w002101.htm (last visited July 15, 2005). Mexican trademark law does not impose any requirement upon trademark owners who may freely transfer their mark either for the totality of the products for which the mark is registered or just for some of the goods or services that are sold under the mark. *See id.*

288. *See* North American Free Trade Agreement Implementation Act, H.R. REP. NO. 103 361 (1993), *reprinted in* 1993 U.S.C.C.A.N. 2552. Congress amended Sections 2(e) (f), and 23(a) of the Lanham Act to comply with Article 1712 of NAFTA, which governs geographical and geographical misdescriptive marks. *Id.*

289. *See generally* Werner, *supra* note 261, at 228 n.14 (raising and then dismissing the existence of a possible conflict between Article 1708(11) of NAFTA and Section 10 of the Lanham Act).

290. *Id.*

adoption of NAFTA the effectiveness of Section 10 ultimately depends on the possibility to identify the business to which a mark refers apart from its goodwill. Similar to the context of TRIPS, the reports documenting the NAFTA negotiations did not provide any guidance as to how to interpret these concepts, thus leaving the task to national courts and legislatures. Still, the only interpretation of goodwill consistent with NAFTA is again that of "intangible" goodwill.

As a result, to impose the transfer of tangible assets, such as formulas or recipes, which may be necessary to guarantee the substantial continuity of the marked products and accordingly the transfer of goodwill,[291] is inconsistent with the language and the purpose of NAFTA.[292] Yet, a strict interpretation of NAFTA preempts the effect of Section 10 and renders the provision a sterile requirement. Similar to TRIPS, NAFTA thus represented an additional step toward a regime that imposes minimal, or no, requirements to trademark transferability and undoubtedly supported the trend toward a more relaxed view of trademark assignment.

C. *The Formalistic Survival of Goodwill: Article 11(4) of the Trademark Law Treaty*

The issue of trademark assignment finally came under scrutiny during the negotiations that resulted in the adoption of the TLT in 1994.[293] The major focus of the TLT was the harmonization of administrative procedures for national trademark registrations.[294] Article 11 of the TLT spells out the requirements and formalities that may, and in some instances must, be applied by national trademark offices to a request for the recordation of the change in ownership of a mark.[295]

291. *See, e.g.*, Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc., 43 F.2d 937, 939 (2d Cir. 1930) (requiring that the recipe for a cologne be transferred along with the mark if an assignment is to be valid).

292. Werner, *supra* note 261, at 259 60.

293. *See* TLT, *supra* note 78. The TLT was adopted in Geneva on October 27, 1994, and entered into force on August 1, 1996. The TLT seeks to simplify and harmonize the administrative procedures for national trademark applications and the protection of marks. *See* 4 McCarthy, *supra* note 16, § 29:34. It does not touch upon substantive provisions of trademark law. *See id.* For a synopsis of the history of the TLT, see *id.* An updated list of countries that are parties to the WIPO may be viewed at http://www.wipo.int/about wipo/en/members/member states.html (last visited May 23, 2005).

294. *See* 4 MCCARTHY, *supra* note 16, § 29:34.

295. Article 11(1)(a) of the TLT states:

> Where there is a change in the person of the holder, each Contracting Party *shall accept* that a request for the recordal of the change by the Office in its register of marks be made in a communication signed by the holder or his representative, or by the person who acquired the ownership (hereinafter referred to as "new

Particularly, Article 11(4) introduced the rule that national offices may not ask for any further information than what is authorized by the TLT, except in instances where the offices may reasonably doubt the veracity of the information received by the assignor and assignee.[296] For example, if an office suspects that a change in name and address is in fact a change in ownership, an inquiry would be permissible.[297] According to the provision:

> No Contracting Party *may* demand that requirements other than those referred to in paragraphs (1) to (3) be complied with in respect of the request referred to in this Article. In particular, the following *may not* be required:
>
> (i) subject to paragraph (1)(c), the furnishing of any certificate of, or extract from, a register of commerce;
>
> (ii) an indication of the new owner's carrying on of an industrial or commercial activity, as well as the furnishing of evidence to that effect;
>
> (iii) an indication of the new owner's carrying on of an activity corresponding to the goods and/or services affected by the change in ownership, as well as the furnishing of evidence to either effect;
>
> (iv) an indication that the holder *transferred, entirely or in part, his business or the relevant goodwill to the new owner*, as well as the furnishing of evidence to either effect.[298]

Interestingly, the language of Article 11(4) of the TLT reintroduced a direct reference to a mark's goodwill in addition to the business after the

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> owner") or his representative, and indicating the registration number of the registration concerned and the change to be recorded. As regards the requirements concerning the presentation of the request, *no Contracting Party shall refuse* the request,
>
> (i) where the request is presented in writing on paper, if it is presented, subject to paragraph (2)(a), on a form corresponding to the request Form provided for in the Regulations,
>
> (ii) where the Contracting Party allows the transmittal of communications to the Office by telefacsimile and the request is so transmitted, if the paper copy resulting from such transmittal corresponds, subject to paragraph (2)(a), to the request Form referred to in item (i).

TLT, *supra* note 78, art. 11(1)(a) (emphasis added).

296. TLT, *supra* note 78, art. 11(4), (5).

297. The TLT also provides that "[a]ny Contracting Party may require that evidence, or further evidence where paragraph (1)(c) or (e) applies, be furnished to the Office where that Office may reasonably doubt the veracity of any indication contained in the request or in any document referred to in the present Article." TLT, *supra* note 78, art. 11(5).

298. TLT, *supra* note 78, art. 11(4) (emphasis added).

silence of NAFTA and TRIPS. Yet, by stating that contracting parties *may not* require "an indication that the holder transferred, entirely or in part, his business or the relevant goodwill to the new owner,"[299] the provision continued to point in the direction set by NAFTA and TRIPS of allowing trademark assignments independent from the transfer of its business or goodwill.

In addition to the requirements set forth by Article 11(4), Article 11(1)(b) of the TLT also provided that the recording of extracts from the assignment document was in principle sufficient to meet the requirements for a recording request,[300] even if the provision did not forbid but only suggested that contracting parties may not request an indication that the goodwill or the business have been transferred.

The United States ratified the TLT in June 1998,[301] and in October of the same year it enacted the Trademark Law Treaty Implementation Act (Implementation Act).[302] Several sections of the Lanham Act were amended to comply with the application and renewal procedures required by the TLT.[303] Specifically, Section 107 of the Implementation Act amended Section 10 to "permit the assignment of an application to register a mark following the submission of an amendment to allege use under

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299. *Id*.

300. Article 11(1)(b) of the TLT states:

> Where the change in ownership results from a contract, any Contracting Party may require that the request indicate that fact and be accompanied, at the option of the requesting party, by one of the following:
>
> (i) a copy of the contract, which copy may be required to be certified, by a notary public or any other competent public authority, as being in conformity with the original contract;
>
> (ii) an extract of the contract showing the change in ownership, which extract may be required to be certified, by a notary public or any other competent public authority, as being a true extract of the contract;
>
> (iii) an uncertified certificate of transfer drawn up in the form and with the content as prescribed in the Regulations and signed by both the holder and the new owner;
>
> (iv) an uncertified transfer document drawn up in the form and with the content as prescribed in the Regulations and signed by both the holder and the new owner.

TLT, *supra* note 78, art. 11(1)(b).

301. Trademark Law Treaty with Regulations, 144 Cong. Rec. S7520 02 (daily ed. July 6, 1998).

302. Trademark Law Treaty Implementation Act, Pub. L. No. 105 330, 112 Stat. 3064 (1998), *available at* http://www.uspto.gov/web/offices/com/sol/tmlwtrty/index.html (last visited May 23, 2005).

303. These changes took effect on October 30, 1999, and included amendments to the language of Section 10. *See* Trademark Law Treaty Implementation Act §§ 106, 107.

§1(c) of the Act," and "to permit the Commissioner to prescribe what information must be submitted to record an assignment."[304] In addition, as indicated in Part II, Section 10 was changed to allow the assignment of ITU applications as soon as the applicant has filed an amendment to allege use instead of a statement of use.[305] The new law also permitted recordation of a document that is not an original or a true copy.[306]

Generally, the changes introduced as a result of the TLT represented minor formal adjustments that did not change the scope of Section 10. Nevertheless, these adjustments continued to indicate a trend toward a more flexible approach on trademark alienability.[307]

V. THE CASE FOR ABANDONING THE RULE OF ASSIGNMENT "WITH GOODWILL"

As described in Parts II, III, and IV the general trend seems to be in favor of free trademark transferability. Trademark practices have overcome the prohibition of Section 10, and the courts have repeatedly upheld trademark transfers where nothing but the mark was passed to the assignee.[308] Yet, this trend has not established a clear path of acceptance of assignment in gross, and the outcomes of judicial decisions still depend on inconsistent interpretations of goodwill.

Part V advocates for a change allowing transfers in gross or "with or without" goodwill and argues that this change will restore consistency between the rule on trademark assignment and its interpretation and enforcement. Despite common criticisms, this change will not adversely affect consumers, for the courts have alternative, and better, tools to prevent misleading assignments. Additionally, it will prevent frivolous legal actions whose ultimate goal is not to protect consumers but to control the course of trade.[309]

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304. *See* Summary of the Trademark Law Treaty Implementation Act of 1998 [hereinafter TLT Summary], *at* http://www.uspto.gov/web/offices/com/sol/tmlwtrty/tlt summ.htm (last modified Nov. 16, 2003).

305. *See* discussion *supra* Part II.B.2.

306. *See* 37 C.F.R. § 3.25 (2005).

307. *See* Rayle, *The Trend Toward Enhancing Trademark Owners' Rights A Comparative Study of U.S. and German Law*, 7 J. INTELL. PROP. L. 227, at 278 ("[I]f the U.S. ratifies the TLT, it may adopt the majority policy. . . . [T]he TLT contains provisions that point in the direction of allowing a separate identity of mark and underlying business.").

308. *See* discussion *supra* Part II.C.

309. *See* 2 MCCARTHY, *supra* note 2, § 18:3. "The central purpose of the technical rules regarding the assignment of trademarks is to protect consumers and these rules were 'not evolved for the purpose of invalidating all trademark assignments which do not satisfy a stereo typed set of formalities.'" *Id.* (quoting Syntex Labs, Inc. v. Norwhich Pharmocal Co., 315 F. Supp. 45, 54 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971).

A. *Failures of the Rule of Trademark Assignment "with Goodwill"*

As described in Part II, the rule of assignment "with goodwill" has historically been justified on the basis of the assumption that it guarantees continuity between a mark and the marked products.[310] Still, case law and trademark practices have long challenged this assumption by showing the many inconsistencies that have characterized the application of Section 10.[311] In fact, rather than guaranteeing continuity in business endeavors, and thus meeting the purpose for which it was drafted, judicial decisions and trademark practices have indicated how the major result of this rule has been the creation of uncertainty as to what represents a valid trademark transfer. The difficulties that the courts have traditionally encountered in defining trademark goodwill represent the primary reason for this uncertainty.[312]

Most of the ambiguity surrounding the application of Section 10 can be directly explained, however, by revisiting the rationale of the rule and particularly by highlighting its intrinsic failures. Specifically, contrary to the general assumption, Section 10 has never directly prevented assignees from changing the quality of their goods or services, or legally required that they provide a particular quality for their products.[313] Instead, the provision has historically required only that trademarks be transferred with the associated goodwill. In other words, assignees have been legally obliged only to refrain from using the assigned marks misleadingly and to follow the technical standards imposed on them for each particular group of goods or services.[314] Accordingly, the rule of assignment "with

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310. *See, e.g.*, Sugar Busters L.L.C. v. Brennan, 177 F.3d 258, 362 (5th Cir. 1999). Continuity between the marks and the products it identifies should be guaranteed or the public "would have no assurance that [it is] getting the same thing (more or less) in buying the product or service from its new maker." *Id*. at 362.

311. *See generally supra* Part II.D. (discussing inconsistencies in application of the rule).

312. *See* McDade, *supra* note 11, at 473:

> Although originally intended to protect the public, the goodwill requirement clearly "operates against the public interest when it generates unnecessary and costly lawyer . . . time or results in the invalidation of transfers that are otherwise consistent with current business realities and needs."

Id. (alteration in original) (quoting Montgomery & Taylor, *supra* note 82, at 22).

313. Section 10(a)(1) of the Lanham Act provides only that a mark "shall be assignable with the good will of the business in which the mark is used." 15 U.S.C. § 1060(a)(1) (Supp. II 2003); *see also* Alfred M. Marks, *Trademark Licensing Towards a More Flexible Standard*, 75 TRADEMARK REP. 641, 645 (1988); Elmer William Hanak, III, *The Quality Assurance Function of Trademarks*, 43 FORDHAM L. REV. 363, 367 (1974); Rogers, *supra* note 3, at 236.

314. Some examples in this sense are labeling requirements, standards set by the Food and Drugs Administration, environmental requirements, etc. For instance, Title 21 "Food and Drugs,"

goodwill" has never guaranteed continuity of the quality of marked products. Simply, the rule has facilitated such continuity, hoping that assignees continue offering products that are more or less similar to those of the assignors, lest assignments be invalid.[315]

Traditionally, Section 10 has also discriminated between assignees and original trademark owners with regard to the duty to guarantee particular product qualities. Trademark history shows in fact that while assignees had to continue to produce products of the same quality as those of their predecessors, lest assignments could be declared void, the ability for original trademark owners to change the quality or the kind of their products was never questioned.[316] Particularly, trademark owners have always been free to modify the quality or kind of their products[317] as long as they used the mark in ways that were not misleading or deceptive to the public.[318] This difference in treatment has historically represented another, much criticized, weakness of the application of the rule of assignment "with goodwill." While continuing to produce products of the same quality as those of the assignor is often in the assignee's best interest,[319] some

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Chapter 1 "Food and Drug Administration, Department of Health and Human Services" of the Code of Federal Regulations contains the Food and Drug Administration's product standards and regulations. *See, e.g.*, 21 C.F.R. §§ 1.20 1.21, §§ 1:23 1:24 (2005) (providing rules concerning general labeling requirements); *see also* Original Appalachian Artworks, Inc. v. Granada Elecs, Inc., 816 F.2d 68, 73 (2d Cir. 1987) (finding that sufficient confusion was created to justify a permanent injunction); Parks, *supra* note 11, at 545 46 (noting that very few cases have invalidated a trademark based on a lack of control).

315. *See* discussion *supra* Part II.C.

316. *See* Parks, *supra* note 11, at 545 47.

317. The "New Coke" case is an emblematic example. The Coca Cola company discontinued production of its traditional Coke in favor of its "New Coke." *See* Michael Bastedo & Angela Davis, *God, What a Blunder: The New Coke Story* (Dec. 17, 1993), *at* http://members.lycos.co.uk/thomassheils/newcoke.htm (last visited Feb. 20, 2005). Because of the overwhelmingly negative consumer reaction, Coca Cola revised its marketing strategies, and launched "Coca Cola Classic." *See id.*

318. Section 2(a) of the Lanham Act expressly prohibits the registration of trademarks that are "deceptive." 15 U.S.C. § 1052(a) (2000). Deceptive trademarks are subject to cancellation according to Section 14(3) of the Lanham Act. 15 U.S.C. § 1064(3) (2005); *see* Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367 (2d Cir. 1959) (noting that there is an affirmative duty under the Lanham Act to prevent deception); Nat'l Lead Co. v. Wolfe, 223 F.2d 195, 205 (9th Cir. 1955) (finding that the name was sufficiently misleading to allow an injunction and an accounting); Geo. Wash. Mint, Inc. v. Wash. Mint, Inc., 349 F. Supp. 255, 263 (S.D.N.Y. 1972) (preliminary injunction except for prior local use was a valid remedy under a Lanham Act).

319. As Landes and Posner pointed out:

> [T]rademarks have a self enforcing feature. They are valuable only insofar as they denote consistent quality, and so[,] only a firm able to maintain consistent quality has an incentive to expend the resources necessary to develop a strong trademark. When a brand's quality is inconsistent, consumers learn that the trademark does not enable them to relate their past to their future consumption experiences; the

changes in the quality or type may be necessary, or desirable, to respond to market demands.[320] To deny assignees this flexibility may ultimately undermine their ability to compete in the marketplace.[321]

Fully aware of these problems, the courts have traditionally adopted a pragmatic interpretation of the rule favoring, or at least tolerating, changes in the quality of the products distributed by assignees.[322] As described in Part II, in the past few decades, the courts generally have upheld assignments where the product changes did not represent a risk to the public, while they declared void transactions where this risk could subsist.[323] To reach these decisions, the courts have traditionally exploited the ambiguities that characterize the concept of goodwill, adopting any desired conclusion on a case-by-case basis.[324]

Yet, this judicial rule of reason has amplified the inconsistency in the application of Section 10. This inconsistency increased when the courts started to adopt the position that sufficient continuity, and not product identity, represents a sufficient standard for the validity of trademark transactions, and that a transfer of tangible assets is not necessary for the passing of goodwill.[325] As highlighted in Part III, most courts have solved the problem of tracking the transfer of intangible goodwill by focusing

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> trademark does not reduce their search costs.

LANDES & POSNER, *supra* note 54, at 168.

320. *See* Parks, *supra* note 11, at 536 (making the same argument for the inconsistency between quality control requirements between trademark owners and licensors). To use a hypothetical, if a six month old SONY television breaks, the purchaser will have no recourse against the owner of the mark as long as the owner replaces the television with a technically equivalent model, likely six months newer, even if the product design is not exactly the same. Will the situation be different if, after the purchase of television, the mark SONY has been assigned to a new owner who stopped producing the model acquired? Will the purchaser have a right to have the television replaced with exactly the same product lest the assignment is invalid? Following recent case law, the purchaser will probably not have a claim. However, a court could interpret the language of Section 10 conservatively and declare the assignment invalid.

321. The rule of assignment "with goodwill" also clashes with the reality of the market rules that govern the manufacturing and marketing of products. Every product and its relationship with the public are different. Colas, snacks, and drinks are very different from cars, computers, or sophisticated medical devices. Some products, like portable CD players, stereos, or DVD players, need to follow the changes and progress of technology. Others, like shoes, clothes, or toiletries need to follow the taste of consumers and be fashionable or trendy. Some, like Coke, Pepsi, or Miller, can stay the same because that is most often what consumers want. Paradoxically, a strict interpretation of the rule against assignment in gross, one where assignees could not change the quality of their products, would negate improving products for consumers, and accordingly could impact their ability to compete.

322. *See* discussion *supra* Part II.C.

323. *See* discussion *supra* Part II.C.

324. *See* discussion *supra* Part III.C.

325. *See* discussion *supra* Part III.C.

directly on other factors, in addition to, or instead of, the passing of goodwill.[326]

Finally, the fact that competitors, rather than consumers or the USPTO, monitor the validity of trademark transfers through their claims has traditionally added to the inconsistency in the application of Section 10 by fostering only occasional and random control of trademark assignments. According to the Lanham Act, only competitors can challenge assignments without goodwill, standing being denied to consumers and their associations.[327] Not surprisingly, plaintiffs have often used the goodwill requirement against competitors, while defendants have invoked it to raise "unclean hands" defenses against allegations of trademark infringement.[328] As a result, in addition to nurturing inconsistencies, Section 10 has generally provided a useful means for unfair competitors to control competition rather than to protect consumers.

B. *Calling for a Consistent Rule on Trademark Assignment*

As described in Part II, the rule of assignment "with goodwill" has undoubtedly reached a stage of "sterile formalism."[329] Rather than consistently applying Section 10, the judiciary has created much confusion as to what represents a valid assignment by randomly interpreting the concept of goodwill. Additionally, since the courts have adopted the position that transfer of goodwill does not require tangible business assets,[330] the extent of the rule has been continuously reduced. As highlighted in Part IV, after the enactments of TRIPS and NAFTA, to impose such a requirement also represents a violation of international law.[331]

Partially because of international developments, but primarily to provide trademark owners with a more flexible rule, the courts have thus increasingly accepted a line of reasoning that seems to tolerate assignment in gross and only in a few instances in the past years have the courts

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326. *See* discussion *supra* Part III.C.

327. *See* Lanham Act § 43, 15 U.S.C. 1125 (2000). *See also* discussion *infra* notes 351 52.

328. 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 31:44 31:58 (4th ed. 2004). "Unclean hands, or trademark misuse, is purely an affirmative defense and does not form the basis for an affirmative claim for recovery." *Id.* at § 31:44. The "unclean hands" defense is often asserted affirmatively as a counterclaim for cancellation of the plaintiff's trademark registration pursuant to Sections 14 and 37 of the Lanham Act. *See* 15 U.S.C. §§ 1064, 1119 (2005); *see also* Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co., 324 U.S. 806, 814 (1945); Tveter v. AB Turn O Matic, 633 F.2d 831, 839 (9th Cir. 1980).

329. 2 MCCARTHY, *supra* note 2, § 18:10 (observing that the rule of Section 10 could be seen as "degenerating into a sterile formalism which only clumsily and indirectly tries to ensure continuity of the reality symbolized by the assigned mark").

330. *See* discussion *supra* Part III.C.

331. *See* discussion *supra* Part IV.B.

reverted to a conservative approach. Still, trademark owners and assignees continue to be left with much doubt as to the conditions upon which they should transfer their marks, and predicting judicial responses is a "risky business," which "re-plays the 1930s legislative debate in every litigation over the validity of an assignment."[332]

Yet, considering the importance of trademarks in today's economy, this uncertainty is unacceptable, for it negatively affects trademark owners and assignees, and generally competition in the marketplace. If it is true that ambiguities characterize trademark law because of its social, emotional, and irrational basis, it is also true that trademark owners, assignees, and competitors cannot rely on an unpredictable rule of reason to know whether an assignment is valid.

Thus, the time has come to revise Section 10 to provide for a more consistent standard for trademark transferability. A new standard in this respect is in fact necessary to better protect consumers and to eliminate the inconsistencies, which currently characterize the rule.

1. The Case for Trademark Assignment "Without" Goodwill

In light of the above, the most reasonable solution to restore consistency between Section 10 and its application seems to be to allow free trademark alienability by either erasing the wording "with goodwill" from the provision, or by allowing assignment "with or without goodwill." Contrary to the general belief, this amendment will not diminish but rather will foster consumer protection and likely increase competition in the marketplace. To avoid trademark trafficking, however, this rule should apply only to marks that are currently used in commerce and should extend to ITU applications under the conditions currently required by Section 10.[333]

Undoubtedly, a change toward a rule of free trademark assignment, or assignment "with or without" goodwill, will immediately solve the major downfall of Section 10: the problem of interpreting an indefinable concept trademark goodwill is avoided as attention shifts directly to the consequences of the transaction. Because the courts have repeatedly acknowledged that the validity of an assignment should be assessed by looking at the overall extent of the transaction, this change will bring the language of the rule in line with reality. In addition, even if the courts have proved that they are willing to uphold assignments where nothing but the

332. 2 MCCARTHY, *supra* note 2, § 18:10. "[W]hile some courts will apply the anti assignment in gross 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.*

333. *See* discussion *supra* Part II.B.

mark has been transferred,[334] this trend does not represent a valid guideline for trademark owners when negotiating the assignment of their marks.

To amend the wording of Section 10 will also restore consistency with the "well-settled" practice of assignment and license-back,[335] and assist trademark owners who wish to use their marks as collateral for loans.[336] Equally important, this change will eliminate the difference in treatment between assignees and original trademark owners and, finally, bring Section 10 effectively in line with TRIPS and NAFTA.[337]

In addition to restoring consistency between the rule and its application, the argument could be made that allowing free trademark alienability could also increase competition to the advantage of consumers. Able to transfer their marks as they wish, assignors could in fact continue to produce similar products under another mark without the risk of seeing the transaction declared void on the basis that goodwill was not transferred.[338] Consumers could thus have an increasing number of comparable products available in the market from which to choose. By contrast, to prevent assignments without goodwill could reduce the ability of assignees to compete.[339] The decision in *InterState Netbank* represents a clear example of this risk.[340] Even though the assignee had legitimately acquired the mark and the registered domain name, arguing that goodwill had not been transferred, the court found the assignment void and cancelled the mark,

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334. *See* Lemley, *supra* note 10, at 1710.

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

336. *See* McDade, *supra* note 11, at 491:

> [T]o retain the goodwill of the business in case of default . . . is beneficial to both the lender and the trademark owner; the lender has a valuable trademark that can be sold to a third party, and [the owner] can continue producing her product even though she will have to do so under a different trademark. . . .
>
> . . . Allowing assignment in gross would further facilitate a trademark's marketplace function by encouraging growth in companies and allowing assets to flow to the users who value the assets most.

Id. (footnote omitted).

337. *See* discussion *supra* Part IV.B.

338. Depending on the particular mark assigned, part of its goodwill may necessarily be transferred even if nothing but the mark is transferred to the assignee. *See* discussion *supra* Part III.B.1. As pointed out earlier, in several instances, the mark itself represents the most important factor in attracting consumers, and accordingly, its transfer encompasses, at least, part of its goodwill. *See* discussion *supra* Part III.B.1.

339. *Cf.* Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 311 (S.D.N.Y. 2000) (declaring an assignment void based partially on testimony that the assignee "threw away eighty percent of the materials he received because 'I didn't feel I had the need to have any of that because it was not my business'").

340. *See* InterState Net Bank v. Netb@nk, Inc., 348 F. Supp. 2d 340, 351 (D.N.J. 2004).

thus affecting the assignee's ability to compete.[341]

The economic argument in favor of free trademark alienability seems even stronger when, by adopting a strict interpretation of Section 10, the courts could declare an assignment void on the basis that goodwill has not been transferred simply because the assignor is continuing her previous business under another name.

To elaborate on the first scenario in the Introduction, imagine that the owner of STARBUCKS were to assign the mark to a company involved in the retail coffee business and then opened a chain of coffee shops called ESPRESSO SUPREME. As long as consumers are made aware of the changes, if any, in the quality of the new STARBUCKS products, the result of the assignment is positive for the market: consumers will have one additional coffee shop from which to choose their morning coffees in addition to STARBUCKS with its new owner and STARBUCKS' previous competitors. To allow STARBUCKS' competitors to attack the validity of this transaction could thus affect the assignee's ability to compete.

Yet, in some instances, as in the second and third examples in the Introduction, assignment without goodwill could prevent consumers from getting the products they want, should assignees decide to discontinue their production or change their features. Consumers interested in acquiring a BEETLE car, or a COCA-COLA drink will probably be disappointed because of the assignees' choice to change the quality, or kind, of the marked goods. Still, nothing in trademark law imposes on trademark owners a duty to continue to produce the same products.[342] While maintaining a consistent level of quality is in the best interest of producers, companies are free to adapt their production to business demands and marketing strategies. As noted earlier, these changes could otherwise happen when assignees acquire the goodwill associated with a mark, for even under the present rule they are not legally obliged to maintain the same product quality, but only to respect the product

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341. *See id.*

342. *See, e.g.*, Jordan v. Nissan N. Am., Inc., 853 A.2d 40, 43, 48 (Vt. 2004) (holding that there was no consumer fraud when a buyer purchased a Nissan Quest to avoid buying a Ford car again, even though the buyers did not know or realize that Quest was made in part by Ford); Szajna v. G.M.C., 503 N.E.2d 760, 771 (Ill. 1986) ("We hold that the name '1976 Pontiac Ventura,' alone does not create an express warranty of the kind or nature of the car's components."); Guste v. G.M.C., 370 So. 2d 477, 484 (La. 1979) (denying a class action suit against General Motors for, through its Oldsmobile division, "install[ing] engines manufactured by its Chevrolet division into . . . Oldsmobile automobiles . . . sold to Louisiana consumers . . . [and for the purchasers not being] advised of the substitution either prior to the sales or at the actual transactions"); Amato v. G.M.C., 463 N.E.2d 625, 627 (Ohio Ct. App. 1982) (reviewing a case in which a buyer of an Oldsmobile filed suit after finding out that the car he purchased had an engine manufactured not by Oldsmobile but by Chevrolet).

technical standards.[343]

Accordingly, as long as assignees do not use a mark misleadingly, a rule allowing trademark owners to transfer their marks as they prefer does not only seem to be the best solution to restore consistency between the rule and its interpretation, but it could also positively impact competition in the marketplace.

2. Alternative and More Effective Tools to Protect Consumers

While trademark owners' ability to assign their marks as they see fit could both restore consistency in the interpretation of the rule on trademark transferability and benefit companies. This should not happen, however, to the detriment of either the purchasing public or competitors in the market. Trademark law should continue to protect the public against unscrupulous manufactures willing to take advantage of their legitimate expectations by protecting consumers against the fraud that could result from the transfer of a mark.

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.[344] Should assignees decide to change the quality of the marked products, consumers must be made aware of these changes possibly before, or at least while, carrying out their purchases.[345] As suggested in the Introduction, package labels on

343. *See* discussion *supra* Part V.A.

344. This deception amounts to consumer fraud, for which trademark owners are civilly and criminally liable. *See, e.g.*, Magnuson Moss Warranty Federal Trade Commission Improvement Act, 15 U.S.C. §§ 2301 2312 (2000); Consumer Product Safety Act, 15 U.S.C. §§ 2051 2085 (2000); RESTATEMENT (SECOND) OF TORTS: MISREPRESENTATION BY SELLER OF CHATTELS TO CONSUMER § 402B (1965) (amended 1998 by RESTATEMENT (THIRD) OF TORTS: PRODUCTS LIABILITY § 9):

> One engaged in the business of selling chattels who, by advertising, labels, or otherwise, makes to the public a misrepresentation of a material fact concerning the character or quality of a chattel sold by him is subject to liability for physical harm to a consumer of the chattel caused by justifiable reliance upon the misrepresentation, even though (a) it is not made fraudulently or negligently, and (b) the consumer has not bought the chattel from or entered into any contractual relation with the seller.

Id.

345. *See* Hanak, *supra* note 313, at 331. "Courts have uniformly held that an adequate explanation negates the possibility of deception and hence the loss of trademark rights." *Id.* Specifically, Hanak refers to the following examples:

> [I]n Hy Cross Hatchery it was held that a change in the breed of chickens did not constitute grounds for cancellation of the trademark when "the type of chick

the products and on the premises where the products are for sale, along with targeted advertising campaigns, can fit this purpose.[346] Despite the traditional skepticism of the courts toward disclaimers, even if some consumers will not notice a new commercial about the recent changes in the quality of their favorite coffee, car, or soda, or will not read the label on the coffee cup or can they are holding, labels and disclaimers generally can demonstrate that assignees have put forth a reasonable effort to inform the public.[347]

These labels and disclaimers may not, however, prevent the fact that the changes in the ownership of a mark might have a negative effect on consumers should assignees decide to take unfair advantage of the public's expectations of a particular mark.[348] Yet, these situations do not depend on the fact that a mark has been assigned without the associated goodwill and could also arise if the mark's goodwill is transferred to the assignee. Simply put, these situations represent commercial frauds where assignees are using the mark to deceive the public, and the courts should declare the assignment invalid and the mark cancelled or abandoned according to Section 14 or Section 45 of the Lanham Act, respectively.[349] Should assignees use their marks to deceive the public, the extent of Sections 14 and 45 will not change under a rule of free transferability, and the courts still will be able to invoke these provisions to declare misleading assignments void and the marks cancelled or abandoned.[350]

A change in the language of Section 10 will also leave intact competitors' ability to invoke Section 43(a) of the Lanham Act[351] and

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> appears to have been otherwise indicated than by the trademark." Similarly, in Menendez, enforceable rights in a trademark formerly applied to cigars made exclusively in Cuba of Cuban tobacco were not forfeited when the mark was applied to cigars made in Florida of non Cuban tobacco since this fact was stated on the cigar boxes.

Id. (footnote omitted) (quoting Hy Cross Hatchery, Inc. v. Osborne, 303 F.2d 947, 950 (C.C.P.A. 1962)).

346. *See* discussion *supra* Part I.

347. *See* Hanak, *supra* note 313, at 331 34.

348. *See id.*

349. *See* discussion *supra* Part II.B.

350. *See* discussion *supra* Part II.B.

351. *See* Lanham Act § 43, 15 U.S.C. § 1125 (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

bring a civil action if they believe they have been damaged by the misleading use of a mark on the part of an assignee.[352] Section 43(a) has traditionally been a very effective means for competitors to attack illegitimate trademark uses, and a change toward a regime of free trademark alienability will not affect the extent of the provision. Simply, rather than referring to the transfer of a mark's goodwill, the courts will focus on the differences in the use of a mark between assignees and assignors and will declare void transfers that are likely to deceive or mislead consumers.[353]

Particularly, while assessing whether the use of a mark by an assignee is in line with Sections 14 or 45, or with Section 43(a), the courts should pay special attention to the differences in the quality of the product to assess whether they can mislead or confuse consumers. To this end, when the products identified by a mark are similar, like in the first and second scenarios in the Introduction, the courts should adopt a test similar to the

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> 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
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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.

352. Section 43(a) of the Lanham Act refers to "any person," yet the courts have been hesitant to offer consumers such standing. 15 U.S.C. § 1125(a)(1); *see, e.g.*, Seven Up Co. v. Coca Cola Co., 86 F.3d 1379, 1383 (5th Cir. 1996); Serbin v. Ziebart Int'l Corp., 11 F.3d 1163, 1170 (3d Cir. 1993); Dovenmuehle v. Gilldorn Mortgage Midwest Corp., 871 F.2d 697, 699 701 (7th Cir. 1989); Colligan v. Activities Club of New York, Ltd., 442 F.2d 686, 691 92 (2d Cir. 1971); *see also* 4 MCCARTHY, *supra* note 16, § 27:39. McCarthy states:

> At one point in Congress, a House version of the bill which eventually led to the Trademark Law Revision Act and the rewriting of § 43(a) contained language expressly giving consumers the right to sue for a violation of § 43(a). But the provision was deleted in a House Senate Conference Committee. Representative Kastenmeier inserted a statement in the record to the effect that he believed that consumers have standing under the case law and that the deleted consumer standing [sic] proposal would only have "clarified that law."

Id. (citation omitted) (citing H.R. REP. NO. 100 1028, at 13 15 (1988); 134 CONG. REC. H.10419 (daily ed. Oct. 19, 1988) (statement of Rep. Kastenmeier)); *see also* Tawnya Wojciechowski, *Letting Consumers Stand On Their Own: An Argument for Congressional Action Regarding Consumer Standing for False Advertising under Lanham Act Section 43(a)*, 24 SW. U.L. REV. 213, 219 (1994).

353. *Cf.* Parks, *supra* note 11, at 553 ("No case has held that the use of a trademark in connection with goods of a different quality level constitutes an actionable 'false description' or 'misleading representation' of fact in violation of Section 43(a).").

traditional trademark infringement test to assess whether there is likelihood of confusion on the part of the public as to the quality of the marked products.[354] Specifically, the courts should take into consideration factors such as, but not limited to, the strength and the reputation of the mark, the respective quality of the products, their geographical distribution, and the sophistication of the buyers.[355] In addition to consumer confusion, the courts should also consider whether the use of the mark could harm or create a risk for even a small sector of the public.[356] Should the courts find that the assignees' use of a mark deceives the public as to the quality of the marked products, the assignments should be declared invalid and the marks cancelled or declared abandoned. If the public is not deceived, the assignments should be allowed to stand.

On the other hand, when the products identified by a mark prior to and after its transfer are considerably different in kind, such as in the third example in the Introduction, the courts should focus on whether consumers mistakenly believe that the new products originate from the old manufacturer, that is, whether there is a likelihood of indirect confusion between the old and the new products, and how this confusion could impact consumers.[357] In this respect, the courts should focus primarily, but not exclusively, on the established reputation and attractive power of the mark. Still, the courts should also assess whether the quality of the new

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354. *See In re* Majestic Distilling Co., 315 F.3d 1311, 1315 (Fed. Cir. 2003); Sally Beauty Co. v. Beautyco, Inc., 304 F.3d 964, 972 (10th Cir. 2002); Smith Fiberglass Prods., Inc. v. Ameron, Inc., 7 F.3d 1327, 1329 (7th Cir. 1993); Merchant & Evans, Inc. v. Roosevelt Bldg. Prods. Co., 963 F.2d 628, 637 (3d Cir. 1992); Anheuser Busch, Inc. v. L & L Wings, Inc., 962 F.2d 316, 320 (4th Cir. 1992); Homeowners Group, Inc. v. Home Mktg. Specialists, Inc., 931 F.2d 1100, 1106 (6th Cir. 1991); Keds Corp. v. Renee Int'l Trading Corp., 888 F.2d 215, 222 (1st Cir. 1989); Dieter v. B & H Indus. of Southwest Fla., Inc., 880 F.2d 322, 326 (11th Cir. 1989); Sno Wizard Mfg., Inc. v. Eisemann Prods. Co., 791 F.2d 423, 428 (5th Cir. 1986); Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492, 497 98 (2d Cir. 1961); Conopco, Inc. v. May Dep't Stores Co., 784 F. Supp. 648, 682 (E.D. Mo. 1992).

355. *See Polaroid*, 287 F.2d at 495. The Second Circuit held that:

> Where the products are different, the prior owner's chance of success is a function of many variables: the strength of his mark, the degree of similarity between the two marks, the proximity of the products, the likelihood that the prior owner will bridge the gap, actual confusion, and the reciprocal of defendant's good faith in adopting its own mark, the quality of defendant's product, and the sophistication of the buyers.

Id.; *see also* GRAEME B. DINWOODIE & MARK D. JANIS, TRADEMARKS AND UNFAIR COMPETITION: LAW AND POLICY 469 71 (2004).

356. *See, e.g.*, Sugar Busters L.L.C. v. Brennan, 177 F.3d 258, 266 (5th Cir. 1999).

357. *See id.* at 265; Archer Daniels Midland Co. v. Narula, No. 99 C 6997, 2001 WL 804025, at *8 9 (N.D. Ill. July 12, 2001); Pilates, Inc. v. Current Concepts, Inc., 120 F. Supp. 2d 286, 305, (S.D.N.Y. 2000); Clark & Freeman Corp. v. Heartland Co., 811 F. Supp. 137, 141 (S.D.N.Y. 1993).

product could harm, in any possible way, the purchasing public. Again, if the courts determine that the assignees use a mark misleadingly, they should declare the assignments void. Yet, if the use is not misleading, the assignments should be upheld.

Generally, if the packaging of the products marketed by an assignee contains a disclaimer or a label that exhaustively indicates the difference in quality, no matter how significant these changes are, or if these changes are advertised on the premises where the products are sold so that the average consumer will not be mistaken, the courts should allow the assignment to stand.[358] Likewise, the courts should take into consideration all efforts made by the assignees to advertise to the public the product changes in question, and assess whether these efforts have been at least reasonable, to the extent that an assignee effectively intended to inform consumers about the new quality of her products.

An amendment to the rule on trademark assignment will not affect Section 14(5) of the Lanham Act,[359] according to which the Federal Trade Commission (FTC) can enforce and cancel misleading trademarks when consumers believe they are purchasing different products from the ones to which the mark is affixed.[360] According to Section 14(5), should the holder of a trademark use it in a deceptive way, the FTC is entitled to cancel the mark to ensure the quality control necessary to protect the consumer's expectations.[361] Regrettably, however, this measure has recently been enforced very rarely, for this remedy is often considered harsh on competitors.[362] Still, the FTC's authority to enforce this rule as occasions arise will not be questioned should Section 10 be amended.

Generally, the FTC also has authority, under Section 5 of the Federal

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358. *See* Hanak, *supra* note 313, at 374 75.

359. Section 14(5) 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(5) (2000).

360. "A company that deceives consumers through reckless, even simply negligent, disregard of the truth may do just as much harm as one that deceives consumers knowingly." *In re* Sears Roebuck & Co., 95 F.T.C. 406, 517 n.9 (1980), *quoted in* FTC v. Wolf, No. 94 8119 CV FERGUSON, 1996 U.S. Dist. LEXIS 1760, at *14 (S.D. Fla. Jan. 30, 1996); *see also* Bart Schwartz Int'l Textiles, Ltd. v. F.T.C., 289 F.2d 665, 669 (C.C.P.A. 1961) ("The obligation which the Lanham Act imposes on an applicant is that he will not make knowingly inaccurate or knowingly misleading statements in the verified declaration forming a part of the application for registration.").

361. In *Jacob Siegel Co. v. F.T.C.*, 327 U.S. 608, 611 (1946), the Supreme Court held that "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."

362. "[W]ith one notable exception, the Commission rarely has used the authority granted it." Hanak, *supra* note 313, at 373 (citation omitted) (citing *Bart Schwartz Int'l Textiles*, 289 F.2d at 665).

Trade Commission Act,[363] to prevent acts of unfair competition. This power includes preventing all acts that involve the use of deceptive marks,[364] and the FTC has often utilized this power by sending cease-and-desist orders to companies to prohibit "the use of trademarks that inherently are deceptive."[365] Again, a change in the language of Section 10 will not affect this power, and the FTC will continue to monitor that trademark owners, including assignees, use their marks in the best interest of consumers and the market.

Finally, to amend the current rule will not diminish the civil and criminal liability that trademark owners have in front of consumers for the quality of their products. Product liability and consumer protection laws[366] will in fact continue to guarantee that assignees and trademark owners in general, adhere to the required product standards and do not deceive consumers, or they will be civilly and criminally liable for commercial fraud.[367] As a result, a change in the language of Section 10 will have only the beneficial effect of bringing the law in line with reality, without diminishing, but rather fostering, market competition.

VI. CONCLUSION

Although some of us will undoubtedly be disappointed, others will be excited, and some probably will not care, if the morning STARBUCKS Caramel Macchiato tastes different than usual, we will either quickly get used to the new taste or adopt a new favorite drink. Similarly, those of us

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

364. According to Section 5(a)(1) of the FTCA, "[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) (2000). "Unfair" practices are defined in Section 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.* at § 45(n).

365. Hanak, *supra* note 313, at 373. "It is well settled by the decisions of this court and other courts of competent jurisdiction that no trademark rights can be acquired in a trademark that is deceptive or deceptively misdescriptive." R. Neumann & Co. v. Overseas Shipments, Inc., 326 F.2d 786, 788, 792 (C.C.P.A. 1964) (sustaining opposition to trademark registration because the trademark implied that the plastic material was leather and no trademark rights may be acquired in a deceptive trademark); *see also* Gaffrig Performance Indus. v. Livorsi Marine, Inc., Nos. 99 C 7778, 99 C 7822, 2003 U.S. Dist. LEXIS 23018, at *37 39 (N.D. Ill. Dec. 19, 2003) (holding that the registration of a mark fraudulently obtained and deceptively used should be cancelled).

366. *See, e.g.*, 15 U.S.C. §§ 2301 2312 (2000) (statutes governing consumer product warranties and the federal trade commission); 15 U.S.C. § 2051 (2000) (congressional intent that the public should be protected from unreasonable risks associated with consumer products).

367. *See, e.g.*, 15 U.S.C. § 2069 (2000) (explaining civil penalties under the Consumer Product Safety Act); 15 U.S.C. § 2070 (2000) (explaining criminal penalties under the Consumer Product Safety Act).

who had planned to buy the current version of the BEETLE will either focus on whether to purchase BMW's newly designed car or consider other options. Finally, we will probably miss our daily COCA-COLA, but we will eventually accept the company's decision and maybe try the new COCA-COLA snacks while sipping another soda.

More importantly, as long as we are made aware of the changes in the products prior to our purchase, we will not feel deceived. As Rogers argued in 1939, the idea that "deception will result from the permission to transfer trademarks without good will . . . [is] an entire delusion."[368] As this Article has demonstrated, deception has nothing to do with assignment. It has to do with only the use of the mark by the assignee. In the words of Rogers, "[i]t is just like any other commercial fraud."[369] The world has changed significantly since 1946 when the Lanham Act was enacted. Trademark laws and policies have undergone repeated changes. So have the economy and the role of trademarks in the market. To amend the language of Section 10 by allowing free transfers or assignments "with or without" goodwill is the most sensible solution to restore consistency between the provision on trademark assignment, judicial interpretations, and the need for a flexible standard in trademark alienability. This change will not come at the expense of consumers, for the courts have the tools to continue to prevent misleading assignments. Accordingly, it should be welcomed.

368. Hearings on H.R. 4744, *supra* note 252, at 81 (testimony of Edwards S. Rogers).
369. *Id.*