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The Public Policy Argument Against Trademark Licensee Estoppel and Naked Licensing

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The Public Policy Argument Against Trademark Licensee Estoppel and Naked Licensing

*James B. Astrachan**

ABSTRACT

Federal courts have sometimes applied the doctrine of licensee estoppel to prohibit a trademark licensee from challenging its licensor's rights to the licensed mark, particularly where the licensor has failed to establish and monitor quality control and the licensee contends that abandonment has occurred. This Article examines the history of licensee estoppel and those cases on which courts have and have not enforced licensee estoppel; often on the grounds that enforcing licensee estoppel would not serve the public policy of protecting consumers from deceitful practices. This Article also compares trademark licensee estoppel to patent licensee estoppel and recognize that courts have been far less willing to apply licensee estoppel in patent licensing cases although similar principles are involved. This Article concludes that the doctrine of trademark licensee estoppel should generally be abolished.

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I. INTRODUCTION

This Article examines whether a licensee of a trademark¹ should be estopped from challenging its licensor's ownership of the mark, or the enforceability or validity of the mark, when that licensor has licensed its mark but has failed to impose quality control standards or, having imposed such standards, has failed to monitor the quality of goods or services sold by the licensee under the mark.²

Through a comparison of the United States Supreme Court's decision in *Lear v. Adkins*, holding that a licensee of a patent should not be estopped on public policy grounds from challenging the validity of its licensor's patent,³ to cases barring trademark licensees from challenging their licensors on the grounds of licensee estoppel, this Article posits that the consuming public benefits from the proper use of trademarks and that a strong public policy exists to permit a trademark licensee to challenge the validity or ownership of its licensor's mark under certain conditions – particularly where the licensor has engaged in naked licensing.⁴ This is because uncontrolled, or “naked,” licensing may result in the trademark ceasing to function as a symbol of quality and source because the licensor has abandoned the mark and its exclusive rights to use the mark.⁵ Consider, for example, the family driving

1. The terms “trademark,” “service mark” and “mark” are used throughout this article to designate a trademark used on goods or a service mark used in association with services. A trademark serves to identify to a consumer the relative quality of a product in addition to the source of that product. See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 314 (1988) (Brennan, J., concurring in part and dissenting in part) (noting that “a trademark might also serve the function of identifying product quality for consumers”).

2. “The licensee estoppel rule is founded on the view that a licensee should not be permitted to enjoy the use of the licensed mark while at the same time challenging the mark as being invalid.” THOMAS MCCARTHY, 3 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:63 (5th ed. 2020).

3. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670–71, 676 (1969).

4. It is well established that “[a] trademark owner may grant a license and remain protected provided quality control of the goods and services sold under the trademark by the licensee is maintained.” *Moore Bus. Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992). However, uncontrolled licensing of the mark that fails to prevent the licensee from selling goods of any type or quality associated with the licensor's mark can cause the mark to lose its significance and may result in the consumers' deception. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959). Naked licensing also may result in the deception of consumers regarding the licensor's connection with the goods sold under the licensed mark. 1 MCCARTHY, *supra* note 2, at § 3:11 (a trademark indicates that the trademark owner is the source of quality standards of goods or services sold under the mark).

5. *Barcamerica Int'l USA Tr. v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002) (quoting MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (4th ed. 2001)).

cross country, stopping at McDonald's restaurants for meals. When burgers are sold under the McDonald's trademark, the family has the right to expect that the taste, quality and size of the product will not vary, whether bought in Maryland, Missouri or California.

Trademarks can be extremely valuable. A valuation expert engaged by Forbes Magazine in 2011 opined on the values of well-known marks owned by some American companies.⁶ At the time, the APPLE mark was valued at \$29.5 billion; in 2019, its value reached \$205.5 billion.⁷ In 2011, the GOOGLE mark was valued at \$44.3 billion; by 2019, its value was \$167.7 billion.⁸

While patents and copyrights have life spans established by federal statutes,⁹ trademarks generally do not and can therefore exist as a proper designator of the source of goods and services for decades or even centuries, as long as rights in the mark are not lost by some omission or commission on the part of the mark's owner, such as allowing the mark to be abandoned or the mark becoming the generic name for the goods or services sold under it.¹⁰ The world's oldest recognized trademark is BASS, a beer mark that was registered with Great Britain's Intellectual Property Office in 1876 and remains valid to this day.¹¹ Another beer mark, STELLA ARTOIS, has roots to 1366 and the Den Hoorn brewery, in Leuven, Belgium, which adopted the mark ARTOIS in honor of its early 18th century brew master. The STELLA ARTOIS mark, first used in 1926 as a seasonal Christmas beer, was registered

6. Sean Stonefield, *The 10 Most Valuable Trademarks*, FORBES (June 15, 2011, 11:22 AM), <http://www.forbes.com/sites/seanstonefield/2011/06/15/the-10-most-valuable-trademarks/> [<https://perma.cc/S9CA-CYYU>].

7. *Id.*; Kurt Badenhausen, *The World's Most Valuable Brands 2019; Apple on Top at 206 Billion*, FORBES, May 22, 2019, <http://www.forbes.com/sites/kurtbadenhausen/2019/05/22/the-worlds-most-valuable-brands-2019-apple-on-top-at-206-billion/> [<https://perma.cc/7LSC-4PDY>].

8. Stonefield, *supra* note 6; Badenhausen, *supra* note 7.

9. The Sonny Bono Copyright Term Extension Act increased the term of copyrights for works of single and joint authorship to life of the last surviving author plus 70 years; for anonymous and pseudonyms works and works made for hire for 95 years from the date of publication or 120 years from the date of creation. 17 U.S.C. § 302 (2018). Utility and plant patents have a life term of 20 years, measured from the date of the filing of the patent application. 35 U.S.C. §§ 154, 161 (2018) (establishing term of patents); *See also* 1 MCCARTHY, *supra* note 2, at § 6:10. Design patents have a life term of 15 years, measured from the date of the grant of the patent. 35 U.S.C. § 173 (2018).

10. 15 U.S.C. § 1127 (2018); Bayer Co. v. United Drug Co., 272 F. 505, 509–10 (S.D.N.Y. 1921).

11. BASS, Registration No. UK 00000000001. Its next renewal date is January 1, 2022. *Id.*

with the United States Patent and Trademark Office (the “USPTO”) in 1981.¹² These trademarks are intended to convey to a consumer that no matter where in the world one of these beers is purchased and consumed it will be of consistent taste and quality with any other beer so branded and dispensed anywhere else in the world. Imagine the diversity of quality and taste if every licensee of STELLA ARTOIS was permitted to employ its own recipe in the brewing of this beer.

The Lanham Act (the “Act”)¹³ defines a “trademark” as:

any word, name, symbol, or device, or any combination thereof—

used by a person, or

which a person has a bona fide intention to use in commerce and applies to register on the principal register established by this Act,

to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.¹⁴

A trademark can be a “word, name, symbol, or device, or any combination” of the forgoing.¹⁵ A trademark may be based on a shape, a product configuration,¹⁶ or even a color.¹⁷ At least one court has held that a trademark is not a property right; rather, it is an identifier of source which ostensibly provides more benefit to the consuming public than to the mark’s owner.¹⁸ While a trademark’s purpose is to indicate the source of the goods, its protection is based upon a mark’s informative value to consumers.¹⁹

Although a trademark’s life can span centuries, a trademark does not possess eternal life. Abandonment is to a trademark what kryptonite is to Superman – which is to say that abandonment results in an owner’s loss of all

12. Thomas C. Frohlich & Alexander Kent, *These are the 10 Oldest Logos in the World*, TIME, June 20, 2014, <http://time.com/2904290/10-oldest-company-logos/> [<https://perma.cc/3EA4-VS29>]; STELLA ARTOIS, *Heritage*, http://www.stellaartois.com/en_gb/heritage.html (last visited Jan. 4, 2021).

13. Lanham Act, 15 U.S.C §§ 1051–1141(n) (2018).

14. *Id.* at § 1127.

15. *Id.*

16. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 765 n.1 (1992). Trade dress is a product’s total image and overall appearance. Trade dress may include size, shape, color, color combinations, texture, graphics, or sales techniques. *Id.*

17. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 174 (1995).

18. *Door Sys. Inc., v. Pro-Line Door Sys.*, 83 F.3d 169, 173 (7th Cir. 1996).

19. Sidney A. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 222–24 (1983).

rights associated with the mark. A mark shall be deemed abandoned if either of the following occurs:

When its use has been discontinued with the intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. “Use” of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.²⁰

A mark’s owner, then, can lose its right to exclusive use of the mark if it abandons use of the mark without intent to resume use in a reasonable time frame.²¹ The mark’s owner can also lose its exclusive rights in the mark through its own omissions or commissions, where the result of the failure to act or the actions taken is that the mark loses its ability to designate a single source of the goods or services that consumers associate with the mark.²² One of the contexts in which abandonment by omission is often claimed, and which is the subject of this Article, is when the owner of a mark has licensed its mark to a third party and has failed to exert quality control over the licensee’s use of the mark.²³

The stakes are high when a party claims a mark has been abandoned. Once abandoned, the mark’s owner has lost the exclusive use of the mark, the mark is available for anyone’s use, and priority of use will determine who has superior rights.²⁴ A mark can lose its significance as a source identifier due to the manner in which the mark’s owner (the licensor) licensed a third party (the licensee) to use the mark.²⁵ In part, this comes about because the consumer of the trademarked goods has the right to expect that all goods branded with the mark will be of equal quality, whether made of steel or ground beef, and regardless of who actually produced or sold those goods. If a hamburger is branded MCDONALD’S, it should taste the same and be made

20. 15 U.S.C. § 1127.

21. Nonuse for three consecutive years creates a rebuttable presumption of abandonment. *Id.*

22. *Id.*

23. *Id.*; see also Edward K. Esping, *Granting of “Naked” or Unsupervised License to Third Party as Abandonment of Trademark*, 118 A.L.R. FED. 211 (Originally published in 1994).

24. *George & Co. LLC v. Imagination Ent. Ltd.*, 575 F.3d 383, 400 (4th Cir. 2009); see also 3 MCCARTHY, *supra* note 2, at § 17.1.

25. 15 U.S.C. § 1127(2); see also Esping, *supra* note 23.

from the same recipe whether purchased at a MCDONALD'S restaurant in Washington State or Washington, D.C.

Two examples of a licensor's conduct that can result in the loss of a mark are assignments in gross and naked licensing.²⁶ Assignments in gross occur when the mark's owner assigns use of the mark to a licensee unassociated with the licensor's product.²⁷ Naked licensing by the mark's owner, on the other hand, occurs when the licensor "does not exercise adequate control over its licensee's use of a licensed trademark such that the trademark may no longer represent the quality of a product or service the consumer has come to expect."²⁸ A license that fails to restrict or control the quality of goods or services imparts a finding of naked licensing.²⁹ Naked licensing can arise even where the license agreement requires adherence to the licensor's standards of quality, but the licensor fails to enforce the terms it has imposed on a licensee for trademark use.³⁰ A licensor can, of course, engage in naked licensing by failing to impose terms for the licensee's use of the mark.³¹

Licensors sue their licensees for trademark infringement,³² and some licensees attempt to raise the affirmative defense of abandonment, often because of the licensor's actions or the licensor's failure to act to protect the integrity of its mark, including the licensor's naked licensing.³³ The basis for the claim of abandonment by naked licensing is that when the mark is used on goods of varying quality or uneven kind, consumers can be deceived and misled and the mark will cease to serve as an informational device or a source of origin.³⁴

In most situations where the licensor is challenged by its licensee on the basis of alleged naked licensing, the licensor counters that a written licensing agreement between the licensor and the licensee bars the licensee from asserting such a claim, or, absent such a prohibition, that the equitable doctrine of licensee estoppel bars the licensee from challenging the licensor's ownership of the disputed mark.³⁵

26. 3 MCCARTHY, *supra* note 2, at § 17:6.

27. 15 U.S.C. § 1127.

28. *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 512 n.1 (9th Cir. 2010) (*citing* *Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589, 595–96 (9th Cir. 2002)).

29. *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 515–19 (9th Cir. 2010).

30. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367–69 (2d Cir. 1959).

31. *Barcamerica Int'l USA Trust*, 289 F.3d at 596–98.

32. *See* *Creative Gifts, Inc. v. UFO*, 235 F.3d 540 (10th Cir. 2000).

33. *John C. Flood of Va., Inc. v. John C. Flood, Inc.*, 642 F.3d 1105, 1108 (D.C. Cir. 2011).

34. *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977).

35. *John C. Flood of Va., Inc.*, 642 F.3d at 1010.

This Article examines the equitable doctrine of licensee estoppel and argues that a trademark licensee should be permitted to challenge ownership of its licensor's mark on the basis that the licensor has engaged in conduct that has eroded the licensor's rights in the mark and that has, or will, deceive the consuming public. Section II examines trademarks in general; Section III discusses the licensing of trademarks by owners to third parties. It compares these licenses to a body of law that concerns patent licensing and introduces the equitable doctrine of licensee estoppel, a circumstance in which some courts do not permit a trademark licensee to challenge the licensor's rights in the licensed mark. Section IV discusses the requirements that a licensor of a trademark monitor and control the quality of the goods and services sold under the licensed mark, and the effects of its failure to do so. In that license of a mark without quality control results in a licensor's loss of rights in a mark, as a form of abandonment, Section V offers that the equitable doctrine of licensee estoppel that is applied to prevent a licensee from challenging its licensor's ownership of the licensed mark is against public policy and should, itself, be abandoned. Finally, Section VI concludes that licensee estoppel, even if not generally abandoned as against public policy, should not bar a licensee from challenging its licensor's rights in the licensed mark.

II. TRADEMARKS, GENERALLY SPEAKING

An overview of trademarks is provided. This Article will examine what a trademark is, how and when trademarks are used, and why trademarks are used. A brief discussion on infringement will be followed by a brief explanation of infringement remedies.

A trademark serves to identify the source of a seller's goods or services and set them apart from others who make or sell similar goods or services.³⁶ A service mark is similar to a trademark but distinguishes services provided by one source from those services provided by another source.³⁷ Ground beef is branded with a trademark while an insurance policy is branded with a service mark.³⁸

Some marks do a better job than others when it comes to serving as a designator of the source of goods or services. For example, strong marks adequately serve to identify the source of a product or service, and weak marks fail this task.³⁹ Fanciful marks, such as EXXON or KODAK, are made up; arbitrary marks, such as APPLE or COACH, are common words not associated with the product. Fanciful and arbitrary marks are both considered strong marks.⁴⁰ Suggestive marks – marks that suggest a characteristic of a

36. 15 U.S.C. § 1127 (2018).

37. *Id.*

38. Timothy Denny Greene & Jeff Wilkerson, *Understanding Trademark Strength*, 16 STAN. TECH. L. REV. 535 (2013); *see also* 15 U.S.C. § 1127.

39. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976).

40. *Id.* at 11.

product or service,⁴¹ such as ESKIMO PIE or CYCLONE FENCES – are also strong and inherently distinctive, meaning a source of goods is instantaneously designated by use of a strong mark.⁴² The level of inherent distinctiveness of a mark is called conceptual strength. Courts also look at the commercial strength of a mark. Commercial strength has been defined as the “legal muscle” of a mark that comes about through exposure of the mark to consumers; that is, the actual measure by which a mark successfully acts as a source of origin in the minds of consumers.⁴³ “Legal muscle” is often demonstrated through large advertising expenditures, duration of use, or unsolicited media exposure.⁴⁴

Rights to a trademark are not dependent on registration, but rather arise from use in commerce. Registration on the USPTO’s Principal Register is, however, *prima facie* evidence of the validity of the registered mark, ownership, and entitlement of use.⁴⁵ Registration is not a right and under certain circumstances registration may be withheld.⁴⁶ Further, even if the mark is registered, its validity, enforceability, and ownership are rebuttable.⁴⁷ Most marks are protected under common law, not by registration, but in either case rights in the mark come from only one thing – use in commerce.

Once a mark is registered on the USPTO’s Principal Register, the mark can still be challenged on the basis of fraud, abandonment, or that the mark has become generic (i.e., the public has come to call the product by its trademark).⁴⁸ ESCALATOR, NYLON, and ASPIRIN were at one time valid trademarks but lost their meaning as a designator of source when the public began to refer to the object bearing the mark by its brand. The product was

41. *Sands, Taylor & Woods Co. v. Quaker Oats Co.*, 978 F.2d 947, 952–53 (7th Cir. 1992).

42. *Abercrombie & Fitch*, 537 F.2d at 9; ESKIMO PIES, an ice cream bar introduced in 1921, announced in June 2020 it will abandon its name and re-brand to become EDY’s PIE. Kelly Tyko, *Eskimo Pie to become Edy’s Pie: Rebranded ice cream bars expected to arrive in early 2021*, (Oct. 6, 2010), <https://www.usatoday.com/story/money/2020/10/06/edys-pie-ice-cream-bars-eskimo-pie-rebranding-dreyers/5897024002/> [<https://perma.cc/QU9Y-MWVP>].

43. *Maker’s Mark Distillery, Inc. v. Diageo N. Am.*, 679 F.3d 410, 419 (6th Cir. 2012).

44. Pierre N. Leval, *Trademark: Champion of Free Speech*, 27 COLUM. J.L. & ARTS 187, 191 (2004).

45. 15 U.S.C. § 1115 (2018).

46. *In Re McGinley*, 660 F.2d 481, 484 (C.C.P.A. 1981), *abrogated by In re Tam*, 808 F.3d 1321 (Fed. Cir. 2015).

47. *Bell v. Harley Davidson Motor Co.*, 539 F. Supp. 2d 1249 (S.D. Cal. 2008).

48. 15 U.S.C. § 1115(b); *United States Jaycees v. Chicago Jr. Ass’n of Commerce & Indus.*, 505 F. Supp. 998, 1001 (N.D. Ill. 1981).

no longer an ESCALATOR brand moving staircase. In the eyes of consumers, it had become merely an escalator.⁴⁹

If a challenge to a mark's registration is successful, perhaps on the basis that the mark has been abandoned by its owner, the registration may be cancelled and the owner's rights may not be enforced by a court, regardless of its USPTO registration. Many abandonment cases arise because the mark's owner failed to use the mark over a period of years without an intention to resume use.⁵⁰ Abandonment cases are also brought on the basis that the mark's owner engaged in naked licensing – licensing without quality control – or by attempting a gross assignment of the mark.⁵¹

A. *Infringement of a Trademark*

Every state provides the right to bring an action for trademark infringement, whether by common law, statute, or both. The Act also provides for trademark infringement action.⁵² Unlike the Copyright Act,⁵³ the Act does not contain its own statute of limitations. In many cases, the statute of limitations governing actions for fraud in the state in which the infringement action is brought will govern.⁵⁴

The Act establishes a cause of action for the unauthorized use in commerce of any registered or unregistered mark in connection with the sale or promotion of goods or services if that use is likely to cause confusion, to cause mistake, or to deceive the consuming public as to affiliation, connection, association, origin, sponsorship, or approval.⁵⁵ A likelihood of confusion exists “if the defendant's actual practice is likely to produce confusion in the minds of consumers about the origin of the goods or services in question.”⁵⁶ Each of the federal circuits has adopted a non-exclusive, multi-factor test to determine whether, due to the unauthorized use of a mark, there exists a likelihood of confusion.⁵⁷ While the federal circuits are not uniform

49. *See, e.g.*, *King-Seely Thermos Co. v. Aladdin Indus.*, 321 F.2d 577 (2d Cir. 1963) (holding that THERMOS had become generic).

50. *Id.*

51. *Sands, Taylor & Woods Co. v. Quaker Oats Co.*, 978 F.2d 947, 956 (7th Cir. 1992).

52. 15 U.S.C. §§ 1114(1), 1125 (2018).

53. 17 U.S.C. §§ 101–1401 (2018).

54. *PepsiCo Inc. v. Dunlop Tire & Rubber Corp.*, 578 F. Supp. 196 (S.D.N.Y. 1984); *Johnson Controls, Inc. v. Exide Corp.*, 152 F. Supp. 2d 1075 (N.D. Ill. 2001).

55. 15 U.S.C. §§ 1114; 1125.

56. *Potomac Conf. Corp. v. Takoma Acad. Alumni Ass'n*, No. CIV.A. DKC 13-1128, 2014 WL 857947 at *16 (D. Md. Mar. 4, 2014) (*quoting* *CareFirst of Md., Inc. v. First Care, P.C.*, 434 F.3d 263, 267 (4th Cir. 2006)).

57. *See, e.g.*, *Pignons S.A. de Mecanique de Precision v. Polaroid Corp.*, 657 F.2d 482 (1st Cir. 1981); *Polaroid v. Polarad Elects. Corp.*, 287 F.2d 492 (2d Cir. 1961); *Interspace v. Lapp*, 721 F.2d 460 (3d Cir. 1983); *George & Co., LLC v.*

in their adoption of factors, the factors adopted by each circuit do overlap. Nonetheless, there is no mechanical test for determining likelihood of confusion. Each case must be decided on its own facts.⁵⁸ But generally, courts apply some combination of the following factors: (1) strength of the marks;⁵⁹ (2) similarity of the marks; (3) proximity of the products; whether the senior user will “bridge the gap,” for example, a seller of pancake batter may expand into also selling syrup; (4) evidence of actual consumer confusion; (5) the defendant’s good faith in adopting use of the mark; (6) the

Imagination Entm’t Ltd., 575 F.3d 383 (4th Cir. 2009); Xtreme Lashes v. Extended Beauty, 576 F.3d 221 (5th Cir. 2009); Frisch’s Restaurants v. Elby’s Big Boy, Inc., 670 F.2d 642 (6th Cir. 1982); Autozone, Inc. v. Stricks, 543 F.3d 923 (7th Cir. 2008); Squirto v. Seven-Up Co., 628 F.2d 1086 (8th Cir. 1980); Network Automaton v. Advanced System Concepts, 638 F.3d 1137 (9th Cir. 2011); Sally Beauty Co., Inc. v. Beautyco, Inc., 304 F.3d 964 (10th Cir. 2002); Tana v. Dantanna’s, 611 F.3d 767 (11th Cir. 2010). The Court of Appeals for the Federal Circuit, on appeal from a district court, will apply the law of the regional circuit. *Keystone Retaining Wall Systems, Inc. v. Westrock, Inc.*, 997 F.2d 1444 (Fed. Cir. 1993). Whether likelihood of confusion is a question of fact or law will affect the manner in which the decision of a lower court is reviewed by an appellate court. If likelihood of confusion is a question of law, unless an appellate court has a firm and definite conviction that the lower court committed a mistake, that the determination of underlying facts is clearly erroneous, the appellate court must accept the findings of the trial court. *Inwood Labs, Inc. v. Ives Labs, Inc.* 456 U.S. 844 (1982). Most circuits hold that likelihood of confusion is a question of fact. *See, e.g.*, *Boston Beer Co., Ltd. P’ship v. Slesar Bros. Brewing Co.*, 9 F.3d 175 (1st Cir. 1993); *Green v. Fornario*, 486 F.3d 100 (3d Cir. 2007); *Durox Co. v. Duron Paint Mfg. Co.*, 320 F.2d 882, 885 (4th Cir. 1963); *Soc’y of Fin. Examiners v. Nat’l Ass’n of Certified Fraud Examiners, Inc.*, 41 F.3d 223 (5th Cir. 1995); *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423 (7th Cir. 1985); *Georgia-Pacific Consumer Prods. LP v. Myers Supply, Inc.*, 621 F.3d 771 (8th Cir. 2010); *Clicks Billiards, Inc. v. Sixshooters Inc.*, 251 F. 3d 1252 (9th Cir. 2001); *Sally Beauty Co. v. Beautyco, Inc.*, 304 F.3d 964 (10th Cir. 2002); *Welding Servs. v. Forman*, 509 F.3d 1351 (11th Cir. 2007). The Second and Six Circuits treat likelihood of confusion as a mixed question of law and fact. *Harold F. Ritchie, Inc. v. Chesebrough-Pond’s, Inc.*, 281 F.2d 755 (2d Cir. 1960); *GMC v. Lanard Toys, Inc.*, 468 F.3d 405 (6th Cir. 2006). The Court of Appeals for the Federal Circuit treats this issue as a question of law. *Bridgestone Ams. Tire Operations, LLC v. Fed. Corp.*, 673 F.3d 1330 (Fed. Cir. 2012).

58. *Application of E.I. Du Pont de Nemours & Co.*, 476 F.2d 1357 (C.C.P.A. 1973).

59. Strength of a trademark is reviewed for conceptual and commercial strength. Conceptual strength is determined with reference to the categories of marks enumerated in *Abercrombie & Fitch Co.*, e.g. fanciful, arbitrary, suggestive, descriptive, and generic. *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4 (2d Cir. 1976). Commercial strength is shown by the level of the user’s exclusive use and the “extent to which it, in the eyes of consumers, conveys the affiliation, connection or association of such person with another person,” or the source of the product purchased. *Greene & Wilkerson*, *supra* note 38, at 535.

quality of the defendant's products; and (7) sophistication of consumers of the goods and services.⁶⁰ Each of these factors is not always relevant or of equal weight.⁶¹

B. Remedies for Infringement

A defendant who has engaged in trademark infringement can be held liable in a civil action brought under 15 U.S.C. § 1114 for a mark registered with the USPTO, or § 1125 for an unregistered mark established under the common law.⁶² Although considered an extraordinary remedy, a plaintiff may be entitled to preliminary injunctive relief, restricting a defendant from use of the mark in a manner likely to cause confusion.⁶³ To obtain injunctive relief, a moving party must establish: (1) a likelihood of success on the merits; (2) a likelihood the plaintiff will suffer irreparable harm if the injunction does not issue; (3) that the balance of the equities tip in the plaintiff's favor; and (4) that an injunction is in the public interest.⁶⁴

In addition to preliminary and permanent injunctive relief, a trademark infringer can be held liable for monetary damages in the form of disgorgement of its profits and restoration of any harm suffered by the plaintiff.⁶⁵ Courts also have statutory discretion to increase the award of damages by up to three times.⁶⁶ Monetary damages can also be awarded under state statutes and the common law.⁶⁷

The Act provides courts wide discretion in awarding damages: "If the court shall find the amount of recovery based on profits is either inadequate or excessive, the court may in its discretion enter judgment for such sum as the court shall find to be just, according to the circumstances of the case."⁶⁸ In addition to a monetary award of profits and damages, a court is also authorized to award attorney's fees and pre-judgment interest upon a finding that the defendant's actions were "exceptional."⁶⁹

60. *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961); *see also*, *George & Co. LLC v. Imagination Ent. Ltd.*, 575 F.3d 383, 400 (4th Cir. 2009) (for a more recent and expanded list of factors).

61. *George & Co. LLC*, 575 F.3d at 393.

62. *Fed. Treasury Enter. Sojuzplodoimport v. SPI Spirits Ltd.*, 726 F.3d 62, 72 (2d Cir. 2013); *see also* *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 768 (1992).

63. 15 U.S.C. § 1116(a) (2018).

64. *Winter v. Nat'l Res. Def. Council, Inc.*, 555 U.S. 7, 20, 22 (2008).

65. 15 U.S.C. § 1117(a) (2018).

66. *Id.*

67. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 36 (AM. L. INST. 1995).

68. 15 U.S.C. § 1117(a).

69. *Id.* § 1117(a), (b); "Exceptional" is defined by the Supreme Court as "rare" and "not ordinary." *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 572 U.S. 545, 553–54 (2014) (a patent case) (citing *Noxell Corp. v. Firehouse No.*

A plaintiff can look beyond the infringing entity and seek to hold the officers and directors liable for the acts of the infringer on a theory of secondary liability.⁷⁰ Secondary liability claims include vicarious⁷¹ and contributory⁷² trademark infringement. Often, a director or an officer of a small entity has the power to control the infringement and benefits from it or a third party, not a direct infringer, has knowingly supplied the means to infringe, giving rise to secondary liability for the actions of the direct infringer.⁷³ The stakes of an infringement action could not be higher for all involved. The infringer, and those who control and benefit from its infringing activities, can be enjoined and suffer monetary damages. Conversely, a trademark owner suing an alleged infringer may find its mark held unenforceable.⁷⁴

II. LICENSING THE TRADEMARK

Trademark licensing is a process by which the owner of a trademark (the licensor) grants authority to another person (the licensee) to make and/or distribute products or services branded with the licensor's trademark.⁷⁵ In exchange for the right to use the licensor's trademark or service mark, the licensee usually pays a royalty to the licensor, often based on a percentage of the licensee's sales of products or services branded with licensor's mark.⁷⁶ A license can also be issued to a licensee who avails itself of the licensor's

1 Bar-B-Que Rest., 771 F.2d 521, 526 (D.C. Cir. 1985) (a trademark case)). Circuit Courts of Appeal have adopted and applied the Supreme Court's definition of "exceptional" from *Octane Fitness* to trademark cases. See, e.g., *Scholz v. Goudreau*, 901 F.3d 37 (1st Cir. 2018); *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303 (3d Cir. 2014); *4 Pillar Dynasty LLC v. N.Y. & Co.*, 933 F.3d 202 (2d Cir. 2019); *Verisign, Inc. v. XYZ.COM LLC*, 891 F.3d 481 (4th Cir. 2014); *SunEarth, Inc. v. Sun Earth Solar Power Co.*, 839 F.3d 1179 (en banc) (per curiam) (9th Cir. 2016); *Ga-Pac. Consumer Prods. LP v. von Drehle Corp.*, 781 F.3d 710 (4th Cir. 2015).

70. See *Sony Corp. of Am. v. Universal City Studios, Inc.* 464 U.S. 427, 437 (1984); *Tony Jones Apparel, Inc. v. Indigo USA LLC*, No. 03 C 0280, 2005 U.S. Dist. LEXIS 14649, at *21–22 (N.D. Ill. July 11, 2005).

71. *Hard Rock Cafe Licensing Corp. v. Concession Servs., Inc.*, 955 F.2d 1143, 1150 (7th Cir. 1992).

72. *Inwood Labs., Inc. v. Ives Labs., Inc.*, 456 U.S. 844, 853–54 (1982).

73. See *Tiffany (NJ) Inc. v. eBay Inc.*, 600 F.3d 93, 110 n.15 (2d Cir. 2010); *Rosetta Stone Ltd. v. Google, Inc.*, 676 F.3d 144, 164 (4th Cir. 2012); *Hard Rock Cafe Licensing Corp.*, 955 F.2d at 1150; RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 27 (AM. L. INST. 1995).

74. See, e.g., *Bayer Co. v. United Drug Co.*, 272 F. 505 (S.D.N.Y. 1921).

75. *Trademark Licensing: Everything You Need to Know*, UP COUNSEL, <http://www.upcounsel.com/trademark-licensing> [<https://perma.cc/BE3E-NPAB>].

76. *Id.*

services.⁷⁷ For example, an advertising agent that syndicates its ads throughout the country by region and authorizes use of a mark it claims ownership of to each licensee for as long as the licensee uses the advertising services of the advertising agency. Licensing makes sense because a trademark is an indicator of quality, not just the source of goods sold under a mark.⁷⁸ A consumer of trademarked goods expects that the quality of those goods is consistent regardless of the seller.⁷⁹

Professor McCarthy explained brand extension by licensing and the need for quality control:

Brand extension is not limited to high fashion. Well-known tool maker STANLEY had never made ladders, but consumer research showed that ladders were a natural extension for the brand. So Stanley licensed Werner, the largest ladder maker in the U.S. to make and sell STANLEY branded ladders. As an article in the New York Times observed: “What you are trusting, though, isn’t Stanley workers in Stanley factors [sic] upholding Stanley traditions and values under the watchful eye of Stanley managers. What you’re trusting is Stanley’s recognition that a badly made ladder with the Stanley name on it could be highly damaging to the Stanley brand. You are trusting Stanley’s recognition of the value of its brand and its competence in defending that value.”⁸⁰ In legal terminology, in such a brand extension license, the consumer is trusting that the trademark owner is in control of the nature and quality of the licensed goods.⁸¹

Trademark licensing can be of substantial benefit to the licensor and the licensee because the brand can be extended into new categories, distribution channels, and geographic markets with minimal investment.⁸² There are benefits for each party to a trademark license. The licensee can provide supplementary marketing support, the licensor can benefit by allowing trademark use and protection to extend to a category of the licensee’s goods, that may be different than the licensor’s, and the licensor will receive from the licensee the payment of royalties.⁸³

77. *Burger King Corp. v. Mason*, 710 F.2d 1480 (11th Cir. 1983).

78. *Gallo v. Proximo Spirits, Inc.*, No. CV-F-10-411 LJO JLT, 2012 U.S. Dist. LEXIS 10629, at *22–23 (E.D. Cal. Jan. 27, 2012).

79. 3 MCCARTHY, *supra* note 2, at § 18:40.

80. Rob Walker, *Can a Dead Brand Live Again*, N.Y. TIMES (May 18, 2008), <https://www.nytimes.com/2008/05/18/magazine/18rebranding-t.html> [<https://perma.cc/V4M7-2BYS>].

81. 3 MCCARTHY, *supra* note 2, at § 18:40.

82. Derrick Daye, *10 Benefits of Brand Licensing*, BRANDING STRATEGY INSIDER (Oct. 3, 2010), <https://www.brandingstrategyinsider.com/about/> [<https://perma.cc/PK6Y-C5Y9>].

83. *Id.*

And while it is certainly advisable that the license be written and signed, a trademark license need not be written; it can be oral, or it can be implied from the circumstances of use.⁸⁴ A properly-drawn license agreement should set out in sufficient detail all of the rights and obligations of the licensee and the licensor.⁸⁵ These details include identification of the parties, a description of the trademark licensed, exactly how it may be employed by the licensee and on what goods, an explanation of who has the obligation to police third-party uses of the licensed mark, the territory in which the mark can be used, royalties payable and the method of calculation, quality control requirements, term, assignability, duration of the license, termination, and renewal rights.⁸⁶

A. Licensee Estoppel

Licensee estoppel is an equitable doctrine whereby a trademark licensee⁸⁷ is prohibited from enjoying the benefits afforded by the license agreement to which it is a party, while at the same time attempting to establish that the trademark licensed under the agreement is not valid or that the licensor has lost, or never had, rights in the licensed mark.⁸⁸ In addition to the license terms enumerated above, a wise licensor will contractually prohibit its licensee from challenging or contesting its ownership of the licensed mark or the mark's validity. "Such a provision is merely a restatement of the common law doctrine of licensee estoppel, pursuant to which a trademark licensee is estopped from contesting his licensor's trademark rights or the validity of the licensed mark."⁸⁹

Jerome Gilson summarized the rationale that created licensee estoppel:

By entering into the license agreement, the licensee recognizes the licensor's ownership of the mark and, by implication, covenants not to challenge the licensor's rights. This implied covenant also estops the licensee from claiming that the licensor abandoned its rights by failing to exercise adequate quality control during the term of the license. Thus, in an infringement action against a terminated licensee that

84. *Id.*; *Doebler's Pa. Hybrids, Inc. v. Doebler*, 442 F.3d 812, 824 (3d Cir. 2006).

85. 2 ANNE GILSON LALONDE, GILSON ON TRADEMARKS § 6.07[1] (2020).

86. *Id.*

87. Licensee estoppel does not generally apply to patent or copyright licensing. *Idaho Potato Comm'n v. M & M Produce Farm & Sales*, 335 F.3d 130, 135 (2d Cir. 2003).

88. *John C. Flood of Va., Inc. v. John C. Flood, Inc.*, 642 F.3d 1105, 1111 (D.C. Cir. 2011); *Beach Mart, Inc. v. L&L Wings, Inc.*, 784 F. App'x 118, 127 (4th Cir. 2019) (recognizing, "as an equitable doctrine, however licensee estoppel generally will not be applied by a Court if doing so would cause an inequitable result").

89. LALONDE, *supra* note 85, at § 6.07[7]; *John C. Flood of Va.*, 642 F.2d at 1111.

refuses to stop using the mark, the licensee may not challenge the licensor's ownership or claim abandonment on facts that occurred before the agreement was terminated.⁹⁰

A corporate alter ego of the licensee can also be estopped from challenging the licensor's ownership of the mark or its validity.⁹¹ At least one federal district court, however, has ruled that a parent entity, a shareholder, or an agent of the licensee is not prevented under the doctrine of licensee estoppel from challenging the licensor's claim to the mark.⁹²

In *John C. Flood of Virginia*, the U.S. Court of Appeals for the D.C. Circuit examined licensee estoppel from the licensor's perspective of protecting its mark, nakedly licensed, from infringers.⁹³ It began by stating, "Consequently, where the licensor fails to exercise adequate quality control over the licensee, 'a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark.'" ⁹⁴ In that case, however, the licensor was faced with a challenge by a licensee and not a third party.⁹⁵ Acknowledging that the D.C. Circuit has never explicitly recognized the doctrine of licensee estoppel, the court reviewed decisions from other circuits on the topic and found that application of the doctrine lacked uniformity regarding when and under what circumstances courts applied licensee estoppel.⁹⁶

The Eighth Circuit follows what it described as the "long settled principle of law that a licensee of a trademark or tradename may not set up any adverse claim in it as against its licensor."⁹⁷ Other circuits, however, have permitted a trademark licensee to challenge a licensor's rights in its mark, but

90. LALONDE, *supra* note 85, at § 6.07[7].

91. *Fair Isaac Corp. v. Experian Info. Solutions, Inc.*, 650 F.3d 1139, 1150 (8th Cir. 2011).

92. *Papercraft Corp. v. Gibson Greeting Cards, Inc.*, 515 F. Supp. 727, 728 (S.D.N.Y. 1981).

93. The court examined the licensing contract and weighed the benefits reaped by the licensees and found the doctrine of licensee estoppel existed to prevent a licensee from enjoying "the benefits afforded by the license agreement while simultaneously urging that the trademark which forms the basis of the agreement is void." *John C. Flood of Va., Inc.*, 642 F.3d at 1111.

94. *Id.* at 1108 (quoting *Barcamerica Int'l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589, 596 (9th Cir. 2002)).

95. *See id.* at 1111.

96. *Id.* at 1110–11. Despite the lack of uniformity which may permit the courts to elect not to apply the equitable doctrine of licensee estoppel, due to the decades of benefit reaped by the licensee and the delay in raising any challenge to the licensor's ownership of the mark the Court found "the equities, no matter how balanced, weigh in favor of applying licensee estoppel here." *Id.* at 1111.

97. *Seven-Up Bottling Co. v. Seven-Up Co.*, 561 F.2d 1275, 1279 (quoting *Pac. Supply Coop. v. Farmers Union Cent. Exch. Inc.*, 318 F.2d 894, 908 (9th Cir. 1963)).

only based on facts that arose after the license expired.⁹⁸ The Second Circuit has been more permissive, holding that every claim of licensee estoppel should be evaluated by balancing the public interests against the licensor's private interests.⁹⁹ In so holding, it adopted the balancing test the U.S. Supreme Court applied in *Lear* to determine whether a patent licensee should be permitted to challenge its licensor's patent rights.¹⁰⁰ Similarly, the Fourth Circuit has limited the defense of licensee estoppel where the results would be inequitable.¹⁰¹ The Fifth Circuit has held that "[f]ailure to exercise such control and supervision for a significant period of time may estop the trademark owner from challenging the use of the mark and business which the licensee has developed during the period of such unsupervised use."¹⁰² In short, there is no consistency among the circuits.

The Supreme Court of New York, a trial court sitting in New York County, has taken another approach to the question of whether a licensee could attack its licensor's rights in a mark on the basis of naked licensing.¹⁰³ While the court did not refute that the application of licensee estoppel would prevent the RITZ licensee from challenging the licensor's ownership of the mark, it recognized that the cases the licensor cited to support licensee estoppel "do not hold that the licensee is estopped from asserting that the licensing agreement itself is void as against public policy because it purports to grant a naked license."¹⁰⁴ In other words, the court held that regardless of the parties' contract language, a licensee to a naked license can challenge the license as void, and in so doing avoid licensee estoppel.¹⁰⁵ Finally, courts appear to draw a material distinction between a licensee and a third party raising the defense of abandonment as the outcome of naked licensing, reasoning that equity disallows a licensee to benefit from the use of its licensor's mark while simultaneously challenging the validity of the mark. Equity is not offended by a third party making such an argument.¹⁰⁶

98. *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000); *WCVB-TV v. Bos. Athletic Ass'n*, 926 F.2d 42, 47 (1st Cir. 1991); *Prof'l Golfers Ass'n of Am. v. Bankers Life & Cas. Co.*, 514 F.2d 665, 671 (5th Cir. 1975).

99. *Idaho Potato Comm'n v. M & M Produce Farm & Sales*, 335 F.3d 130, 136–37 (2d Cir. 2003).

100. *Id.* at 137 (adopting the licensee estoppel test for patents set forth in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969)).

101. *Beach Mart, Inc. v. L&L Wings, Inc.*, 784 F. Appx. 118, 127 (4th Cir. 2019).

102. *Sheila's Shine Prods. v. Sheila Shines, Inc.*, 486 F.2d 114, 124 (5th Cir. 1973); *Denison Mattress Factory v. Spring-Air Co.*, 308 F.2d 403, 409 (5th Cir. 1962).

103. *See Ritz Assocs. v. Ritz-Carlton Hotel Co.*, 230 N.Y.S.2d 408, 411 (Sup. Ct. 1962).

104. *Id.* at 428.

105. *Id.*

106. 3 MCCARTHY, *supra* note 2, at § 18:63.

B. True Competition in Ideas Which do not Merit Patent Protection

As stated earlier in this Article, patent licensees, as a general rule, are not estopped from attacking the validity of a patent licensed by the patent holder. If a licensee can establish invalidity of the licensed patent, it may avoid paying royalties to its licensor.¹⁰⁷ This enlightened view espoused by the Supreme Court regarding the inapplicability of licensee estoppel in a patent case is a new development. As recently as 1950, the Supreme Court, in *Hazeltine Research*, invoked licensee estoppel to deny a licensee the opportunity to claim that it had licensed, and was paying royalties for, an idea that was already in the public domain because the patented idea was not patentable.¹⁰⁸ In *Lear*, the Supreme Court granted certiorari to reconsider whether the estoppel rule set forth in *Hazeltine* was still appropriate in view of the Court's "recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection."¹⁰⁹

The Court in *Lear*, reviewing its own history of enforcing licensee estoppel in patent cases, held that its 1891 decision in *St. Paul Plow Works*, "often cited as supporting the estoppel doctrine[,] points clearly in the opposite direction."¹¹⁰ The *St. Paul Plow Works* decision failed to "even question the right of the lower courts to admit the licensee's evidence showing that the potential device was not novel."¹¹¹ Instead, in *St. Paul Plow Works*, a unanimous court – even though the lower court had been presented with conflicting evidence of novelty – failed to reverse the lower court's decision upholding the validity of the patent.¹¹²

In 1892, one year following the unanimous decision in *St. Paul Plow Works*, the Supreme Court again considered the question of licensee estoppel in a patent matter.¹¹³ In *Pope Mfg. Co. v. Gormully*, the Court "found the doctrine of patent estoppel so inequitable that it refused to grant an injunction to enforce a licensee's promise never to contest the validity of the underlying patent."¹¹⁴ The basis of its decision was public policy:

It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly; and it is a serious question

107. *Lear, Inc. v. Adkins*, 395 U.S. 653, 674 (1969).

108. *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 836 (1950), *overruled in part by Lear*, 395 U.S. at 653.

109. *Lear*, 395 U.S. at 656.

110. *Id.* at 663.

111. *Id.*

112. *Id.*; *St. Paul Plow Works v. Starling*, 140 U.S. 184, 197–98 (1891).

113. *See Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 233 (1892).

114. *Lear*, 395 U.S. at 663 (discussing *Pope Mfg. Co.*, 144 U.S. at 234).

whether public policy permits a man to barter away beforehand his right to defend unjust actions or classes of actions. . . .¹¹⁵

Yet in 1905, only thirteen years later, the Court invoked licensee estoppel in a patent case without consideration of its holding in *Pope Mfg. Co.*¹¹⁶ The licensee estoppel doctrine was not considered again by the Court until *Hazeltine Research*, which “declared, without prolonged analysis, that licensee estoppel was ‘the general rule.’ In so holding, the majority ignored the teachings of a series of decisions this Court had rendered during the 45 years since *Harvey* had been decided.”¹¹⁷ By the time *Hazeltine Research* was decided, the patent licensee estoppel doctrine had been so eroded it could not be considered the general rule but was evoked in “an ever-narrowing set of circumstances.”¹¹⁸

While many licensing agreements prohibit the licensee, whether patent, trademark, or copyright, from attacking the licensor’s claim of ownership or the validity of the licensed product, the enforcement of that contract provision must give way to federal policies, at least in the case of patents and copyrights.¹¹⁹ *Lear* instructs:

The parties’ contract, however, is no more controlling on this issue that is the State’s doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts. It seems to us that such a requirement would be inconsistent with the aims of federal patent policy.¹²⁰

The holding in *Lear* was based on what the Court described as a strong federal policy favoring the ability of the public to freely use ideas in the public domain by not requiring a licensee to pay for information that is available without cost due to the invalidity or expiration of a patent.¹²¹ In other words, strong policy supports the public interests over the individual patent holder’s ability to enforce questionable contract rights. As the Court in *Pope Mfg. Co.*, observed: “Ordinarily the law leaves to parties the right to make such contracts as they please, demanding, however, that they shall not require either party to do an illegal thing, and that they shall not be against public policy or in restraint of trade.”¹²²

115. *Pope Mfg. Co.*, 144 U.S. at 234.

116. See *United States v. Harvey Steel Co.*, 196 U.S. 310, 315, 317 (1905).

117. *Lear*, 395 U.S. at 664 (internal citations omitted) (discussing *Automatic Radio Mfg. Co. v. Hazeltine Research*, 339 U.S. 827, 899 (1950)).

118. *Id.*

119. *Id.* at 673.

120. *Id.*

121. *Id.* at 674.

122. *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 233 (1892).

The doctrine of licensee estoppel has been applied in copyright cases as well.¹²³ Prior decisions enforced this doctrine to prevent copyright licensees from challenging the ownership of their licensors' copyrights.¹²⁴ In 1987, the Seventh Circuit addressed the validity of a clause in a license agreement by which the copyright licensee covenanted to not contest the licensor's ownership or the validity of its copyright in *Saturday Evening Post v. Rumbleseat*.¹²⁵ With consideration of the Supreme Court's decision in *Lear*, Judge Posner held such clauses will be enforced unless doing so carries with it antitrust implications and results in restraint of trade, writing: "We hold that a no-contest clause in a copyright licensing agreement is valid unless shown to violate antitrust law."¹²⁶ The holding was made specific to a negotiated contract clause and not a "doctrine that in effect reads a no-contest clause into every licensing agreement."¹²⁷ Still, the result might well have been to place the individual interests of the licensor ahead of the public's interests, for there should be no payment for expressions which are freely available to anyone.

In *Lear*, the Court ignored the licensing agreement the parties had entered into, holding that their contract was "no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles."¹²⁸ The narrow holding in *Saturday Evening Post*, that licensee estoppel will not be enforced only where embodied in a contract and doing so will result in a violation of antitrust laws, makes little sense when contrasted with *Lear* and its clearly enunciated intent to protect the public interests.¹²⁹ First, the Seventh Circuit distinguished a contract from no contract, upholding the contracted-for no-contest obligation and questioning application of the equitable doctrine when no contract clause recognized it. Second, the Seventh Circuit held the only circumstance that warrants a challenge of a contracted-for no-contest clause is where enforcement will result in restraint of trade under antitrust laws.¹³⁰ The prevention of inflated pricing caused by restraint of trade and the prevention of consumer confusion caused by naked licensing are laudable and important public policy goals.¹³¹

Judge Posner, in *Saturday Evening Post*, declared the need to balance the pros and cons of the no-contest clause in each case.¹³² While he thought

123. See, e.g., *G. Ricordi & Co. v. Columbia Graphophone Co.*, 263 F. 354, 357 (2d Cir. 1920); *Fitch v. Shubert*, 20 F. Supp. 314, 315 (S.D.N.Y. 1937).

124. See, e.g., *Ricordi*, 263 F. at 357; *Fitch*, 20 F. Supp. at 315.

125. 3 DAVID NIMMER, NIMMER ON COPYRIGHT § 10.15[B][2] (5th ed. 2020) (citing *Hal Roach Studios, Inc. v. Richard Feiner & Co.*, 896 F.2d 1542, 1556 (9th Cir. 1990)).

126. *Saturday Evening Post Co. v. Rumbleseat Press, Inc.*, 816 F.2d 1191, 1200 (7th Cir. 1987).

127. *Id.*

128. *Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969).

129. *Saturday Evening Post*, 816 F.2d at 1200–01; *Lear*, 395 U.S. at 670–71.

130. *Saturday Evening Post*, 816 F.2d at 1200.

131. S. REP. NO. 79-1333, at 3–4 (1946); *Lear*, 395 U.S. at 673.

132. *Saturday Evening Post*, 816 F.2d at 1200.

the balancing was best done under antitrust law¹³³ and declined to hold such a clause invalid except for antitrust reasons, Judge Posner's opinion may be substantially too narrow in light of the Supreme Court's holding in *Lear*, in which it expressed "the strong federal policy favoring free competition in ideas which do not merit patent protection."¹³⁴ These ideas, the Court held, include ideas in the public domain.¹³⁵ Trademarks, once abandoned, no longer serve their function as designators of source and conveyors of information, both of value to the consumer, and they enter the public domain.¹³⁶

Judge Feinberg of the Second Circuit understood the need to assess public policy and protect against public injury by abandoning equitable principles when enforcing agreements related to intellectual property. He wrote:

Even when courts have not expressly applied the *Lear* test, they have recognized that agreements related to intellectual property necessarily involve the public interest and have enforced such agreements only to the extent that enforcement does not result in a public injury. Thus, the First Circuit in *T&T Manufacturing Co. v. A.T. Cross Co.* asked "whether there is any significant harm to the public" before holding that a settlement agreement related to trademarks was enforceable.¹³⁷

Patents and copyrights are creatures of federal law,¹³⁸ with origins in the United States Constitution.¹³⁹ A trademark is a creation of federal statute,¹⁴⁰ numerous state statutes, and the common law. There is no good basis to not seek the public interest behind each and to use that public interest to allow a licensee to challenge its licensor's rights.

The public interest is a core concern of all law, be it statutory or common law. Allowing a licensee to challenge a licensor's rights in a mark is irrefutably consistent with the greater public interest. No good reason exists not to allow it; to the contrary, failure to protect the right to challenge the licensor does violence to the elementary purpose of the law.

While there are similarities to be drawn between patents, copyrights, and trademarks, there are also distinctions to be seen in the damage caused by the infringement of the rights and protections afforded by each. Generally, if an

133. *Id.*

134. *Lear*, 395 U.S. at 656.

135. *Id.* at 674.

136. *Indianapolis Colts, Inc. v. Metro. Balt. Football Club Ltd.*, 34 F.3d 410, 412 (7th Cir. 1994).

137. *Idaho Potato Comm'n v. M&M Produce Farm & Sales*, 335 F.3d 130, 136 (2d Cir. 2003); *T & T Mfg. Co. v. A. T. Cross Co.*, 587 F.2d 533, 538 (1st Cir. 1978).

138. 17 U.S.C. §§ 101–1401 (2018); 35 U.S.C. §§ 1–390 (2018).

139. U.S. CONST. Art. 1, § 8, cl. 8.

140. 15 U.S.C. §§ 1051–1141 (2018).

item is made pursuant to the patent or a piece is reproduced pursuant to the copyright, the consuming public is not deceived because they are still getting the product that they are paying for. Under these circumstances, the owner of patent or copyright is losing its ability to exclusively control the use of the invention or the expression.¹⁴¹ The remedy for such infringement is usually monetary damages in the form of lost profits.¹⁴² A trademark, on the other hand, tricks the consumer into believing that a product originated with one vendor while being induced to purchase the product from another vendor, thereby deceiving the public and diminishing the good will of the rightful owner of the trademark.¹⁴³ Monetary damages do not repair the damage to reputation that such consumer confusion can cause, so often times both equitable relief and monetary damages are an appropriate remedy.¹⁴⁴

III. QUALITY CONTROL AND THE TRADEMARK LICENSE

When licensing a trademark, the licensor takes on certain obligations, the most important of which is to control the quality of the goods or services provided by its licensee as associated with the mark.¹⁴⁵ There is no rule that trademark proprietors must insure ‘high quality’ goods or that ‘high quality’ permits unsupervised licensing. ‘Kentucky Fried Chicken’ is a valid mark (citation omitted), though neither that chain nor any other fast-food franchise receives a star (or even a mention in the Guide Michelin). The sort of supervision required for a trademark license is the sort that produces consistent quality.¹⁴⁶

Understanding this obligation of a licensor requires examining what quality control means, why it matters, who benefits from it, and what happens when the licensor fails to fulfill this obligation. To be valid, a trademark license must include quality control.¹⁴⁷

As set forth above, trademark owners may determine that the most expeditious or effective way to exploit their marks is to license to third parties the right to manufacture and/or sell goods or services branded with their mark.¹⁴⁸ This practice, however, is not without rules and restrictions.

141. James Astrachan, *Who Will Protect the Consumers of Trademarked Goods?*, 46 UNIV. OF BALT. L. REV. 375, 390 (2017) (citing 35 U.S.C. § 154(a)(1) (2012); 17 U.S.C. § 106).

142. *Id.* at 376.

143. 1 MCCARTHY, *supra* note 2, at § 2:9; *see also* *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 763 (1992); S. REP. NO. 79-1333, at 4 (1946).

144. Astrachan, *supra* note 141, at 377.

145. 3 MCCARTHY, *supra* note 2, § 18:38.

146. *Eva’s Bridal Ltd. V. Halanick Enterprises, Inc.*, 639 F.3d 788 (7th Cir. 2011).

147. *Dzhunaydov v. Emerson Elec. Co.*, 2016 U.S. Dist. Ct. LEXIS 34747 (E.D. N.Y. March 17, 2016).

148. *Id.*

As a general matter, trademark owners have a duty to control the quality of their trademarks. McCarthy § 18:48. “It is well-established that ‘[a] trademark owner may grant a license and remain protected provided quality control of the goods and the services sold under the trademark by the licensee is maintained.’”¹⁴⁹

The court explained in *Moore Bus. Forms* that “naked licensing” occurs where the licensor “fails to exercise adequate quality control over the licensee.”¹⁵⁰ When this occurs, the result may be that the trademark no longer serves as a symbol of source and quality, so the mark is abandoned, and it slips into the public domain. Naked licensing is objectionable for reasons of public policy because it is considered “inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor.”¹⁵¹ “Consequently, where the licensor fails to exercise adequate quality control over the licensee, ‘a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark.’”¹⁵²

In determining whether a licensor has engaged in naked licensing, a court will ordinarily first examine the language of the licensing agreement to ascertain whether the parties have agreed that the licensor retains a right to inspect the goods and services sold by the licensee under the mark in order to determine if they conform to the goods and services sold, or previously sold, by the licensor under the mark.¹⁵³ The omission of a clause that allows licensors to inspect the quality of the licensee’s goods or services can support a finding of naked licensing.¹⁵⁴ Absent an express license agreement that controls the licensee’s use of the licensed mark, there is little basis on which a court should find that the licensor has rights to inspect and supervise the

149. *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 515 (9th Cir. 2010) (quoting *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589, 595–96 (9th Cir. 2002)).

150. *Barcamerica*, 289 F.3d at 596.

151. *Id.* at 598 (quoting *First Interstate Bancorp v. Stenquist*, No. C-89-4106 MHP, 1990 WL 300321 at *3 (N.D. Cal. July 13, 1990)).

152. *Id.* at 596 (quoting *Moore Bus. Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992)).

153. *Id.* at 596–97 (finding licensor engaged in naked licensing where language of licensing agreement contained no “controls or restrictions with respect to quality of goods,” and despite express language, licensor and licensee did not “have the type of close working relationship required to establish adequate quality control in the absence of a formal agreement”).

154. *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 871 (10th Cir. 1995) (finding licensor engaged in naked licensing where no express contractual right to inspect or supervise licensee’s operations existed and licensor did not exercise “sufficient control over its licensee”).

licensee's use of the mark.¹⁵⁵ "The only effective way to protect the public where a trademark is used by a licensee is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees."¹⁵⁶

Failure to provide quality control can harm the consuming public as this failure can serve to misrepresent to the consumers of those products the connection the products have with the trademark owner and the quality of the products. This is because a naked license may result in the use, by an authorized licensee, of a mark that does not identify goods and services under the control of the licensor. The result is an involuntary abandonment by the licensor of its rights in the mark.¹⁵⁷ The question arises, who can assert that the licensor has abandoned its mark?

A. *Why is Quality Control Essential?*

A principal purpose of a trademark is to indicate the source of the goods sold under the mark.¹⁵⁸ An equally important purpose is to establish for the consumer a consistent source of quality – that is, the product sold by a licensee under the licensed mark will be consistent with the quality of the product sold by the licensor of the mark as well as any other of the licensor's licensees, should there be more than one.¹⁵⁹ It matters not whether the quality of the licensor's product is high or low; the consumer of the licensee's product, relying on the trademark to aid selection, has the right to expect consistency between the licensor's and the licensee's products.¹⁶⁰ A trademark license must assure, at minimum, that goods are consistent, whether originating from the licensor or the licensee.¹⁶¹ While trademarks licensed to third parties for their use still indicate the source of goods, the purpose behind quality control is to assure uniform standards of quality.¹⁶²

A consumer of trademarked goods is the beneficiary of consistent quality among products bearing the brand of the licensor and is entitled to expect that the licensor is in control of the quality of the goods sold bearing the mark, regardless of by whom – licensor or licensee.¹⁶³ The authorized use of a

155. *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 516–17 (9th Cir. 2010).

156. *Doebler's Pa. Hybrids, Inc. v. Doebler*, 442 F.3d 812, 823 (3d Cir. 2006) (citation omitted).

157. *Id.*; 3 MCCARTHY, *supra* note 2, § 18:48 (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33, cmt. b (AM. LAW INST. 1995)).

158. *Gallo v. Proximo Spirits, Inc.*, No. CV-F-10-411 LJO JLT, 2012 U.S. Dist. LEXIS 10629, at *23 (E.D. Cal. Jan. 27, 2012).

159. *Id.*

160. *Eva's Bridal, Ltd. v. Halanick Enterprises*, 639 F.3d 788, 790 (7th Cir. 2011).

161. *Id.*

162. 3 MCCARTHY, *supra* note 2, § 18:40.

163. *Id.*

licensor's mark indicates to consumers that the products sold under the mark have "been delivered according to all quality control guidelines enforced by the manufacturer."¹⁶⁴

The results of a licensor's failure to assure its licensee's quality control can be devastating to the licensor. As to the duty of a trademark licensor to control the manner in which its licensee produces or distributes the product sold under the licensed mark, Judge Posner held:

The owner of a trademark has a duty to ensure the consistency of the trademarked good or service. If he does not fulfill this duty, he forfeits the trademark. The purpose of the trademark, after all, is to identify a good or service to the consumer, and identity implies consistency and a correlative duty to make sure that the good or service really is of consistent quality, i.e., really is the same good or service.¹⁶⁵

Judge Posner recognized that a properly used trademark confers an economic benefit to the consumers, holding that "[t]he economic function of a trademark is to provide the consuming public with a concise and unequivocal signal of the trademarked product's source and character, and that function is thwarted if the quality and uniformity of the trademarked product are allowed to vary significantly without notice to the consumer."¹⁶⁶

Judge Posner's vision of a trademark's function sounds very much like the strong public interests set forth by the Supreme Court in *Lear* as the basis for not enforcing licensee estoppel, although not necessarily related to a "full and free" competition¹⁶⁷ or to antitrust. Nevertheless, Judge Posner's concern for the consumer of trademarked goods is echoed by Judge Feinberg, who held:

[I]n the trademark context, as already noted: "[a] dealer's good will is protected . . . in order that the purchasing public may not be enticed into buying A's product when it wants B's product." Thus, agreements that allow the continued use of confusingly similar trademarks injure the public, and the important issue in litigation over trademark contracts is the public confusion that might arise from enforcing the contract.¹⁶⁸

164. *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 108 (4th Cir. 1991).

165. *Gorenstein Enterprises v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (internal citations omitted).

166. *Draeger Oil Co., Inc. v. Uno-Ven Co.*, 314 F.3d 299, 301 (7th Cir. 2002) (quoting *Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002)).

167. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969).

168. *Idaho Potato Comm'n v. M & M Produce Farm & Sales*, 335 F.3d 130, 138 (2d Cir. 2003) (quoting *T & T Mfg. Co. v. A. T. Cross Co.*, 587 F.2d 533, 538 (1st Cir. 1978)).

As a trademark functions to provide valuable information to the consumer, and confers an economic benefit, the failure of a mark's owner to control the quality of its licensee's products sold under the mark can deceive consumers who rely on the authenticity of the licensee's product to their economic detriment.¹⁶⁹ A licensee's conduct in failing to conform to supervision of quality imposed by a licensor under a license agreement is so serious as to subject the licensee to claims of breach of contract and even trademark infringement.¹⁷⁰

B. The Consumers' Interest in Licensor's Quality Control

The licensor of a trademark can clearly be harmed by the failure of its licensee to adhere to the licensor's standards of quality associated with the licensed mark and the product it brands, because the consumer of those goods may be confused, deceived, and put off. "Distribution of a product that does not meet the trademark holder's quality control standards may result in the devaluation of the mark by tarnishing its image"¹⁷¹ or the mark may even be considered abandoned.¹⁷² As referenced earlier in this Article, the licensor has a cause of action against its licensee who fails to adhere to the licensor's imposed quality standards, but, generally speaking, the consumer does not. This is because under the Act, standing does not extend to permit a consumer to sue for the deceptive trade practices of a seller or manufacturer of goods or services.¹⁷³

The requirement that a licensor impose quality control on its licensee is intended to ensure consistency between the products bearing the licensed mark sold by the licensee and the licensor.¹⁷⁴ Protection of the public is a chief reason for the affirmative duty imposed on a licensor to police the manner in which its licensee employs its licensed marks.

Courts have long imposed upon trademark licensors a duty to oversee the quality of licensee's products. The rationale for this requirement is that marks are treated by purchasers as an indication that the

169. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) (holding that the failure of a licensor to control and supervise the operations of its licensee may result in consumers of the licensee's products being "unwittingly deceived"); *Broeg v. Duchaine*, 67 N.E.2d 466, 468 (Mass. 1946).

170. *See Joseph Bancroft & Sons Co. v. Shelley Knitting Mills, Inc.*, 212 F. Supp. 715 (E.D. Pa. 1962) (holding licensee breached contract and infringed on a trademark where licensee manufactured and sold products which did not meet the agreed quality and standards).

171. *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 6 (2d Cir. 1996).

172. 15 U.S.C. § 1127 (2018).

173. *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 U.S. 118, 132 (2014); 15 U.S.C. § 1125(a) (2018).

174. *Gorenstein Enterprises v. Quality Care-USA, Inc.*, 874 F.2d 431, 435 (7th Cir. 1989) (internal citations omitted).

trademark owner is associated with the product. Customers rely upon the owner's reputation when they select the trademarked goods. If a trademark owner allows licensees to depart from its quality standards, the public will be misled, and the trademark will cease to have utility as an informational device.¹⁷⁵

Because the consumers of licensed goods are not in a position to uncover deceptive uses of trademarks, the burden must fall on the licensor to supervise its licensee. A trademark licensor should be placed at risk if it fails to take steps to prevent its licensees from misusing its licensed marks.

[U]nless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly deceived will be increased and this is precisely what the Act is in part designed to prevent. Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.¹⁷⁶

Where the naked licensing results from the failure of a licensor to impose quality control standards or monitor the quality of its licensee's goods, the consumer is harmed, and it is not equitable for the licensee to be estopped from challenging its licensor's ownership after the licensor has failed to engage in its affirmative duty to police in a reasonable manner how the licensee has used the mark. In balancing the interests of the public against those of the licensor, the public should come out on top, particularly when it is the licensor who is in the best position to prevent confusion and harm to the consumer.

C. Naked Licensing Results in Abandonment of Trademark Rights

Because the naked licensing of a mark deceives the public and conveys a false and deceptive message to consumers, it can result in abandonment of the mark.¹⁷⁷ This occurs, in part, because a licensor who fails to monitor the quality of a licensee's goods and/or services likewise fails to abide by the inherent purpose of a trademark "to function as a symbol of quality and

175. *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 387 (5th Cir. 1977) (citation omitted); *see also FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 515–16 (9th Cir. 2010) (holding that naked licensing is inherently deceptive); *Heaton Distrib. Co. v. Union Tank Car Co.*, 387 F.2d 477, 485 (8th Cir. 1967) (holding that a licensor's failure to control the quality of its licensee's products permits "a deception of the public").

176. *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 366 (2d Cir. 1959) (citing S. REP. NO. 79-1333, at 4 (1946)).

177. 15 U.S.C. § 1127 (2018); 3 MCCARTHY, *supra* note 2, § 18:48.

controlled source.”¹⁷⁸ As a result of naked trademark licensing, “a court can find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark.”¹⁷⁹ This is considered an involuntary forfeiture of trademark rights, and a subjective intent to abandon the mark need not be established.¹⁸⁰

A comment to the Restatement (Third) of Unfair Competition explains why a licensor who engages in naked licensing may suffer the fate of trademark abandonment:

An uncontrolled or ‘naked’ license authorizes use of the trademark on goods or services for which the trademark owner cannot offer a meaningful assurance of quality. When the trademark owner fails to exercise reasonable control over the use of the mark by a licensee, the presence of the mark on the licensee’s goods or services misrepresents their connection to the trademark owner since the mark no longer identifies goods and services that are under the control of the owner of the mark. Although prospective purchasers may continue to perceive the designation as a trademark, the courts have traditionally treated an erosion of the designations’ capacity for accurate identification resulting from uncontrolled licensing as a loss of trademark significant, thus subjecting the owner of the mark to a claim of abandonment under the rule stated in [the Restatement (Third) of Unfair Competition].”¹⁸¹

Because naked licensing is considered inherently deceptive and results in abandonment of the trademark by the licensor, the licensor loses all rights it has in the trademark.¹⁸² In other words, the licensor’s insufficient control of how the mark is used by its licensee can result in the forfeiture of the mark. A trademark owner does not, however, abandon its trademark through naked licensing unless the particular circumstances involving the licensing suggest that the public – those consumers and potential consumers of products sold

178. *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002) (quoting 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (4th ed. 2001)).

179. *Id.* (quoting *Moore Bus. Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992)). However, if the licensee is unable to assert the affirmative defense of abandonment due to licensee estoppel, there would appear no barrier to the licensor’s infringement action against its licensee.

180. 15 U.S.C. § 1127; *Barcamerica*, 289 F.3d at 596 (quoting 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (4th ed. 2001)).

181. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33, cmt. b (AM. LAW INST. 1995).

182. *Eureka Water Co. v. Nestle Waters N. Am., Inc.*, No. CIV-07-988-M, 2009 WL 5083577 at *3 (W.D. Okla. Dec. 21, 2009)

under the trademark – will be deceived.¹⁸³ These circumstances may exist where the licensor is familiar with its licensee’s efforts to control quality and relies on these efforts.¹⁸⁴ A close working relationship between the licensor and its licensee can defeat a claim of naked licensing and avoid the fate of trademark abandonment.¹⁸⁵ But courts have held that naked licensing will create a situation that fosters public deception and abandonment is the result.¹⁸⁶

IV. TRADEMARK LICENSEE ESTOPPEL

There are many statutory defenses available to a trademark defendant. For example, abandonment, that the mark is merely descriptive, that the mark was registered based on a misrepresentation to the USPTO, that the mark was used to misrepresent source, the mark was used to violate laws, or that the mark is functional.¹⁸⁷ As well, there are equitable defenses available to the trademark defendant. These include laches, estoppel and acquiescence.¹⁸⁸ Judicial defenses also exist, for example, nominative fair use.¹⁸⁹ And, comparative advertising when a mark is used to describe a competitor’s product.¹⁹⁰ As well, courts have found fair use of another’s mark when used to “poke fun” at the product sold under the mark.¹⁹¹ A licensee of a trademark

183. *Hokto Kinoko Co. v. Concord Farms, Inc.*, 738 F.3d 1085, 1098 (9th Cir. 2013).

184. *Id.*

185. *Id.*

186. *See, e.g.*, *FreecycleSunnyvale v. Freecycle Network*, 626 F.3d 509, 515–16 (9th Cir. 2010) (citing *Barcamerica Intern. USA Trust v. Tyfield Imp., Inc.*, 289 F.3d 589, 595–96 (9th Cir. 2002) (“[N]aked licensing . . . is inherently deceptive”)); *Standfield v. Osborne Indus., Inc.*, 52 F.3d 867, 871 (10th Cir. 1995); *Siegel v. Chicken Delight, Inc.*, 448 F.2d 43, 48–49 (9th Cir. 1971); *Heaton Distrib. Co. v. Union Tank Car Co.*, 387 F.2d 477, 485 (8th Cir. 1967); *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959); *Bos. Dental Grp., LLC v. Affordable Care, LLC*, No. 2:16-cv-01636-RFB-CWH, No. 216CV01636RFBCWH, 2018 WL 1566331 at *7 (D. Nev. Mar. 29, 2018); *Cornaby’s LLC v. Carnet, LLC*, No. 214CV00462JNPDBP, 2017 WL 3503669 at *8–9 (D. Utah Aug. 15, 2017); *Halo Mgmt., LLC v. Interland, Inc.*, No. C-03-1106 MHP, No. C-03-1106 MHP, 2004 WL 1781013 at *3 (N.D. Cal. Aug. 10, 2004) (quoting *First Interstate Bancorp v. Stenquist*, No. C-89-4106 MHP, 1990 WL 300321 at *3 (N.D. Cal. July 13, 1990) (finding the practice of naked licensing to be inherently deceptive)); *Broeg v. Duchaine*, 67 N.E.2d 466, 468 (Mass. 1946).

187. Lanham Act, 15 U.S.C. § 1115(b) (2018).

188. *Id.*

189. *New Kids on the Block v. News Am. Publ’g, Inc.*, 971 F.2d 302, 308–10 (9th Cir. 1992).

190. *Smith v. Chanel, Inc.*, 402 F.2d 562, 565–67 (9th Cir. 1968).

191. *Mattel, Inc. v. MCA Records*, 296 F.3d 894, 901–03 (9th Cir. 2002).

“who has used a designation under a license from another is ordinarily estopped from asserting ownership of the designation as against the owner.”¹⁹² Thus, licensee estoppel can prevent a licensee from challenging the validity of a mark on the basis that the mark is not distinctive,¹⁹³ or that the licensor’s registration is fraudulent.¹⁹⁴

The doctrine of licensee estoppel has been applied by the courts to prevent a licensee from asserting that its licensor has abandoned its mark due to the licensor’s failure to assert and exercise quality control measures over the licensee’s use. This result has followed despite the holding that where “a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor.”¹⁹⁵

A third party can challenge a licensor’s rights in the mark on the basis of naked licensing and the resulting abandonment, but the general rule is that the trademark licensee cannot do so.¹⁹⁶

The licensee is estopped from claiming any rights against the licensor which are inconsistent with the terms of the license. This is true even after the license expires. He is estopped from contesting the validity of the mark, . . . or challenging the license agreement as void or against public policy, e.g., because it granted a naked license. But he may challenge the licensor’s title to the mark based on events which occurred after the license expired.¹⁹⁷

The doctrine of trademark licensee estoppel is not absolute with all courts; some courts recognize an intermediate path between an absolute bar to a licensee’s challenge of validity or ownership and allowing the challenge under some circumstances.¹⁹⁸ Several courts have held that when a licensor engages in naked licensing, the licensee may invoke the naked licensing defense as a form of estoppel where the licensor alleges the licensee engaged in infringing activities.¹⁹⁹ Allowing the licensee to invoke a naked licensing

192. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. d (AM. L. INST. 1995).

193. *Beer Nuts, Inc. v. King Nut Co.*, 477 F.2d 326, 328, 330 (6th Cir. 1973).

194. *Levine v. McDonald’s Corp.*, No. Civ. 77-601 Phx. WPC, 1979 U.S. Dist. LEXIS 11771, at *10 (D. Ariz. June 12, 1979).

195. *Stanfield*, 52 F.3d at 871 (quoting *Stenquist*, 1990 WL 300321 at *3).

196. *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000).

197. *Id.* (quoting J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:63 (4th ed. 2000)).

198. *Pro. Golfers Ass’n of Am. v. Bankers Life & Cas. Co.*, 514 F.2d 665, 671 (5th Cir. 1975).

199. *Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1075 n.7 (5th Cir. 1997); *Sheila’s Shine Prods. v. Sheila Shine, Inc.*, 486 F.2d 114, 123–24 (5th Cir. 1973); *Miller v. Glenn Miller Prods.*, 318 F. Supp. 2d 923, 945 (C.D. Cal. 2004).

defense to defend against allegations of infringing activities is less common, but has happened.²⁰⁰ For example, in *Sheila's Shine Products*, the Ninth Circuit held that “[f]ailure to exercise such control and supervision for a significant period of time may estop the trademark owner from challenging the use of the mark and business which the licensee has developed during the period of such unsupervised use.”²⁰¹

Some courts have held that, in cases involving naked licensing, a licensee may challenge the license agreement as void or against public policy “based on events that occurred after the license expired.”²⁰² Otherwise, the licensee may not claim rights against its licensor that “are inconsistent with the terms of the license,” even after the license expires.²⁰³ This includes a challenge on the grounds the license is void or against public policy.²⁰⁴ One court has held that a licensee may raise a naked license defense against its licensor where the challenged actions are instances of naked licensing to third parties.²⁰⁵

In *Professional Golfers*, the Fifth Circuit held that by entering into a licensing agreement, the licensee recognized the licensor’s ownership of the mark, but questioned whether, once the license agreement ends, the licensee is forever barred from challenging the licensor’s ownership and the validity of the mark.²⁰⁶ In raising this query, the court examined decisions holding the licensee is forever barred and decisions finding there is some expiration to the estoppel.²⁰⁷

Ultimately, the *Professional Golfers* court held that, following the expiration of a license for trademark use, the former licensee may challenge its licensor’s ownership on facts that arose after the license expired:

Thus a licensee affirms his licensor’s ownership of the mark by entering into the agreement, but the straightjacket effect does not last interminably. In the present case, however, the facts upon which [the

200. *Sheila's Shine Prods*, 486 F.2d at 124.

201. *Id.*

202. *Creative Gifts, Inc.*, 235 F.3d at 548 (quoting J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:63 (4th ed. 2000)).

203. *Id.*

204. *Id.*

205. *Keybab Gyros, Inc. v. Riyad*, No. 3:09-0061, 2009 U.S. Dist. LEXIS 117962, at *22–23 (M.D. Tenn. Dec. 17, 2009).

206. *Pro. Golfers Ass’n of Am. v. Bankers Life & Cas. Co.*, 514 F.2d 665, 671 (5th Cir. 1975).

207. *Id.* (citing *Heaton Distrib. Co. v. Union Tank Car Co.*, 387 F.2d 477 (8th Cir. 1967); *E.F. Prichard Co. v. Consumers Brewing Co.*, 136 F.2d 512 (6th Cir. 1943)) as relates to a post-termination bar; and *Id.* (citing *Donald F. Duncan, Inc. v. Royal Tops Mfg. Co.*, 343 F.2d 655 (7th Cir. 1965); *Bucky v. Sebo*, 208 F.2d 304 (2d Cir. 1953); *Eskimo Pie Corp. v. Nat’l Ice Cream Co.*, 26 F.2d 901 (6th Cir. 1928)) as relates to no bar, post-termination.

defendant] relies arose during the course of its ten-year agreement with the PGA, so it is estopped to argue abandonment.²⁰⁸

The court held that the bar to challenge the licensor's ownership of a mark should not last forever, but it also ruled that where the facts on which the challenge to the licensor's ownership occurred during the license, the challenge should be barred. This distinction is lost on any consumer who is misled by the failure of the licensor to exert quality control over the licensee's use of its mark.

A. The Doctrine of Licensee Estoppel is Against Public Policy and Should be Generally Abandoned

The basis for licensee estoppel has been summarized as follows:

[A] licensee claiming that its own license is a naked license essentially seeks to benefit from its own misfeasance. By asserting a naked license defense, the licensee contends that the licensed trademark or trade name has lost its significance as a source of origin because the licensor has failed to police the licensee's operations. Thus, by relying on its own ability to offer inferior or nonuniform goods and services under the trademark or trade name, the licensee seeks to free itself of the constraints imposed by the licensor's ownership of the trademark or trade name. Not surprisingly, the Restatement (Third) of Unfair Competition observes that the case for applying licensee estoppel is strongest in such cases.²⁰⁹

This effort to restrain the licensee based on its own misfeasance, however, protects only the licensor and not the public. It places the blame squarely on the licensee and protects the property interests of the licensor, the party who had always been in the best position to impose and require adherence to uniform standards.

In *Lear*, the Supreme Court refused to apply licensee estoppel in a case of patent licensing, holding that the "parties' contract, however, is no more controlling on this issue than is the State's doctrine of estoppel, which is also rooted in contract principles."²¹⁰ A half-century later, many courts still cling to the notion that trademark licensee estoppel is appropriate, and that a licensee should not be permitted to challenge its licensor's title, or the validity

208. *Professional Golfers Assoc.*, 514 F.2d at 671.

209. *L.F.P.IP, Inc. v. Hustler Cincinnati, Inc.*, No. 1:09cv0913 (WOB), 2011 WL 5024356 at *9 (S.D. Ohio Oct. 20, 2011), *aff'd sub nom. L.F.P.IP, LLC v. Hustler Cincinnati, Inc.*, 533 F. App'x 615 (6th Cir. 2013) (quoting *Westco Group, Inc. v. K.B. & Assocs.*, 128 F. Supp. 2d 1082, 1089 (N.D. Ohio 2016)).

210. *Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969).

of its mark, on the basis of its licensor's commissions and dereliction of its duty to impose and supervise quality control.²¹¹

The Court in *Lear* framed the decisive issue as “whether overriding federal policies would be significantly frustrated if licensees could be prohibited from challenging the validity of their licensor's patents.”²¹² Federal jurisprudence is full of declarations and holdings that naked licensing deceives the consumer and is even fraudulent.²¹³ This appears not to be disputed by any court as a general rule.

The public policy behind proper use of a trademark was clearly stated by the United States Congress in 1946 as it considered adoption of the Act.²¹⁴ However, it is the Second Circuit that may have best described the public policy behind the Act:

The public is hardly in a position to uncover deceptive uses of a trademark before they occur and will be at best slow to detect them after they happen. Thus, unless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly deceived will be increased and this is precisely what the Act is in part designed to prevent.²¹⁵

Licensee estoppel is not statutory law; it has developed in the courts as a product of common law.²¹⁶ As such, a “court remains free to consider the particular circumstances of the case . . .”²¹⁷ As acknowledged by the Supreme Court in *Lear*, there are good reasons why courts should be encouraged to do so and not enforce licensee estoppel:

211. *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000).

212. *Lear*, 395 U.S. at 673.

213. *Stanfield v. Osborne Indus., Inc.*, 52 F.3d 867, 871 (10th Cir. 1995) (quoting *First Interstate Bancorp v. Stenquist*, No. C-89-4106 MHP, 1990 WL 300321 at *3 (N.D. Cal. July 13, 1990) (finding naked licensing to be “inherently deceptive”). *Societe Comptoir De L’Industrie Cotonniere Etablissements Boussac v. Alexander’s Dept. Stores, Inc.*, 299 F.2d 33, 35 (2d Cir. 1962) (“[A] bare license is a fraud upon the public and unlawful.”), finding that naked licenses can defraud the consumer.

214. “[W]hen it is considered that the protection of trade—marks is merely protection to goodwill, to prevent diversion of trade through misrepresentation, and the protection of the public against deception, a sound public policy requires that trade—marks should receive nationally the greatest protection that can be given them.” S. Rep. No. 79-1333, at 5–6 (1946).

215. *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959).

216. *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 144–45 n.2 (citing *Lear*, 395 U.S. at 659).

217. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. d (AM. L. INST. 1995).

Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has issued.²¹⁸

One might add to the holding in *Lear* that a trademark licensor's property interests are far less important than the public policy served by trademarks in discerning both source and quality, and that a licensor's failure to follow the most basic rules of imposing quality control standards should be held against the licensor. One could continue and assert that a consumer is without any standing to bring a trademark action to assert that a licensor has abandoned the mark by failing to control product quality. If the mark cannot be challenged by a licensee, a person who may be best positioned to do so, the licensor is free, perhaps even encouraged, to continue its deception brought upon unknowing consumers through naked licensing. Clearly, when the hardships and equities are balanced among the consumer, the licensee, and the licensor, the licensor should lose, and the consumer should win. Often it will be the licensee who is best suited to bring about this result. First, because it is aware of the naked licensing. Second, because absent application of licensee estoppel, it, and not the consumer, has standing to bring the action. Third, because it often has the financial means and incentive to do so.

Courts have acknowledged that “[a]s an equitable doctrine, however, licensee estoppel generally will not be applied by a court if doing so would cause an inequitable result.”²¹⁹ Other courts have recognized that agreements, such as license agreements, related to intellectual property involve the public interest.²²⁰ Few cases, however, have refused to apply the equitable doctrine of licensee estoppel to ban the licensee's defense of abandonment based on naked licensing.²²¹ Where courts have refused to apply the doctrine in

218. *Lear, Inc. v. Adkins*, 395 U.S. 653, 670–71 (1969).

219. *Beach Mart, Inc. v. L&L Wings, Inc.*, 784 F. App'x 118, 127 (4th Cir. 2019). *See also* *Martha Graham Sch. & Dance Found., Inc. v. Martha Graham Ctr. of Contemp. Dance, Inc.*, 43 F. App'x 408, 414 (2d Cir. 2002); *Westco Group, Inc. v. K.B. & Assocs.*, 128 F. Supp. 2d 1082, 1090 (N.D. Ohio 2016); *Sturgis Motorcycle Rally, Inc. v. Rushmore Photo & Gifts, Inc.*, No. CIV. 11-5052, 2013 WL 5424707 at *11–12 (D.S.D. Mar. 6, 2013), *report and recommendation adopted as modified*, No. CIV. 11-5052-JLV, 2013 WL 5424702 (D.S.D. Sept. 26, 2013).

220. *Idaho Potato Comm'n v. M&M Produce Farm & Sales*, 335 F.3d 130, 136 (2d Cir. 2003).

221. *E.g., id.* at 139.

trademark cases, they have done so on the basis of protection of the public interests.²²² For example, in *Idaho Potato Comm'n*, Judge Feinberg held that the estoppel provision in a certification mark license placed non-quality control restrictions on sellers of the certified product in contravention of the mark owner's obligation not to interfere with a free market for products meeting the certification's criteria.²²³ As held in *Lear*,²²⁴ it may be that only licensees have the economic ability to challenge the licensor; as well, the court should undertake review of the public interests implicated by the merits of the licensee's challenge.²²⁵

Trademark dispute courts that have applied *Lear*'s balancing test of public versus private interests have generally enforced licensee estoppel.²²⁶ In one case, the public policy behind trademarks – that the public should not be deceived from buying the wrong product due to deception – gave way to the principle of contract law that a person should be held to the deal he made.²²⁷

V. LICENSEE ESTOPPEL SHOULD NOT BAR A LICENSEE FROM CHALLENGING A LICENSOR'S MARK ON THE GROUNDS OF NAKED LICENSING

Congressman Fritz Lanham, for whom the Lanham Act was named, testified in the United States House of Representatives that the purpose of his namesake bill was to “protect legitimate business and the consumers of this country.”²²⁸ Professor McCarthy agreed, and opined that the first policy behind the law of unfair competition is the prevention of public deception; following the public policy comes the protection of a mark owner's property rights.²²⁹ His opinion is supported by the decision of the Supreme Court in *Two Pesos v. Taco Cabana, Inc.*²³⁰

Infringement of patents, copyrights, and trademarks all cause monetary damage and loss, but there is a distinction to be drawn between damage caused by infringement of a patent or a copyright and the damage caused by infringement of a trademark. This distinction arises because a patentee or a

222. *E.g., id.*

223. *Id.*

224. *Id.* (citing *Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969)).

225. *Id.* (citing *Beer Nuts, Inc. v. King Nut Co.*, 477 F.2d 326, 328 (6th Cir. 1973)).

226. *Id.* at 136.

227. *MWS Wire Indus., Inc. v. Calif. Fine Wire Co.*, 797 F.2d 799, 803 (9th Cir. 1986) (quoting *Beer Nuts, Inc.*, 477 F.2d at 328)).

228. S. Res. 542, 114th Cong. (2016).

229. J. Thomas McCarthy, 1 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 3:1 (5th ed. 2020).

230. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992); *see also*, *Mosley v. Secret Catalogue, Inc.* 537 U.S. 418, 428 (2003).

copyright holder in an infringement action has a statutory right to exclusively control use of the invention or the copyrightable expression and to be compensated where an infringer makes or sells the patented device or an infringer reproduces or distributes the copyrighted expression.²³¹ Infringement of a patent or a copyright may result in the loss of a monetary benefit to the owner thereof, but in either case, a consumer will not be adversely affected by the infringement.²³² If the patent is followed in the manufacture of an article, or the expression of a copyrighted work is faithfully copied, it should matter little to the consumer whose product is acquired.²³³ There is no ground for the consumer to assert it has been deceived.

Trademarks are different than patents and copyrights as trademarks serve a different purpose than patents and copyrights. In general terms, trademarks serve to designate a source of goods and services. Surely to their owners they are valuable intangible assets and must be protected from infringers. But, within this value, to their owners lies their core value. Trademarks allow consumers to choose among goods based on the quality of the goods and the reputation of the source.²³⁴

The basic policy behind the law of unfair competition has been described by Professor McCarthy as, “[t]he interest of the public in not being deceived.”²³⁵ This protection against consumer deception is one of two goals of modern trademark law that Professor McCarthy identifies; the other is the protection of an owner’s trademark.²³⁶ Professor McCarthy’s opinion is supported by the Supreme Court case of *Two Pesos v. Taco Cabana*, in which it held that trademarks allow consumers to discern and select among the goods and services of the various producers.²³⁷ Trademarks “foster competition and the maintenance of quality by securing to the producer the benefits of good reputation.”²³⁸ The United States Senate’s 1946 Report on the Act read in part: “The purpose underlying any trademark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get.”²³⁹

The Restatement (Third) of Unfair Competition recognizes that a trademark’s purpose, in large part, is to impart information to a consumer and

231. Astrachan, *supra* note 141, at 390.

232. *Id.*

233. *See id.* at 385, 390.

234. *Id.* at 390.

235. 1 MCCARTHY, *supra* note 2, at § 2:1 (citing *Zippo Mfg. Co. v. Rogers Imports, Inc.*, 216 F. Supp. 670, 694 (S.D.N.Y. 1963)).

236. *Id.* at § 2:4.

237. *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 774 (1992).

238. *Id.* (quoting *Park ‘n Fly v. Dollar Park & Fly, Inc.*, 469 U.S. 189, 198 (1985)).

239. S. Rep. No. 79-1333, at 3 (1946).

to prevent the consumer from being deceived.²⁴⁰ “On the other hand, if the licensee’s use is on goods similar or identical to those produced by the trademark owner, purchasers may be likely to assume that the goods are actually manufactured by the owner of the mark.”²⁴¹

The Fourth Circuit has held that “Congress intended the Lanham Act to protect consumers from confusion in the marketplace. . . .”²⁴² As well as avoiding confusion by enabling consumers to select their choice of goods by use of the trademark, trademarks enable the consumer to reduce the cost of learning about a product.²⁴³ This aspect of a trademark can have great value.

As the Senate Report expressed:

Trademarks, 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 trademarks, 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. This is the end to which this bill is directed.²⁴⁴

Finally, the antitrust laws that formed the basis for the Supreme Court’s decision not to enforce licensee estoppel in *Lear*, and its absence in *Saturday Evening Post* that caused the Seventh Circuit to enforce licensee estoppel, was recognized as a competitive measure in at least one trademark decision. In *Standard Oil Co. v. Humble Oil & Refining Co.*, the Fifth Circuit held that “[t]he antitrust laws require competition, not piracy. The essence of competition is the ability of competing products to obtain public recognition based on their own individual merit.”²⁴⁵

VI. CONCLUSION

Many courts have recognized the public benefit in being able to discern quality and source through the consuming public’s recognition of a trademark and its ability to discern the products branded thereby from the products of

240. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 9 cmt. c (AM. L. INST. 1995).

241. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. c (AM. L. INST. 1995).

242. *Radiance Found., Inc. v. NAACP*, 786 F.3d 316, 323 (4th Cir. 2005).

243. See ARMEN ALCHIAN & WILLIAM R. ALLEN, EXCHANGE AND PRODUCTION: COMPETITION, COORDINATION AND CONTROL 190–91 (John Mahaney & Larry Olsen eds., 2d ed. 1977).

244. S. Rep. No. 79-1333, at 4 (1946).

245. 363 F.2d 945, 954 (5th Cir. 1966).

another seller. Many courts also recognize that consumers are deceived and thwarted in these efforts by licensors that engage in naked licensing. The Supreme Court struck down the licensee estoppel rule in *Lear* in a patent context.²⁴⁶ Rarely, however, has *Lear*'s non-estoppel rule been extended to trademark cases despite (or perhaps because of) the existence of a different public policy in protecting consumers from patents that should not have issued and marks that should be held abandoned.²⁴⁷

By entering a licensing agreement with a licensor, a licensee recognizes the licensor's ownership of the mark and, by implication or express language, covenants not to challenge the licensor's rights.²⁴⁸ As the Supreme Court confirmed in *Lear*, the strong public interest in protecting the consumer transaction from deception and fraud demands priority over these private contract principles. *Lear*'s non-estoppel rule should therefore be extended to the trademark arena of naked licensing.

246. *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

247. *Creative Gifts, Inc. v. UFO*, 235 F.3d 540, 548 (10th Cir. 2000).

248. *L.F.P.IP, Inc. v. Hustler Cincinnati, Inc.*, No. 1:09cv0913 (WOB), 2011 WL 5024356 at *8 (S.D. Ohio Oct. 20, 2011), *aff'd sub nom. L.F.P.IP, LLC v. Hustler Cincinnati, Inc.*, 533 F. App'x 615 (6th Cir. 2013).