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Joint Registration of Trademarks and the Economic Value of a Trademark System*

PATRICIA KIMBALL FLETCHER**

Americans are trademark conscious people. After a refreshing sleep on his BEAUTYREST mattress, the average American male is awakened by the alarm of a SEIKO clock. He arises, puts on his FLORSHEIM or GUCCI slippers and walks on the CALLAWAY or BARWICK carpet to the bathroom. He brushes his teeth with CREST toothpaste on an ORAL B toothbrush and applies NOXZEMA or FOAMY to his beard, to be removed by a GILLETTE or SCHICK razor. After a stimulating shower with COAST or DIAL soap, and while listening to the newscast on a GE or PANASONIC radio, he hurries into his BVD or JOCKEY underwear, ARROW or CALVIN KLEIN shirt freshly laundered with ERA from the LAUNDROMAT, puts on his ROLEX wristwatch and rushes downstairs to breakfast. In the kitchen, where the linoleum is bright with a coat of JOHNSON'S WAX, he snatches two slices of SUN-BEAM or WONDER bread from the TOASTMASTER and consumes a cup of TASTER'S CHOICE or BRIM coffee and a glass of MINUTE MAID orange juice taken from the FRIGIDAIRE or GE refrigerator. After breakfast he enjoys a MARLBORO or WINSTON cigarette. Should he burn or cut his finger, he would apply VASELINE petroleum jelly or a BAND-AID adhesive bandage. He dons his new STETSON hat and drives his MUSTANG, DATSUN, BMW, or CAMARO automobile to work. On the way he will be reminded by his DELCO radio that "Coke Is It."¹

* Special thanks to Professor James Mofsky for his help and guidance in writing this article.

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1. This is an updated version of a famous illustrative paragraph that Abraham Greenberg first published in 1950. See Greenberg, *Trade-Mark Management*, 40 TRADE-MARK REP. 95, 96 (1950). Julius Lunsford has since revised it four times. See Lunsford, *Consumers and Trademarks: The Function of Trademarks in the Market Place*, 64 TRADE-MARK REP. 75, 76-77 (1974) [hereinafter cited as Lunsford, *Consumers and Trademarks*]; Lunsford, *Trademarks: Prestige, Practice, and Protection*, 4 Ga. L. Rev. 322, 322 (1970); Lunsford, *Trademarks: First Rights or Last Rites?*, 54 TRADE-MARK REP. 792, 794 (1964); Lunsford, *Trade Morals and Famous Brand Names*, 41 TRADE-MARK REP. 923, 923 (1951).

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I. INTRODUCTION

The federal trademark system, a combination of common-law precedent and statutes permitting trademark registration, serves the special needs of both trademark conscious consumers and producers. The system facilitates commercial competition in a complex, impersonal marketplace by protecting the consumer's means of identifying and selecting products.² The consumer's patronage is the trademark owner's mainstay, and its continuing existence depends upon preservation of the owner's distinguishing trademark.³ The right of the owner to protect his trademark is therefore of great importance and value.

By being the first to use the mark, a trademark owner acquires a common-law right to prevent others from using a similar mark on similar goods.⁴ This right requires neither state nor federal registration.⁵ Federal registration under the Lanham Act⁶ is advantageous, however, because it increases the owner's legal rights in the mark, making the mark itself more valuable.⁷ Thus, trademark

2. *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968).

3. Unless indicated otherwise, the term "trademark" includes the term "service mark" throughout this article.

4. This right developed through judicial recognition that trademark rights are property rights. See *infra* text accompanying notes 58-63.

5. See *Maternally Yours, Inc. v. Your Maternity Shop*, 234 F.2d 538 (2d Cir. 1956).

6. Trademark (Lanham) Act of 1946, ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. § 1051 (1976 & Supp. IV 1980)).

7. Although common-law use and state registration are means of trademark protection,

owners have significant legal and economic interests in obtaining federal registration of trademarks.

Federal trademark registration is of similar importance to joint owners of a single mark. Joint owners seeking joint registration of a single mark often encounter difficulty, however, because the Patent and Trademark Office ("PTO")⁸ adheres to early federal decisions holding that a trademark's function is to indicate singleness of commercial source.⁹ Until 1960, the PTO did not recognize joint ownership of a mark other than by a firm or corporation, believing joint owners could never represent a single sponsor of a product.¹⁰ Despite a supposed change in policy,¹¹ the PTO still prefers applications from individuals and single entities.¹² Upon receiving a request for registration from joint applicants, the PTO presumes that the parties have incorrectly applied as joint owners and that they should reapply as a single entity.¹³ Presently, the average trademark registration process takes at least eighteen

marketing specialists generally prefer the "blanket protection" of federal registration even though it requires use of the mark in interstate commerce. *Reworking an Archaic Patent System, Trademarks: The Other Mess*, CHEMICAL WEEK, Feb. 18, 1981, at 44, 45 [hereinafter cited as *Trademarks: The Other Mess*]. "For one thing, it is cheap: the filing fee is only \$35. 'It's the biggest bargain in the world,' says one trademark counsel." *Id.* at 44. Federal registration on the principal register constitutes, inter alia, prima facie evidence of the registrant's rights; renders the registrant's rights incontestable to some degree; results in constructive notice of the registrant's claim of ownership of the mark; and provides the owner with the opportunity to litigate matters concerning its trademark rights in federal courts. See generally M. BERAN, AN INTRODUCTION TO TRADEMARK PRACTICE 144-45 (1970) (listing the benefits of federal registration on the supplemental and principal registers).

8. The Commissioner of the PTO is authorized to make rules and regulations for the conduct of proceedings in the agency. 15 U.S.C. § 1123 (1976)) (original version at ch. 540, § 41, 60 Stat. 440 (1946) (Act of Jan. 2, 1975, Pub. L. No. 93-596, § 1, 88 Stat. 1949 (1976), substituted "Patent and Trademark Office" for "Patent Office").

9. PATENT AND TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, TRADEMARK MANUAL OF EXAMINING PROCEDURE §§ 802.01-.03 (rev. ed. 1979) [hereinafter cited as TMEP].

10. See H. TOULMIN, TRADE-MARK HANDBOOK 53 (1957); Derenberg, *The Fourteenth Year of Administration of the Lanham Trademark Act of 1946*, 51 TRADE-MARK REP. 777, 795 (1961).

11. TMEP, *supra* note 9, § 802.03(d). See *infra* text accompanying notes 113-22, discussing the PTO's present position. See also Derenberg, *supra* note 10, at 795.

12. See TMEP, *supra* note 9, § 802.03(d) (limiting the availability of joint ownership to particular circumstances).

13. See *id.*; PATENT AND TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, NOTES FROM THE PATENT OFFICE, pt. 1-A, n.5 (1966).

J. David Sams, Member of the Trademark Trial and Appeal Board, believes that it is more accurate to state that the PTO "carefully scrutinizes such applications and makes appropriate inquiry of the parties identified as joint applicants to make certain that the mark is not in fact being used by a single legal entity" Letter from J. David Sams to Patricia K. Fletcher (Aug. 18, 1982).

months.¹⁴ Thus, joint applicants stand to lose substantial time and money in a competitive commercial market because of the delay resulting from an attempt at joint registration.

In *Siegel v. Chicken Delight, Inc.*,¹⁵ the United States Court of Appeals for the Ninth Circuit rejected the PTO's view of trademarks as an indicator of a single source. Rather, the court recognized that a trademark reflects product quality.¹⁶ Although some commentators have sharply criticized this departure from traditional notions of trademark function,¹⁷ the court's approach was not new.¹⁸ Previously, other commentators considering the "source" theory of trademark function found it to be obsolete because it failed to reflect the trademark's primary function of indicating consistent quality to the consumer.¹⁹

These "source" and "quality" theories of trademark function are often characterized as mutually exclusive.²⁰ Although the legal and historical development of the two theories of trademark function are different, neither theory alone makes sense in light of modern business practices and economic realities. A trademark may connote the "source" or "sponsorship" of a product, but this is simply an intrinsic characteristic of a mark derived from its historical roots rather than its sole function. Recent commentators have refused to limit a trademark to any one function.²¹ Even the PTO, although emphasizing a "single source" theory when referring to joint registration, has attributed several different functions

14. *Trademarks: The Other Mess*, *supra* note 7, at 44.

15. 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

16. The historical conception of a trade-mark as a strict emblem of source of the product to which it attaches has largely been abandoned. The burgeoning business of franchising has made trade-mark licensing a widespread commercial practice and has resulted in the development of a new rationale for trade-marks as representations of product quality. This is particularly true in the case of a franchise system set up not to distribute the trade-marked goods of the franchisor, but, as here, to conduct a certain business under a common trade-mark or trade name. Under such a type of franchise, the trade-mark simply reflects the goodwill and quality standards of the enterprise which it identifies.

Id. at 48-49 (footnotes omitted).

17. *See, e.g.*, 1 J. GILSON, *TRADEMARK PROTECTION AND PRACTICE* § 1.03[1], at 1-20 (1980); Lunsford, *Consumers and Trademarks*, *supra* note 1, at 85-86.

18. *See* 1 J. GILSON, *supra* note 17, § 1.03[1], at 1-16 to -17.

19. *See, e.g.*, Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813 (1927).

20. *See, e.g.*, 1 J. GILSON, *supra* note 17, § 1.03[1] (the subsection is titled *Source v. Quality*).

21. *See, e.g.*, S. DIAMOND, *TRADEMARK PROBLEMS AND HOW TO AVOID THEM* 3-4 (rev. ed. 1981) [hereinafter cited as S. DIAMOND, *TRADEMARK PROBLEMS*]; 1 J. GILSON, *supra* note 17, § 1.03, at 1-14.

to trademarks.²²

This article will demonstrate that the PTO has inappropriately emphasized singleness of source in evaluating joint registration applications. A proper policy regarding joint ownership of trademarks can develop only through statutory interpretation, explication of precedent, and analysis of the historical and economic forces which influenced these legal norms. Thus, this article will contrast the diversified functions of trademarks in modern society with their traditional functions, in order to illustrate the usefulness of our present federal trademark system in a free enterprise economy.

II. DEVELOPMENT OF TRADEMARK USE

A. *History of Trademarks*

Trademark use is one of the oldest of established human practices.²³ Ancient Egypt, for example, fixed responsibility for defective bricks by requiring that each one carry marks traceable to the brickyard and the particular slave who manufactured it.²⁴ The mark was thus a means of determining the physical origin or source of the brick. Because manufacturing was an individual process, no reason existed for joint ownership of trademarks.

Medieval craftsmen were required by statute, administrative order, or municipal or guild regulation to affix regulatory production marks to goods in order to permit detection and punishment of the individual responsible for a defect.²⁵ These marks, like ancient Egyptian brick marks, primarily indicated physical source by

22. In 1967 the Patent Office defined the function of a trademark as follows:

The primary function of a trademark is to distinguish one person's goods from those of another; but a trademark also serves to indicate to purchasers that the quality of the goods bearing the mark remains constant, and it serves as the focal point of advertising to create and maintain a demand for the product.

PATENT OFFICE, U.S. DEP'T OF COMMERCE, Q & A ABOUT TRADEMARKS 1 (1967). The PTO's definition is substantially the same: "The primary function of a trademark is to indicate origin. However, trademarks also serve to guarantee the quality of the goods bearing the mark and, through advertising, serve to create and maintain a demand for the product." PATENT AND TRADEMARK OFFICE, U.S. DEP'T OF COMMERCE, GENERAL INFORMATION CONCERNING TRADEMARKS 1 (rev. ed. 1978).

23. Trademarks may have first been used to brand cattle and other animals long before man became literate. See Diamond, *The Historical Development of Trademarks*, 65 TRADE-MARK REP. 265, 266 (1975) [hereinafter cited as Diamond, *Historical Development*].

24. Rogers, *The Lanham Act and the Social Function of Trade-Marks*, 14 LAW & CONTEMP. PROBS. 173, 173 (1949).

25. Schechter, *supra* note 19, at 814.

identifying the actual producer of the product.²⁶ The ability to determine the source of a defect was a form of guild control, essential to safeguarding the guild's monopoly and collective goodwill.²⁷ Jointly owned marks were not necessary, however, because goods were handcrafted under the direction of a single individual.

From the English middle ages, when the regulatory production mark originated, through the nineteenth century, local businesses dominated the marketplace. The consumer and manufacturer were in close proximity. Thus, the consumer was familiar with the identity, size, location, and reputation of the local manufacturers from which he bought goods.²⁸ The trademark identified which of these familiar entities was the source of the purchased goods.²⁹

The technological advances of the industrial revolution, particularly in communication and transportation, caused the consumer and manufacturer to become distant.³⁰ "Self-service retailing remove[d] the consumer even farther from direct contact with the manufacturer."³¹ The consumer no longer knew the identity of the producer of goods,³² and manufacturers recognized the resulting necessity of trademark use as a means of distinguishing their goods from those of competitors.³³ Although the consumer seldom knew the source of products bearing a familiar trademark, the consumer instead found that a trademark promised consistent quality in future purchases.³⁴ Trademarks thus became, and still remain,

26. 3 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 65.1, at 5 (3d ed. 1969); Schechter, *supra* note 19, at 814.

27. Schechter, *supra* note 19, at 819.

28. See 1 J. GILSON, *supra* note 17, § 1.03[1], at 1-15.

29. See *id.*

30. See Diamond, *The Public Interest and the Trademark System*, 62 J. PAT. OFF. SOC'Y 528, 537 (1980) [hereinafter cited as Diamond, *Public Interest*]; see also S. DIAMOND, *TRADEMARK PROBLEMS*, *supra* note 21, at 239-46 (discussing the relationship between trademarks and the public interest); Schechter, *supra* note 19, at 814 (discussing the ramifications of modern trade).

31. Diamond, *Public Interest*, *supra* note 30, at 537; see also S. DIAMOND, *TRADEMARK PROBLEMS*, *supra* note 21, at 245.

32. As a matter of fact, as has been pointed out by the very courts that define trademarks in terms of ownership or origin, that owing to the ramifications of modern trade and international distribution of goods from the manufacturer to the jobber or importer and retailer to the consumer, the source or origin of the goods bearing a well-known trademark is seldom known to the consumer.

Family Circle, Inc. v. Family Circle Assocs., 332 F.2d 534, 539 (3d Cir. 1964); accord *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 963 (2d Cir. 1918) (L. Hand, J.).

33. See F. UPTON, *TREATISE ON THE LAW OF TRADEMARKS* 9 (1860) (this book was the first attempt to collate or digest trademark case law).

34. See *FTC v. Borden Co.*, 383 U.S. 637, 650 (1966) (Stewart, J., dissenting); *Revlon, Inc. v. La Maur, Inc.*, 157 U.S.P.Q. (BNA) 602, 605 (1968). See generally Hanak, *The Quali-*

the symbols bridging the gap between manufacturer and consumer.³⁵

B. *Statutory Protection of Rights in Trademarks*

As consumers in the industrial age began to rely increasingly on the marks associated with articles of merchandise as an indicator of product quality, trademark protection became a valuable right. Unfortunately, the common law had not kept pace with the changing environment in which trademarks were being employed. The common law's reliance on precedent made adaptation to economic reality a slow process. Although mark owners recognized the value of trademark use, they found it "extremely difficult to prove the existence and scope of such a value in a court proceeding."³⁶ By 1791, American businessmen began to demand federal legislative relief from the random pattern of judicial decisions.³⁷

As is often the case, economic forces prompted statutory change. Under mounting pressure from all sectors of the business community, Congress enacted the first federal trademark statute in 1870.³⁸ It provided for registration of trademarks used in local, interstate, and foreign commerce. In 1879 the United States Supreme Court declared the Act unconstitutional in the famous *Trade-Mark Cases*.³⁹ The Court concluded that Congress did not have power to regulate trademarks pursuant to the patent and copyright clause of the United States Constitution.⁴⁰ The Court also held that Congress's power to regulate trade under the commerce clause did not extend to purely intrastate regulation of trademarks.⁴¹

In 1881, Congress passed a new federal act providing only for registration of marks used in foreign commerce or commerce with the Indian tribes.⁴² The 1881 Act, however, was still not responsive to the business community's need for protection of property rights

ty Assurance Function of Trademarks, 43 *FORDHAM L. REV.* 363 (1974) (emphasizing the importance of the quality function).

35. Diamond, *Public Interest*, *supra* note 30, at 537.

36. 4 R. CALLMANN, *supra* note 26, § 97.1, at 568.

37. *Id.* at 568-69 & n.3 (citing F. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE MARKS* 132 (1925)).

38. Act of July 8, 1870, ch. 230, 16 Stat. 210.

39. 100 U.S. 82 (1879).

40. *Id.* at 93-94.

41. *Id.* at 94-99. The Court did not, however, decide whether Congress had the power to regulate trademarks in interstate commerce. *Id.* at 95.

42. Act of Mar. 3, 1881, ch. 138, 21 Stat. 502.

in trademarks used in interstate commerce. Furthermore, the Act presupposed the existence of a valid trademark under the common law and did "not affect in any manner the nature or function of [a] trade-mark."⁴³

Again under pressure to supply a workable federal trademark law, Congress replaced the 1881 Act with the Trade-Mark Act of 1905.⁴⁴ The Act was an improvement over the 1881 Act in that it provided for registration of trademarks used in interstate commerce as well as for those used in foreign commerce or commerce with the Indian tribes. Unfortunately, registration of a trademark under the Act neither enlarged nor abridged the registrant's substantive common-law rights in the mark.⁴⁵ It was accepted law that federal legislation could not create exclusive substantive trademark rights and could only provide a registration procedure with prescribed remedies once competitors interfered with property rights recognized under the common law.⁴⁶

In 1946 Congress changed American trademark law by passing the Lanham Act.⁴⁷ Although it was, and still is, the accepted doctrine that trademark ownership originates from use, not registration, the Act "put federal trade-mark law upon a new footing" and "put an end to any doubts" about whether Congress could create a substantive federal trademark law.⁴⁸ In passing the Act, Congress noted the confused state of the law,⁴⁹ recognizing that ideas concerning trademarks had changed significantly since the passage of the 1905 Act. In the words of the Committee on Patents, legislation had "not kept pace with the commercial development."⁵⁰ Pas-

43. *Edison v. Thomas A. Edison, Jr., Chem. Co.*, 128 F. 1013, 1014 (C.C.D. Del. 1904).

44. Act of Feb. 20, 1905, ch. 592, 33 Stat. 724.

45. See, e.g., *Estate of P.D. Beckwith, Inc. v. Commissioner of Patents*, 252 U.S. 538, 543 (1920); *Dwinell-Wright Co. v. National Fruit Prod. Co.*, 129 F.2d 848, 851 (1st Cir. 1942).

46. 4 R. CALLMANN, *supra* note 26, § 97.2, at 579, § 97.3(a) at 583.

47. Trademark (Lanham) Act of 1946, ch. 540, 60 Stat. 427 (codified as amended at 15 U.S.C. § 1051 (1976)). Section numbers used in this text refer to sections of the codified version of the Lanham Act, as do references to the "Act," unless another statute is specified.

48. *S.C. Johnson & Son, Inc. v. Johnson*, 175 F.2d 176, 178 (2d Cir. 1949) (L. Hand, J.). See generally 4 R. CALLMANN, *supra* note 26, § 97 (recognizing that the Lanham Act created substantive law). The Committee on Patents, in a report submitted to both the House and Senate concerning the Lanham Act, stated: "There can be no doubt under recent decisions of the Supreme Court of the constitutionality of a national act giving substantive as distinguished from merely procedural rights in trade-marks in commerce over which Congress has plenary power . . ." S. REP. NO. 1333, 79th Cong., 2d Sess. 4, 5-6, reprinted in 1946 U.S. CODE CONG. & AD. NEWS 1274, 1277.

49. S. REP. NO. 1333, *supra* note 48, at 4.

50. *Id.*

sage of the Act, then, was an acknowledgement of the need for the statutory protection of trademark rights.⁵¹

III. THE NATURE AND CHARACTER OF TRADEMARKS

A. Definition of a Trademark

The Lanham Act, following the language of earlier definitions of trademarks,⁵² states that "[t]he term 'trade-mark' includes any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others."⁵³ The Act expressly provides that once other requirements of the statute are met, "[n]o trade-mark by which the goods of the applicant may be distinguished from the goods of others shall be re-

51. See Carson, *Marks for the Marketplace: The Curious World of the Trademark*, AM. HERITAGE, Oct. 1977, at 64, 66.

In justifying the passage of the Lanham Act, the Committee on Patents stated:

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

S. REP. No. 1333, *supra* note 48, at 3.

52. In 1860 Francis Upton defined "trademark" in the first treatise written on trademark law:

A Trade Mark is the name, symbol, figure, letter, form or device, adopted and used, by a manufacturer, or merchant, in order to designate the goods that he manufactures, or sells, and distinguish them from those manufactured or sold by another; to the end that they may be known in the market, as his, and thus enable him to secure such profits as result from a reputation for superior skill, industry or enterprise.

F. UPTON, *supra* note 33, at 9.

In 1877 the United States Supreme Court substantially adopted Upton's definition in *McLean v. Fleming*, 96 U.S. 245 (1877). The Court stated:

[A] trade-mark may consist of a name, symbol, figure, letter, form, or device, if adopted and used by a manufacturer or merchant in order to designate the goods he manufactures or sells to distinguish the same from those manufactured or sold by another, to the end that the goods may be known in the market as his, and to enable him to secure such profits as result from his reputation for skill, industry, and fidelity.

Id. at 254; see *Columbia Mill Co. v. Alcorn*, 150 U.S. 460, 463 (1893).

The simpler definition in the Trade-Mark Act of 1905 stated that "[t]he term 'trade-mark' includes any mark which is entitled to registration under the terms of this Act" Act of Feb. 20, 1905, ch. 592, § 29, 33 Stat. 724, 731.

53. 15 U.S.C. § 1127 (1976) (original version at ch. 540, § 45, 60 Stat. 427, 443 (1946)).

fused registration on the principal register"⁵⁴ In 1967 the Patent Office added a gloss to the statutory definition: "In short, [a trademark] is a brand name used on goods moving in the channels of trade."⁵⁵

Today, under both statutory language and common-law precedent, a trademark by definition must meet three fundamental requirements. First, it must consist of a device, symbol, name, word, "or any combination thereof" that the PTO or the courts have found to constitute a valid mark.⁵⁶ Second, a mark must be adopted and used by a manufacturer or merchant. Third, the mark must identify and distinguish goods sold or manufactured by one individual from those of another. All these criteria may be met by joint owners of a trademark without sacrificing the goals of the trademark system.⁵⁷ Thus, the definition of trademark at common law and in the Lanham Act does not preclude joint ownership of

54. 15 U.S.C. § 1052 (original version at ch. 540, § 2, 60 Stat. 427, 428 (1946)). For a brief discussion of the principal register, see *supra* note 7.

55. PATENT OFFICE, *supra* note 22, at 1. The PTO dropped this language from its 1978 definition of a trademark, strictly adhering to the language of the Lanham Act. PATENT AND TRADEMARK OFFICE, *supra* note 22, at 1. Sidney A. Diamond, former Commissioner of the PTO, maintains that "[l]egally speaking, a 'brand name' is just one variety of a trademark." S. DIAMOND, TRADEMARK PROBLEMS, *supra* note 21, at 5. Other commentators agree. See, e.g., Carson, *supra* note 51, at 65 ("brand" or "brand name" often used as synonym for trademark); Lunsford, *Trademarks: Prestige, Practice, and Protection*, *supra* note 1, at 326 (trademark synonymous with brand name).

56. A trademark may be a coined word with no meaning at all (Kodak, Dacron, Exxon), an ordinary word that has no meaning in connection with the product on which it is used (Camel, Arrow, Dial), a word whose meaning suggests some quality or function of the product (Raid, Sure, Head and Shoulders), or a coined word suggesting what the product is or does (Kleenex, Jell-O, Panasonic). It may be a foreign word, whose English meaning may or may not have some significance for the product (Lux, Oreo, Bon Ami). It may be the name of the owner or founder of the company (Ford, Singer, Gillette), the name of some famous person selected arbitrarily (Lincoln, Cadillac, Yale), or a name from mythology or literature (Hercules, Ajax, Peter Pan). It may be just initials (RCA, IBM, BVD), or just numerals (4711, 66), or a combination of both (V-8, A-1). It may be a pictorial mark, with or without explanatory words (Four Roses, the White Rock girl, Elsie the cow). And of course these do not exhaust the possibilities.

S. DIAMOND, TRADEMARK PROBLEMS, *supra* note 21, at 5.

57. In 1974 the Court of Appeals for the Ninth Circuit found that trademark policies are designed:

(1) to protect the consumer from being misled as to the enterprise, or enterprises, from which the goods or services emanate or with which they are associated; (2) to prevent an impairment of the value of the enterprise which owns the trademark; and (3) to achieve these ends in a manner consistent with the objectives of free competition.

HMH Publishing Co. v. Brincat, 504 F.2d 713, 716 (9th Cir. 1974) (emphasis added); see also *supra* note 51.

trademarks.

B. *Trademarks as Property Rights*

Common law classified trademarks, and the right to their exclusive use, as intangible property rights,⁵⁸ distinguishable from ownership of chattel or land.⁵⁹ A trademark does not give its owner an assignable, abstract right to exclusive use of a certain name, letter, mark, device, or symbol.⁶⁰ A trademark is created and its value preserved as a result of its use in the marketplace.⁶¹ The commercial value of the right derives from the mark owner's expenditure of time, money, and effort to create a positive consumer response to the mark. A proprietary right in a trademark therefore is simply a right to its commercial exploitation.⁶² Once created, the continuing existence of the right depends on priority of use of the trademark, continuous presence in the marketplace, and protection of the value associated with the mark.⁶³

1. PROPERTY RIGHTS AND JOINT OWNERSHIP

The possibility of joint ownership of trademarks was recognized as early as 1860. As one commentator wrote, "No person, who is, in law, capable of acquiring and possessing any species of property, is excluded from the acquisition of property in trade marks."⁶⁴ According to this theory, if state law permits joint ownership of property, then a trademark can be jointly owned. The judiciary, however, has not always adhered to this liberal approach. Rather, the courts have imposed the requirement that a trademark

58. "Common-law trade-marks, and the right to their exclusive use, are of course to be classed among property rights . . ." *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916).

59. The right to use a mark, for example, cannot be transferred in gross. *See, e.g., United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); *American Broadcasting Co. v. Wahl Co.*, 121 F.2d 412, 413 (2d Cir. 1941).

60. *See F. Upton, supra* note 33, at 22.

61. In *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918), for example, the United States Supreme Court stated, "There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed." *Id.* at 97; *see Lunsford, Trademarks: Prestige, Practice, and Protection, supra* note 1, at 323.

62. *See generally* Libling, *The Concept of Property: Property in Intangibles*, 94 *LAW REV. Q.* 103, 104, 119 (1978).

63. *Cf. Lunsford, Trademarks: Prestige, Practice, and Protection, supra* note 1, at 325 (regarding rights to a trademark as dependent on only "priority of adoption and use and continuous occupancy in the marketplace").

64. *F. Upton, supra* note 33, at 19.

indicate a *single* source of a product.⁶⁵ The nineteenth- and early twentieth-century courts, and later the PTO, saw joint ownership of the property rights associated with a trademark as inconsistent with a trademark's function to indicate singleness of source.⁶⁶ Ironically, both trademark cases and the PTO indicate that mark ownership by a corporation, which in turn may be owned by thousands of individuals, is not inconsistent with this source function.⁶⁷ As will be demonstrated, the function of trademarks does not prohibit joint ownership of the intangible property rights in marks by joint owners any more than it prohibits mark ownership by corporations.⁶⁸

C. A Trademark's Functions

Changes in the commercial significance of trademarks⁶⁹ have influenced the views of courts, legislators, and commentators concerning a trademark's economic and legal functions.⁷⁰ Little uniformity of opinion as to a trademark's functions exists among these groups.⁷¹ The PTO presently views joint ownership as inconsistent with a trademark's function as an indicator of source. This position may be fatal for applicants seeking joint registration of a mark. If a trademark does not perform a function recognized either by the courts or the PTO, it may lose either its common-law protection or its federal registration, or it may even be denied registration altogether. The functions attributed to trademarks thus determine what marks may be registered, who can own them, and when a

65. See *infra* text accompanying notes 73-80.

66. *Id.*

67. See TMEP, *supra* note 9, § 802.01-.03.

68. See *infra* notes 100-22, 207-09 and accompanying text.

69. See *supra* text accompanying notes 30-35.

70. Many courts have reiterated that the "only legally relevant function of a trademark is to impart information as to the source or sponsorship of the product" to which it is attached. *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968); see, e.g., *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979); *Clairol, Inc. v. Gillette Co.*, 389 F.2d 264, 269 (2d Cir. 1968). Other courts and commentators have differed. One scholar, for example, has stated:

In general, trademarks perform four functions which are deserving of protection in the courts: (1) to identify one seller's goods and distinguish them from goods sold by others; (2) to signify that all goods bearing the trademark come from a single, albeit anonymous, source; (3) to signify that all goods bearing the trademark are of an equal level of quality; and (4) as a prime instrument in advertising and selling the goods.

1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 3:1(B) (1973 & Supp. 1980); see also 1 J. GILSON, *supra* note 17, § 1.03[1], at 1-14.

71. 3 R. CALLMANN, *supra* note 26, § 65, at 5-20.

mark will be protected.

1. THE SOURCE OR ORIGIN FUNCTION

American courts have traditionally viewed the trademark's function as one of identifying the physical source of trademarked products.⁷² In the 1916 case of *Hanover Star Milling Co. v. Metcalf*,⁷³ the United States Supreme Court held that "[t]he primary and proper function of a trade-mark is to identify the origin or ownership of the article to which it is affixed."⁷⁴ In 1871 the Court, in *Canal Co. v. Clark*,⁷⁵ had stated that a "trade-mark must either by itself, or by association, point distinctively to the origin or ownership of the article to which it is applied."⁷⁶ A few years later in *Manufacturing Co. v. Trainer*,⁷⁷ the Court followed *Canal Co.* and held that when a mark functions to indicate origin, "[t]he symbol or device . . . becomes a sign to the public of the origin of the goods to which it is attached, and an assurance that they are the genuine article of the original producer."⁷⁸ Thus, trademarks in the nineteenth- and early twentieth-century functioned as they had in the middle ages—to denote the physical source of the product.

This "physical source" theory of trademark function was the basis for protecting the trademark from use by one other than its owner.⁷⁹ As the Supreme Court reasoned in *Lawrence Manufacturing Co. v. Tennessee Manufacturing Co.*,⁸⁰ once a trademark, ei-

72. See *supra* note 70; see also *Estate of P.D. Beckwith, Inc. v. Commissioner of Patents*, 252 U.S. 538, 543 (1920) ("[T]he function of a trade-mark is to point distinctively, either by its own meaning or by association, to the origin or ownership of the wares to which it is applied"); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412 (1916); *Hanak*, *supra* note 34, at 363.

73. 240 U.S. 403 (1916).

74. *Id.* at 412. This was certainly not a new theory. See *Dennison Mfg. Co. v. Thomas Mfg. Co.*, 94 F. 651, 656 (C.C.D. Del. 1899) ("The function of a trade-mark is to indicate to the public the origin, manufacture or ownership of the articles to which it is applied"); see *supra* text accompanying notes 25-27; see also *Hanak*, *supra* note 34, at 363.

75. 80 U.S. (13 Wall.) 311 (1871).

76. *Id.* at 323. "The reason of this is that unless it does, neither can he who first adopted it be injured by any appropriation or imitation of it by others, nor can the public be deceived." *Id.*

77. 101 U.S. 51 (1879).

78. *Id.* at 53.

79. "[T]he common law of trade-marks is but a part of the broader law of unfair competition." *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916); see *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *Vogue Co. v. Thompson-Hudson Co.*, 300 F. 509 (6th Cir. 1924); *Carthage Tobacco Works v. Barlow-Moore Tobacco Co.*, 296 F. 142 (W.D. Ky. 1924). See generally J. CALIMAFDE, *TRADEMARKS AND UNFAIR COMPETITION* § 6.01 (1970) (discussing tort of unfair competition).

80. 138 U.S. 537 (1891).

ther by itself or by association, is a commonly understood reference to the origin of the article, the manufacturer of the article is injured whenever another adopts the same name or device for similar articles.⁸¹ The original Lanham Act indirectly preserved this early view of trademark function. Section 32(1) of the original Act required that actionable trademark infringement (the statutory equivalent of unfair competition) be "likely to cause confusion, or to cause mistake, or to deceive purchasers as to the *source of origin* of such goods or services."⁸² Section 45 of the present Act provides that "any course of conduct of the registrant" that "causes the mark to lose its significance as an *indication of origin*" shall result in a mark losing the protection of the Act.⁸³ Section 43(a) also implicitly retains the source theory by prohibiting the application of "a false *designation of origin*" to any goods moving in interstate commerce.⁸⁴ This section has been interpreted to include both physical and sponsorship designation of product source.⁸⁵

2. THE SPONSORSHIP FUNCTION

Despite the apparent statutory approval of the origin theory of trademark function,⁸⁶ and judicial recognition of the approach in

81. *Id.* at 546. In *Lawrence* the plaintiff was unable to show that a quality standard designation on its products was seen by consumers as a reference to it as a manufacturer (i.e., the mark did not indicate physical origin to the consumer). Therefore, use of the quality standard by another company was not actionable. See *Columbia Mill v. Alcorn*, 150 U.S. 460 (1893).

82. Trademark (Lanham) Act of 1946, ch. 540, § 32, 60 Stat. 437 (emphasis added). For a relatively modern application of the original version of this section, see *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149 (9th Cir. 1963). In 1962, Congress amended this section to require only that actionable infringement be "likely to cause confusion, or to cause mistake, or to deceive." Act of Oct. 9, 1962, Pub. L. No. 87-772, § 17, 76 Stat. 773 (codified as amended at 15 U.S.C. § 1114 (1976)). Presumably, this simply broadened the circumstances that will give rise to an infringement action. See *Syntex Laboratories v. Norwich Pharmacal Co.*, 437 F.2d 566 (2d Cir. 1971). On the other hand, Congress may have recognized that "*creation and retention of custom*, rather than the designation of source, is the primary purpose of the trademark today . . ." Schechter, *supra* note 19, at 822 (emphasis in original). Commentators recognize the continuing confusion as to whether source or origin of marked goods is the sole test of infringement. See, e.g., J. CALIMAFDE, *supra* note 79, § 11.05.

83. 15 U.S.C. § 1127 (1976) (original version at ch. 540, § 45, 60 Stat. 443 (1946)) (emphasis added).

84. 15 U.S.C. § 1125 (1976) (original version at ch. 540, § 43, 60 Stat. 441 (1946)) (emphasis added). See generally Taubes, *Getting Revenge on Imitations*, N.Y. Times, Feb. 28, 1982, § F, at 9 (discussing § 43(a) of the Lanham Act and its modern applications).

85. See *Federal-Mogul-Bower Bearings, Inc. v. Azoff*, 313 F.2d 405 (6th Cir. 1963); 1 J. GILSON, *supra* note 17, § 1.03[1].

86. Note that only one of the aforementioned sections of the Lanham Act mentions source in connection with the creation of a mark. The statute deals primarily with source in

recent infringement cases,⁸⁷ the theory has come under heavy attack.⁸⁸ The requirement that a trademark denote physical origin was impractical, even in the nineteenth century, and was often ignored. A slow change in judicial approach and substantive changes in the Lanham Act have turned the emphasis of the origin function from physical source of production to source of sponsorship.⁸⁹

In *Menendez v. Holt*,⁹⁰ for example, Holt & Co. contested the use of its trademark "La Favorita" by a competitor. Although the trademark did not indicate the physical source of the product—Holt & Co. did not actually produce or manufacture the flour upon which it had placed its mark for twenty years—the United States Supreme Court found that the mark was protected under common law. The Court held that the trademark evidenced the "skill, knowledge and judgment" of the company in selecting the flour,⁹¹ and that the mark was "possessed of a merit rendered definite by [Holt & Co.'s] examination and of a uniformity rendered certain by their selection."⁹²

Similarly, in *Walter Baker & Co. v. Slack*,⁹³ a competitor of Walter Baker & Co. attempted to sell chocolate under the "Baker" trademark, "Baker's Chocolate." The United States Court of Appeals for the Seventh Circuit held that even if the defendant-competitor were to otherwise identify its chocolate as made by another manufacturer, the marketing of the cocoa under the "Baker" mark would still constitute unfair competition. The court noted that a consumer who chooses a product by trademark will generally not stop to think whether the physical source of two products bearing identical marks is the same.⁹⁴ Thus, simply telling a consumer that

connection with actions affecting established marks and does not directly or indirectly explain the function of a trademark.

87. See, e.g., *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979) ("It is the source-denoting function which trademark laws protect, and nothing more."); *Anti-Monopoly, Inc. v. General Mills Fun Group*, 515 F. Supp. 448, 452 (N.D. Cal. 1981) ("[P]rimary significance' is to denote source or producer." (emphasis in original)).

88. See *supra* notes 16 & 32 and accompanying text.

89. The PTO generally regards source and sponsorship as equivalents. This does not mean that the PTO requires that an applicant for registration be the producer or manufacturer of the goods to which the mark is applied. Ownership of a mark is established by its use on goods in commerce. Letter from J. David Sams, Member of the Trademark Trial and Appeal Board, to Patricia K. Fletcher (Aug. 18, 1982); see *supra* text accompanying notes 58-63.

90. 128 U.S. 514 (1888).

91. *Id.* at 520.

92. *Id.*

93. 130 F. 514 (7th Cir. 1904).

94. The court stated:

two items have different physical origins would not prevent the use of another's trademark from constituting infringement.⁹⁵

The tendency to gravitate toward operational realities was even more apparent in a much later case, *E.F. Prichard Co. v. Consumers Brewing Co.*⁹⁶ The United States Court of Appeals for the Sixth Circuit in *Prichard* stated, "It is sufficient, as regards, the claim of ownership in the trade-mark, that the goods are manufactured for the claimant, or that they pass through his hands in the course of trade and that he gives to them the benefits of his name and business style."⁹⁷

These cases illustrate the change in the emphasis of the source theory from physical origin to sponsorship of a marked product. In the modern marketplace, the consumer neither knows nor cares whether the owner of a mark is actually making the product, or whether it is being produced under the owner's supervision or pursuant to some other relationship with a third party.⁹⁸ Under the modified source theory of trademark function—the "sponsorship theory"—the trademark indicates that the goods to which it is attached emanate from the same maker, or "have reached the consumer through the same channels as certain other goods that have given the consumer satisfaction" before.⁹⁹ This sponsorship theory

We may safely take it for granted that not one in a thousand knowing of or desiring to purchase "Baker's Cocoa" or "Baker's Chocolate" know of Walter Baker & Co., Limited. The name "Baker" is identified with the product, and known, in connection with the product of the appellant, as a badge and guaranty of excellence. To sanction the sale of the spurious article as "Baker's Chocolate" or "Baker's Cocoa," even if accompanied with the statement that it was manufactured by William Henry Baker and not by the old manufacturer, Walter Baker & Co., Limited, would not inform the purchaser that it was a different article, or other than the article known to the trade and to the world as "Baker's Chocolate" and "Baker's Cocoa," and the identity of the name is the more subtle in the deception.

Id. at 518-19.

95. "This new approach abandoned sole reliance on the source concept in favor of reliance on a theory that a trademark does not always necessarily indicate physical source, but also indicates quality." 1 J. MCCARTHY, *supra* note 70, § 18:13(B), at 631-32; *see id.* § 3:4(A), at 92.

96. 136 F.2d 512 (6th Cir. 1943).

97. *Id.* at 519.

98. *See Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149, 155-56 (9th Cir. 1963); Hanak, *supra* note 34, at 364.

99. *Schechter*, *supra* note 19, at 816; *see Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 963 (2d Cir. 1918).

Superficially it may appear to be very fine hair-splitting to say that while the consumer does not know the specific source of a trademarked article, he nevertheless knows that two articles, bearing the same mark, emanate from a single source. However, the precise distinction is vital in the present connection, for it

of trademark function clearly replaced the physical source theory in the twentieth century.

a. The Sponsorship Function and Joint Ownership

While the "sponsorship" theory appears to be more liberal than its predecessor, judicial interpretation has made it no less restrictive. The theory requires that a mark be associated with only one sponsor. In *Shredded Wheat Co. v. Humphrey Cornell Co.*,¹⁰⁰ the Shredded Wheat Company sought to enjoin the defendant company from selling any shredded wheat biscuits without distinctly distinguishing that company's biscuits from its own. In explaining the plaintiff's right to protection, Judge Learned Hand wrote:

The plaintiff has at least shown that the public has become accustomed to regard its familiar wheat biscuit as emanating, if not from it by name, at least from a *single*, though anonymous, maker, and the second is as good for these purposes as the first. Though the public may, therefore, buy the biscuit because it has come to like it, the plaintiff still has a stake in that other motive for buying; i.e., that it comes from the accustomed maker.¹⁰¹

Accordingly, the buyer is entitled to assume that a trademark functions to identify, or is somehow linked in some manner with the source of a product.¹⁰²

The Patent Office, and later the PTO, continued to impose the requirement of a single sponsor or source: "The Patent Office adheres to the view that only one registration for the same or a confusingly similar mark should issue, and there is no room under the Lanham Act for recognizing 'joint ownership' of a mark (other

brings out clearly the creative and not merely symbolic nature of the modern trademark or tradename.

Schechter, *supra* note 19, at 817.

100. 250 F. 960 (2d Cir. 1918).

101. *Id.* at 963 (citation omitted; emphasis added). This case did not involve an affixed symbol to the goods. Rather, the plaintiff successfully argued that the appearance of its biscuits had acquired a secondary meaning (based on uniformity and reliability of its original source of manufacture) which was entitled to the same protection as a trademark.

Interestingly, the court recognized both the sponsorship and quality functions of trademarks in the quoted portion of the *Shredded Wheat* opinion. Two years later the Supreme Court appeared to take a more restrictive view of trademark function in *Estate of P.D. Beckwith, Inc. v. Commissioner of Patents*, 252 U.S. 538, 543-44 (1920).

102. See 1 J. MCCARTHY, *supra* note 70, § 3:3(B), at 92; cf. Lunsford, *Trademarks: Prestige, Practice, and Protection*, *supra* note 1, at 324 (contending that a mark cannot have two sources and still be a trademark). The sponsorship function theory has no statutory support unless "sponsor" is read as a synonym for "source."

than by a firm or a partnership) or for plural registration"¹⁰³ Some recent commentators have agreed: "It has been said that a trademark to be distinctive must, like a woman's hat, be exclusive; a trademark cannot have two origins any more than a man can have two mothers."¹⁰⁴ Before 1956, commentators and the Patent Office assumed that joint ownership of a trademark by more than one person not a member of a single entity, such as a partnership, should not be recognized.¹⁰⁵ The Patent Office simply did not permit registration in the name of joint owners.¹⁰⁶

Despite this adverseness to joint ownership of trademarks, a 1933 case allowed such ownership when the registrants applied as joint applicants. The court in *Ex parte Taylor* (the *Baby's Spray-Tray* case)¹⁰⁷ permitted the joint ownership because "the parties seeking registration are, under the laws of their state of domicile [sic], joint owners of the business in the carrying on of which the goods are manufactured—or their manufacture procured—and sold, and the mark is used upon and in connection with this jointly owned business."¹⁰⁸ The *Baby's Spray-Tray* case, however, was totally ignored after enactment of the Lanham Act, and no new cases permitting joint ownership of a mark appeared until 1956.

In 1956, Assistant Commissioner of Patents Leeds permitted registration of a trademark by joint applicants in *Ex parte Pacific Intermountain Express Co.*¹⁰⁹ In that case, the applicants were interstate truck haulers of freight operating under the Interstate Commerce Commission's route regulations. They entered into a freight interchange contract under which each transported freight for the other in their respective service areas. Although each applicant operated solely within a limited geographical area, both applicants had jointly spent thousands of dollars advertising the mark identifying their services. The Commissioner held that in this context the mark was jointly owned and could be jointly registered because it was used by the two applicants to identify a single service, performed by each independently in separate service areas. The case was viewed as an exception to an otherwise "inflexible

103. H. TOULMIN, *TRADE-MARK HANDBOOK* 53 (1957).

104. See, e.g., Lunsford, *Consumers and Trademarks*, *supra* note 1, at 78.

105. See Derenberg, *The Tenth Year of Administration of the Lanham Trademark Act of 1946*, 47 *TRADE-MARK REP.* 879, 897 (1957).

106. See *id.*

107. 18 U.S.P.Q. (BNA) 292 (Comm'r Pats. 1933).

108. *Id.* at 293.

109. 111 U.S.P.Q. (BNA) 187 (Comm'r Pats. 1956).

rule."¹¹⁰

In retrospect, the "inflexible rule" prohibiting joint ownership of marks seems contrary to the express provisions of the Lanham Act. The Act provides that "[t]he owner of a trade-mark used in commerce may register his trade-mark under [the Act]"¹¹¹ and, more importantly, that "[w]ords used in the singular include the plural and vice versa."¹¹² The implication is that joint owners of a trademark may register under the statute.

In 1961 the Patent Office appeared to change its policy regarding joint ownership and began accepting jointly executed trademark applications in the name of joint applicants.¹¹³ One commentator explained that the acceptance of those applications was a belated adoption of Commissioner Leeds's position in *Pacific Intermountain*.¹¹⁴ The PTO, however, remains hesitant about granting joint registration of a mark to other than a firm or corporation.¹¹⁵

The PTO's present policy is to send an "office action" letter in response to an application for joint registration inquiring whether the parties "have not been incorrectly labeled 'joint owners' when in fact they are members of a partnership or are part of some other type of business entity in whose name application should be made."¹¹⁶ Because of the great expense involved in marketing a new product and creating a new trademark,¹¹⁷ and the amount of time it *ordinarily* takes to have a trademark registration applica-

110. Derenberg, *supra* note 105, at 897.

111. 15 U.S.C. § 1051 (1976) (original version at ch. 540, § 1, 60 Stat. 427 (1946)).

112. *Id.* § 1127 (original version at ch. 540, § 45, 60 Stat. 443 (1946)).

113. Derenberg, *supra* note 10, at 795. Derenberg considered it "a welcome change since there never was any sound reason why, contrary to patent and copyright law, joint ownership of trademarks and joint registrations should not be recognized . . . in . . . appropriate situations." *Id.* at 796.

114. *Id.*

115. Normally a trademark application is filed in the name of one party. Historically the Office has been reluctant to accept applications by joint applicants because, superficially at least, ownership by more than one party seems to be contrary to the function of a trademark to indicate singleness of commercial source.

TMEP, *supra* note 9, § 802.03(d), at 34. No cases have construed this language.

116. PATENT AND TRADEMARK OFFICE, *supra* note 13, pt. 1-A, n.5.

Once an applicant for registration of a trademark has been notified by the Trademark Examiner of any further action required by the applicant before registration, the applicant has six months to file a response. 15 U.S.C. § 1062(b) (1976). This procedure is repeated until final rejection. The Examiner has no discretion to shorten or extend the period. The response must be received, that is, must be *on file*, within six months from the date stamped on the Office Action.

117. See *infra* notes 185-86 and accompanying text.

tion processed,¹¹⁸ the PTO's position on joint application makes it an economically less desirable method of trademark registration. Obviously, the stakes must be high to make joint applicant status worth the expense.

Because of the PTO's position, there has been only one case subsequent to *Pacific Intermountain* involving registration of a jointly owned trademark and the applicable provisions in the Trademark Manual of Examining Procedure ("TMEP").¹¹⁹ In *In re Diamond Walnut Growers, Inc.*,¹²⁰ the Trademark Trial and Appeal Board departed from the usual policy and approved the joint ownership and registration of a trademark. Diamond Walnut Growers and Sunsweet Growers applied as joint applicants for registration of a combined trademark. A licensee used the mark in interstate commerce, and the joint applicants exercised complete control over the nature and quality of the goods the licensee sold.¹²¹ The Board held that when separate legal entities combine to perform a specific function or to market the fruit of their combined labors through a joint venture or undertaking, under a mark created by them to identify the venture, their trademark rights should be protected through registration.¹²²

Diamond Walnut presented a unique set of facts and is probably of little precedential value. The court treated the relationship between the parties for joint quality control of goods marketed under a combined trademark as a joint venture. Furthermore, the case involved an effort to market the fruits of combined labor. *Diamond Walnut* would not apply if two parties wished to market goods independently under a mark created for the venture or under a mark which one of the applicants had previously owned.

3. THE QUALITY OR GUARANTEE FUNCTION

Although trademarks were traditionally viewed as an indicator of the product's source or origin, there was always some recognition that marks also guaranteed consistent quality.¹²³ In 1879 the Supreme Court recognized that a trademark functions as *both* a

118. See *supra* text accompanying note 14.

119. *In re Diamond Walnut Growers, Inc.*, 204 U.S.P.Q. (BNA) 507 (Trademark Tr. App. Bd. 1979); see *infra* text accompanying notes 120-22.

120. 204 U.S.P.Q. (BNA) 507 (Trademark Tr. App. Bd. 1979).

121. *Id.*

122. *Id.* at 509-10.

123. See *supra* text accompanying note 19.

guarantee of quality and an indicator of source.¹²⁴ In *Manhattan Medicine Co. v. Wood*,¹²⁵ the Court remarked that a "trademark is both a sign of the quality of the article and an assurance to the public that it is the genuine product of [the trademark owner's] manufacture."¹²⁶ This "quality" function did not guarantee the highest quality, but instead promised consistency among similarly marked goods.¹²⁷

Subsequent cases began to juggle the source and quality theories of the trademark function in an effort to find a balance between the two. In the 1946 case of *Avrick v. Rockmont Envelope Co.*,¹²⁸ the United States Court of Appeals for the Tenth Circuit observed that "[a]lthough the primary purpose of a trade-mark is to indicate the origin, manufacture and ownership of the article in the mind of the purchasing public, it is usually associated with the quality of the product which it symbolizes."¹²⁹ By 1968 the Trademark Trial and Appeal Board acknowledged that

the chief function of a trademark is a kind of "warranty" to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source, anonymous as it may be, as other goods previously purchased bearing the mark that have already given the purchaser satisfaction.¹³⁰

Thus the courts gradually recognized the trademark's primary role as an indicator of constant quality; its secondary role being an in-

124. Every one is at liberty to affix to a product of his own manufacture any symbol or device, not previously appropriated, which will distinguish it from articles of the same general nature manufactured or sold by others, and thus secure to himself the benefits of increased sale by reason of any peculiar excellence he may have given to it. The symbol or device thus becomes a sign to the public of the origin of the goods to which it is attached, and an assurance that they are the genuine article of the original producer.

Manufacturing Co. v. Trainer, 101 U.S. 51, 53 (1879).

125. 108 U.S. 218 (1883).

126. *Id.* at 222-23.

127. The quality function of the trademark has its historical roots in the Industrial Revolution. The consumer and the retail supplier both became heavily dependent on brand names, which became "symbols of quality and guarantees of satisfaction." Schechter, *supra* note 19, at 824.

128. 155 F.2d 568 (10th Cir. 1946).

129. *Id.* at 571-72.

130. *Revlon, Inc. v. La Maur, Inc.*, 157 U.S.P.Q. (BNA) 602, 605 (Trademark Tr. App. Bd. 1968). The Soviet Union introduced compulsory trademarks in the 1960's to assign responsibility for inferior products. Diamond, *The Next 100 Years—What Will It Be Like in 2078 AD?*, 68 TRADE-MARK REP. 622, 624 (1978) [hereinafter cited as Diamond, *The Next 100 Years*].

indicator of the source or sponsorship of a product.¹³¹

Several recent cases imposing product liability on a trademark licensor for goods that were produced by a licensee illustrate the significance of the modern view that trademarks function as symbols of responsibility. In *Gizzi v. Texaco, Inc.*,¹³² an action was brought against Texaco, which had urged consumer reliance on Texaco service station employees by use of the slogan, "Trust your car to the man who wears the star." A Texaco station operator sold a used car with repaired brakes to the plaintiff, who was later injured when the brakes failed. The United States Court of Appeals for the Third Circuit held that the evidence created a question of fact for the jury as to whether the station operator had apparent authority as Texaco's agent because he wore the company's "star" trademark.¹³³

In *Drexel v. Union Prescription Centers*,¹³⁴ the issue was whether a franchisor could be held vicariously liable for the negligence of its franchisee. The franchise agreement required the franchisee to identify itself as the owner of the store in conjunction with the use of the franchisor's mark and logo.¹³⁵ Once again a trademark served as the basis of a complaint arguing consumer reliance on the apparent authority of a franchisee arising from trademark use.¹³⁶

Similarly, in the 1979 case of *Koosters v. Seven-Up Co.*,¹³⁷ the United States Court of Appeals for the Sixth Circuit found that a "franchisor's sponsorship, management and control of the system for distributing 7-Up, plus its specific consent" to the use of the soft drink's carrying carton, placed the "franchisor in the position of a supplier of the product for purposes of tort liability."¹³⁸ Ac-

131. See *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979). See generally Hanak, *supra* note 34 (discussing the quality assurance function of trademarks).

Of course, a trademark can be either advantageous or ruinous. The quality function need not be governmentally regulated because a mark not associated with a particular value is worthless. Cf. Hanak, *supra*, note 34, at 373 ("Despite broad authority, the Federal Trade Commission has rarely concerned itself with forcing trademark owners to assure that their marks indicate a certain level of quality or uniformity.").

132. 437 F.2d 308 (3d Cir. 1971), *cert. denied*, 404 U.S. 829 (1971).

133. *Id.* at 310.

134. 582 F.2d 781 (3d Cir. 1978).

135. *Id.* at 794-96.

136. *Id.* at 783. The court did not decide this case on the merits, but reversed a grant of summary judgment for the defendant. *Id.* at 797.

137. 595 F.2d 347 (6th Cir. 1979).

138. *Id.* at 353.

cordingly, the Seven-Up Company was held liable to a purchaser of a carton of the soft drink who was injured when a bottle slipped from the carton and exploded. The only control the Seven-Up Company had over the carton related to the use of its trademark on the carton, for the company had neither manufactured nor supplied it.¹³⁹ The *Koosters*, *Drexel*, and *Texaco* decisions recognize the quality function that the trademark performs in relation to the consumer.¹⁴⁰ In all three cases the only connection between the purchaser and the trademark owner was the guarantee of quality as provided by the trademark.

The Lanham Act, in its provisions dealing with related companies, indirectly affirms the guarantee or quality assurance function of trademarks.¹⁴¹ The Act defines related company as "any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and *quality* of the goods or services in connection with which the mark is used."¹⁴² Under the Act the related company's use of the registrant's trademark inures to the benefit of the registrant because the mark employed is exactly the same mark owned and registered by the licensor.¹⁴³

This statutory and judicial recognition of the quality function of trademarks fills a legitimate need of the modern commercial community. A trademark owner may wish to expand, but may not wish to manage each aspect of the enlarged business.¹⁴⁴ By licensing his mark, the trademark owner increases the recognition of his mark, expands his market, and at the same time obtains additional royalties without having to perform additional operations. The licensee acquires the use of a mark "known to the public which al-

139. *Id.* at 350.

140. *See also supra* text accompanying notes 15-16.

141. *Cf.* 1 J. MCCARTHY, *supra* note 70, § 3:4(A) ("Passage of the Lanham Act of 1946 firmly established the quality function of trademarks as a rule of law.").

142. 15 U.S.C. § 1127 (1976) (original version at ch. 540, § 45, 60 Stat. 443 (1946)) (emphasis added).

143. Section 1055 provides:

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

15 U.S.C. § 1055 (1976) (original version at ch. 540, § 5, 60 Stat. 429 (1946)).

144. The licensor may still be held liable for all aspects of the business. *See, e.g., supra* text accompanying notes 132-40.

ready generates considerable consumer demand."¹⁴⁵

Under the strict physical source theory of trademark function, this type of licensing of a mark for another's use was impossible because courts viewed the consumer's ability to associate a trademarked product with its actual source as a critical element of a trademark function.¹⁴⁶ Modern franchising and licensing would be considerably limited under the strict source theory because franchisees and licensees could not sell products and services which did not actually originate with the trademark owner.¹⁴⁷ Under the Lanham Act and the more liberal sponsorship theory, however, the trademark function of indicating source is subordinated to the function of giving the consumer assurance that articles bearing the same mark will be of similar quality.¹⁴⁸

The Act clearly requires that a trademark licensor exercise control over both the quality and nature of the goods produced by his licensees to qualify for federal registration.¹⁴⁹ Without this requirement, "the right of a trademark owner to license his mark separately from the business in connection with which it has been used would create the danger that products bearing the same trademark might be of diverse qualities."¹⁵⁰ The Act imposes an affirmative duty on the trademark licensor to guarantee consistent quality, allowing a business practice which directly contravenes the strict source theory of trademark function.¹⁵¹

Some courts and commentators have concluded, because of the increasing importance of the quality function, that the source theory is no longer viable, thereby ignoring the trademark's importance to its owner.¹⁵² But if quality was the sole trademark function, then an owner would have no basis to complain if a competitor sold the same product under the same mark. A manufacturer,

145. Comment, *Trademark Licensing: The Problem of Adequate Control*, 1968 DUKES L.J. 875, 876 n.3.

146. See *Kidd v. Johnson*, 100 U.S. 617, 620 (1879).

147. See 1 J. McCARTHY, *supra* note 70, § 3:3(A).

148. See *Thomas Pride Mills, Inc. v. Monsanto Co.*, 155 U.S.P.Q. (BNA) 205, 208 (N.D. Ga. 1967) (a primary function of a trademark is to offer this assurance to the ultimate consumer).

149. 15 U.S.C. § 1055 (1976) (original version at ch. 540, § 5, 60 Stat. 429 (1946)).

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

151. See generally A. SEIDEL, *WHAT THE GENERAL PRACTITIONER SHOULD KNOW ABOUT TRADEMARKS AND COPYRIGHTS* 117-18 (4th ed. 1979) (general discussion of type of control necessary).

152. See *supra* notes 15-17 and accompanying text; see also Lunsford, *Consumers and Trademarks*, *supra* note 1, at 86-91; cf. Hanak, *supra* note 34 (quality assurance is primary trademark function).

of course, realizes that the sale of an identical product deceives the consumer because it presents confusion as to "source," "origin," or "sponsorship."¹⁵³ A trademark must function to indicate both the sponsorship identification and quality assurance functions for a mark to have any value to its owner.¹⁵⁴

4. THE ADVERTISING FUNCTION

Beyond its "sponsorship" and "quality" functions, a trademark has evolved into an advertising medium. Although medieval regulatory marks simply served a police function, the modern trademark represents to consumers the desirability of the commodity on which it appears: the consumer's approval contributes to the manufacturer's goodwill.¹⁵⁵ Thus, "[t]he mark actually *sells* the goods."¹⁵⁶

It has been suggested that the function of a trademark is to act as a "commercial magnet."¹⁵⁷ Although the "quality" function may be of primary significance to the consumer, the modern manufacturer and seller rely heavily on a trademark's inherent commercial promotional value.¹⁵⁸ Justice Frankfurter, in *Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co.*,¹⁵⁹ per-

153. See *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1922). In *Bourjois* a foreign manufacturer of face powder sold to the plaintiff its business and goodwill in the United States, together with its trademarks registered under the Trade-Mark Act of 1905. The plaintiff re-registered the marks, continued to import the powder and went on with the business. The Court found that the defendant's sale in the United States of the same powder also imported from France was actionable infringement.

154. Although there is no direct government enforcement concerning the quality function of trademarks outside the "related company" area, an owner's failure to maintain consistent quality in marked products may have legal consequences. For example, "a trademark owner who deceives the public by debasing the quality of the product for which his trademark stands may be barred by unclean hands from maintaining an action for infringement." *Menendez v. Faber, Coe & Gregg, Inc.*, 345 F. Supp. 527, 556 (S.D.N.Y. 1972), *modified on other grounds sub nom. Alfred Dunhill, Inc. v. Cuba*, 425 U.S. 682 (1976).

155. See *Anti-Monopoly, Inc. v. General Mills Fun Group*, 611 F.2d 296, 301 (9th Cir. 1979).

156. Schechter, *supra* note 19, at 819 (emphasis in original).

157. See Brown, *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1189 (1948); Carson, *supra* note 51, at 66.

158. See Address by Alfred T. Lee, Forum on Trademarks in Advertising and Selling, sponsored by the United States Trademark Association (Mar. 16, 1966), *printed in TRADEMARKS IN ADVERTISING AND SELLING* 1 (1966). In 1966 the United States Trademark Association estimated that approximately 98% of all advertising was directed to the selling of products and services carrying trademarks. Opening Remarks by Cyril F. Hetsko, Forum on Trademarks in Advertising and Selling, sponsored by the United States Trademark Association (Mar. 16, 1966), *printed in Introduction to TRADEMARKS IN ADVERTISING AND SELLING* at viii (1966). Current statistics are not yet available.

159. 316 U.S. 203 (1942).

ceptively commented,

The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a mark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value.¹⁶⁰

Although *Mishawaka* was decided in 1942, Justice Frankfurter appears to have foreseen the modern commercial environment in which trademarks are used. According to a recent survey of selected firms from the Fortune 500 list, for example, eighty-nine percent of companies selling consumer products use consumer research in selecting a trademark.¹⁶¹

A trademark's advertising function is intrinsically tied to its "quality" and "sponsorship" functions. A trademarked product that does not represent a desirable and consistent quality to the consumer will have no advertising value to the manufacturer. Likewise, although the trademark may not consciously represent the source or the sponsorship of the marked product to the consumer, the sponsorship function is indispensable to the operation of the advertising function. If the customer does not know that products bearing the same mark are produced by the same party, a trademark cannot possibly function as a promise of consistent quality. A trademark that promises high and consistent quality will necessarily act as a commercial magnet. Although the functions of a trademark are intertwined, all are dependent to some degree on the mark's sponsorship function. A trademark must communicate either explicitly or implicitly that some entity or group is responsible for all items sold under the mark. Although it appears clear that a trademark may serve a variety of mutually dependent functions, the question remains whether protection of any or all of these functions through a federal trademark system is itself of value to

160. *Id.* at 205.

161. McNeal & Zeren, *Brand Name Selection for Consumer Products*, MSU BUS. TOPICS, Spring 1981, at 35, 35. The researchers sent questionnaires to 200 firms that primarily manufacture consumer products. Ninety-seven responses were received.

the mark owner and public.

IV. THE FUNCTION AND VALUE OF THE TRADEMARK SYSTEM

A. A Trademark System Promotes Competition

Protection of property rights in the trademark system is founded on entirely different legal theories from either the patent or copyright system.¹⁶² Patents and copyrights are government grants and the United States Constitution limits the length of the grant and the associated right to exclusive use.¹⁶³ Once the period of the grant for a patent or copyright expires, the right to exclusive use expires.¹⁶⁴ A properly protected trademark, on the other hand, "can last forever."¹⁶⁵ Furthermore, unlike patents and copyrights, a trademark "confers no protection against imitators of the product itself."¹⁶⁶ Trademark law, in protecting the names and symbols identifying the seller's product, protects the goodwill associated with the product rather than the product itself.

That the property right in the trademark is unquestionably "exclusive and absolute"¹⁶⁷ has led some commentators to conclude that trademarks are monopolistic.¹⁶⁸ If a trademark is a monopoly to any degree, it is only in the limited sense that an owner of the mark can prevent another supplier from affixing the same or similar mark to similar goods. It is questionable, however, whether a trademark system can ever be deemed monopolistic. A trademark is valueless without consumer demand for the marked product.¹⁶⁹

162. See generally S. DIAMOND, *TRADEMARK PROBLEMS*, *supra* note 21, at 241-42 (comparing copyrights, patents, and trademarks).

163. The congressional power to regulate the respective rights is based on two distinct constitutional powers. The power to grant patents and copyrights is specifically provided by U.S. CONST. art. I, § 8, cl. 8. The power to regulate trademarks, in contrast, is based on a gloss of the commerce clause of the Constitution. U.S. CONST. art. I, § 8, cl. 3.

164. See Lunsford, *Trademarks: Prestige, Practice, and Protection*, *supra* note 1, at 325-26.

165. *Trademarks: The Other Mess*, *supra* note 7, at 45 (quoting Dorothy Fey, Executive Director of the United States Trademark Association). "R & H's Plexiglas mark, for example, dates to 1936 . . . Dutch Boy, now part of Sherwin-Williams, goes back to 1907, Sherwin-Williams's 'Cover the Earth' design and slogan, to 1905. And the 'Arm & Hammer' mark of Church & Dwight is even older—it was first used in 1878." *Id.*

166. Kitch, *The Nature and Function of the Patent System*, 20 J.L. & ECON. 265, 277 (1977).

167. F. UPTON, *supra* note 33, at 10. "It has been often said, that the doctrine of exclusive property in trade-marks, has prevailed from the time of the Year Books." *Id.*; see *supra* notes 58-63 and accompanying text.

168. See, e.g., Papandreou, *The Economic Effect of Trademarks*, 44 CALIF. L. REV. 503 (1956).

169. "No amount of advertising can sustain a product that doesn't meet the needs of

As the United States Supreme Court noted in *United Drug Co. v. Theodore Rectanus Co.*:¹⁷⁰ "In truth, a trade-mark confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's good-will in trade by placing a distinguishing mark or symbol—a commercial signature—upon the merchandise or the package in which it is sold."¹⁷¹ In a recent federal case, *Standard Oil Co. (Kentucky) v. Humble Oil & Refining Co.*,¹⁷² the court stated the rule more simply: "[T]here is not now, nor has there ever been, a conflict between the antitrust laws and trademark laws or the law of unfair competition."¹⁷³ Trademarks are intrinsic to the nonmonopolistic movement of goods in a free enterprise market.¹⁷⁴

Federally regulated registration makes effective competition possible by enabling consumers to choose goods based on their individual merit.¹⁷⁵ Trademarks do not prevent a competitor from "honorable competition in trade."¹⁷⁶ "The striking feature of a trademark . . . is that it is used to distinguish between goods or services that normally are supplied by several business competitors."¹⁷⁷ Thus, it is only when two or more producers are competing for public favor that there is a need for trademarks at all.¹⁷⁸

Without some method of product identification, meaningful competition among quality products would be substantially hampered. With anonymity, "reverse" competition would control.¹⁷⁹ It would be cheaper and more profitable to produce the lowest possi-

consumers." Uihlein, *Logos and Initials as Marketing Tools*, ADVERTISING AGE, Mar. 17, 1980, at S-22, S-22.

170. 248 U.S. 90 (1918).

171. *Id.* at 98.

172. 363 F.2d 945 (5th Cir. 1966), *cert. denied*, 385 U.S. 1007 (1967).

173. *Id.* at 954.

174. See S. REP. No. 1333, *supra* note 48, at 3; Rogers, *supra* note 24, at 177.

175. See *Standard Oil Co. (Ky.) v. Humble Oil & Refining Co.*, 363 F.2d 945, 954 (5th Cir. 1966), *cert. denied*, 386 U.S. 1007 (1967).

In 1860 Francis Upton came to the same conclusion:

As the true interests of manufacturers and commerce have been more perfectly developed, . . . it has been found, that an exclusive property in trade marks, and its adequate protection by Courts of Equity, not only imposes no restraint upon the freedom of trade, but that its direct and inevitable tendency is, to promote and encourage that laudable competition, in which lies the true interest of the public

F. UPTON, *supra* note 33, at 13.

176. *Dennison Mfg. Co. v. Thomas Mfg. Co.*, 94 F. 651, 657 (C.C.D. Del. 1899).

177. S. DIAMOND, TRADEMARK PROBLEMS, *supra* note 21, at 2.

178. See Rogers, *supra* note 24, at 176-77.

179. See Diamond, *The Historical Development of Trademarks*, 65 TRADE-MARK REP. 265, 289 (1975).

ble quality product because the consumer would not be able to differentiate between products or retaliate against any supplier by avoiding his product. The introduction of "unbranded," "brandless," "generic," and "no-name" products has demonstrated that it is more profitable to produce lower quality goods without trademarks. Price reductions associated with these products are not primarily achieved by eliminating the expense of promotions and advertising. Instead, as an officer of one corporation that began marketing no-name, generic products has stated: "Labeling is the smaller portion of the saving. The product is the greater."¹⁸⁰

Comparative advertising is fostered by trademarks. A manufacturer may use a competitor's trademark in an advertisement comparing their products.¹⁸¹ Through such comparative advertising, a successful product marketed under a known trademark acts as an incentive within the industry to introduce similar or improved products under a competing mark.

B. *The Economic Role of Trademarks*

The question remains whether our present trademark system is efficient. It might be argued that under a theoretical economic model of a free enterprise system in which all goods offered for sale are interchangeable, an economic system in which trademarks had no place would serve the public equally well. As Sidney Diamond, the former Commissioner of Patents, has maintained,¹⁸² the classical economic model of a free enterprise system is no longer entirely applicable to a modern industrial system. The modern model would be one in which all interested parties could maximize their self-interest most efficiently and at the least cost to society.¹⁸³ Although not perfect, a system that protects trademarks best effects such a goal.

The value of trademarks to both consumers and owners is an incentive to their creation, preservation, and exclusive ownership.

180. Gray, *Farmer Jack Joins No-name Marketers*, ADVERTISING AGE, Apr. 17, 1978, at 3, 3 (quoting Harry Cogan, Vice-President of Grocery Procurement for the Borman's Inc. unit). Savings are a result of the use of extra-standard and standard grades rather than fancy. *Id.*; accord Diamond, *Historical Development*, *supra* note 23, at 289. But see Diamond, *The Next 100 Years*, *supra* note 130, at 623 ("no-names" are themselves trademarks).

181. See *Smith v. Chanel, Inc.*, 402 F.2d 562, 569 (9th Cir. 1968) (perfume manufacturer permitted to advertise its perfume as being duplicative of another trademarked perfume).

182. Diamond, *Public Interest*, *supra* note 30, at 535.

183. See R. POSNER, *ECONOMIC ANALYSIS OF LAW* 3 (2d ed. 1977).

Trademarks will not be employed efficiently absent exclusive ownership, if they are employed at all. The result applies to all stages of the investment process. If any firm could market its product under any brand name, a mark owner could neither build on the goodwill obtained by his first use, nor determine the efficient level of quality or consumer desire. In contrast, a trademark owner with guaranteed exclusive use of his mark is motivated to exploit the most efficient means of technological and market enhancement of goods sold under the mark.¹⁸⁴

The trademark system induces the mark owner to invest to maximize the value of his mark without fear that the fruits of the investment will be appropriated by competitors. The development of a successful trademark often requires substantial investments; an expenditure that otherwise would not be undertaken. For example, it cost the world's largest oil company \$100 million to change its name to "Exxon."¹⁸⁵ The costs of developing a new mark are a major cost of doing business. Launching a new brand nationwide now costs at least thirty million dollars in advertising.¹⁸⁶ Furthermore, just one in ten items introduced survives.

Investment in a trademark is highly specific to the brand name.¹⁸⁷ "Not only would [a] firm not invest in this specific asset [without trademark protection], but there would be an incentive for the firm to depreciate a valuable rented brand name."¹⁸⁸ Thus, identification in the form of trademarks encourages manufacturer responsibility and promotes the development of a better product. A protected property right in a mark allows the manufacturer to "notify the public of the origin of the article and secure to himself the benefits of any particular excellence it may possess from the

184. Richard Posner, in his *Economic Analysis of Law*, has noted that "the legal protection of property rights has the important economic function of creating incentives to use resources efficiently." R. POSNER, *supra* note 183, at 28.

185. It had previously operated under five names. Enis, *Exxon Marks the Spot*, J. ADVERTISING RESEARCH, Dec. 1978, at 7, 7. Color, letter, style, and other qualities of the trademark were all extensively tested for consumer acceptance in countries all over the world. *Id.*; see Carson, *supra* note 51, at 67; see also *supra* note 161 and accompanying text.

186. *Name Game, New Wine in Old Bottles*, TIME, Aug. 31, 1981, at 41, 41. Brand extension, the use of established brand names on new products, is a strategy to avoid such costs. "It's a method for a company to enter a new business through the leverage of its *most valuable asset*—the consumer awareness, good will and impressions conveyed by its brand name." *Id.* (quoting Edward Tauber, a University of Southern California marketing professor) (emphasis added).

187. See Klein, Crawford & Alchian, *Vertical Integration, Appropriable Rents, and the Competitive Contracting Process*, 21 J.L. & ECON. 297, 321 (1978).

188. *Id.*

manner or materials of its manufacture."¹⁸⁹ To consumers, on the other hand, a brand name allows choice, promises consistent quality, simplifies shopping and, to a certain extent, allows self-expression.¹⁹⁰ The value a consumer attaches to a trademark may be fundamental to the value the consumer attaches to the product itself. For example, Murjani, a clothing manufacturer, eliminated the swan logo from Gloria Vanderbilt pants to cut costs. Vehement consumer complaints convinced Murjani that the logo should be reapplied and the pants reflected the added cost.¹⁹¹

Nationwide advertising attempts to create this type of consumer recognition to attract trade and sell products.¹⁹² Without this right to advertise and display trademarks, the mark would be of no value to its owner and the products possibly of less value to the consumer. Moreover, without trademark protection and advertising of brand names, there would be no free press, radio, or television.¹⁹³ These media forms are dependent on the advertising spent to promote trademarked products and services.

A trademark system that preserves trademarks as source identifiers leads to economies of scale and lowers prices. If a trademark did not communicate source, advertising would be valueless. Advertising funnels demand to trademarked products and increases sales. Increased consumption of goods requires larger production facilities, which in turn leads to price reductions, not price increases.¹⁹⁴

This is not to say that the use of a mark in advertising should be exclusive, nor that comparative advertising should be banned.¹⁹⁵ So long as it is clear that the product compared is not sponsored by the advertiser, the source function of the trademark is not di-

189. *Manhattan Medicine Co. v. Wood*, 108 U.S. 218, 222 (1883).

190. *See id.*; McNeal & Zeren, *supra* note 161, at 35.

191. Uihlein, *supra* note 169, at S-22.

192. "Campbell Soup estimates that the average shopper views its red-and-white soup cans in supermarkets 76 times a year. That's double the number of times a consumer sees the product in TV ads, making the well-known package equivalent in value to more than \$26 million in advertising." Abrams, *Marketing*, Wall St. J., May 20, 1982, at 29, col. 1.

193. Lunsford, *Trademarks: Prestige, Practice, and Protection*, *supra* note 1, at 324-25.

194. This is not to say that trademark rights cannot be abused. Current law adequately deals with such abuses, however, without destroying the trademark system itself. A proper injunction can prevent almost any undesirable conduct. Although compulsory trademark licensing has been advocated recently, preservation of the sponsorship function of trademarks makes this an entirely inappropriate solution to any illegal behavior. *See generally* Holmes, *Compulsory Patent and Trademark Licensing: A Framework for Analysis*, 12 *LOV. U. CHI. L.J.* 43 (1980).

195. *See supra* note 181 and accompanying text.

minated and competition is encouraged by such advertising. Additionally, comparative advertising fosters product improvement, ensuring that a trademark remains a symbol of quality.

Trademark registration is also economically valuable because it reduces duplicative investment. Once a trademark is registered, other firms can learn of its appropriation before investing in the same mark. A PTO trademark search, conducted by an independent searching firm, lawyer, or other qualified persons, efficiently places the costs of this protection on those benefiting from it.

Federal registration gives trademark owners an affirmative incentive to seek out other firms to exploit its investment in a mark. The most efficient and value-optimizing method to realize a return on an investment in a trademark is to license it.¹⁹⁶ The owner of the mark can augment the goodwill associated with his mark through greater exposure and increased consumer demand. An added benefit of licensing under the Lanham Act is that the statute creates a defined set of legal rights known to the parties at the outset of any negotiations. This reduces negotiation costs for the contracting parties.

The licensing of trademarks cogently demonstrates the value of a system that preserves marks. Extensive government regulation is unnecessary because the system promotes individual enforcement of the law, thereby indirectly preserving the "guarantee" function of trademarks. Because both the licensor and licensee know a mark is of no value without its associated goodwill, the self-interest of the parties effectively guarantees the preservation of the value of the mark. In other words, both the licensor and the licensee will look for and prosecute trademark infringement to preserve their investment. Because the burden of the Act's enforcement is on the parties closest to the transaction, the system is cost efficient. The "Coca-Cola" and "Coke" trademarks best illustrate that the potential or actual value of a trademark ensures such "self-policing" when a mark is licensed. It has been suggested that if all the plants and inventories of the Coca-Cola Company should go up in smoke overnight, the company could acquire funds to rebuild by using the inherent goodwill in the marks alone as security.¹⁹⁷ The licensor and licensees of the marks have a tremendously valuable (and profitable) interest in the two marks which must be

196. See *supra* notes 149-50 and accompanying text for a discussion of the "control" requirement in licensing.

197. Lunsford, *Trademarks: Prestige, Practice, and Protection*, *supra* note 1, at 339.

"self-protected" as a matter of economic survival.

The trademark system protects the consumer from fraud. Fraud is a problem in consumer transactions because the consumer's stake is small, making it difficult to devise effective legal remedies.¹⁹⁸ Unmasking product misrepresentation would be tremendously expensive. One economic justification for the trademark system is that it deters and prevents fraudulent behavior by creating private rights of actions in owners, but not in consumers.¹⁹⁹ When a competitor affixes another's mark to his product, the loss to the individual consumer is relatively small: the reduced value of the toothbrush, shaving cream, or soft drink. Because the purchaser's economic interest is miniscule, he will not generally be motivated to discover the source of his dissatisfaction, and will simply switch brands if one fails to please him. The consumer may not, however, perceive the misrepresentation or lower quality, and may continue paying for what he is not receiving. The combined loss to the public may be tremendous although separate consumer losses are insignificant. On the other hand, infringement may result in tremendous losses to the individual mark owner. The adoption and use of a similar mark by a competitor diverts the profit, goodwill, and value associated with the mark and deprives the owner of his investment.²⁰⁰ Because the mark owner's stakes are great, he has an incentive to expose false claims to the consumer, especially if a competing firm is gaining sales by falsely marking its product.²⁰¹ For example, it is estimated that the Coca-Cola Company spends approximately \$10 million each year just sending investigators into the marketplace "to spirit samples back to the lab—to make sure that when a customer orders a rum-and-coke, he gets just that and not a rum-and-something else."²⁰² Rohm and Haas recently spent \$35,000 to investigate dealer substitution of other plastic sheets for the company's "Plexiglas" brand. As the firm's associate general counsel explained: "Plexiglas sheet is far

198. R. POSNER, *supra* note 183, at 81.

199. *See id.*

200. As a general principle, it may be said that the price-cutting of any trademarked article injures the goodwill of the trademark because it conveys an implication unfavorable to the reputation of the article. The customer may question the honesty of the trademark owner if the public is able to buy an article of equal quality at different prices; or that, following a well-known quirk of consumer psychology, the article is less valuable if it is less expensive.

1 R. CALLMANN, *supra* note 26, § 24.2(c), at 843.

201. *See* R. POSNER, *supra* note 183, at 81.

202. *Trademarks: The Other Mess*, *supra* note 7, at 45.

and away our most important trademark, and it is of tremendous value to our company to promote sales of this product. We don't want to risk any erosion of that right."²⁰³ These expenditures in company trademark protection reflect the owners' opinion of the worth of trademarks.

The owner's interest is protected not only by his own actions, but also by both common-law and statutory trademark remedies designed to protect the public as well. A complaint based on the tort of unfair competition, for example, must allege that consumer deception, mistake, or confusion is probable as a result of confusion about source traceable to a defendant's dishonest marketing tactics.²⁰⁴ The deception is founded on interference with consumer choice. Similarly, the consumer is an unnamed third party in every trademark infringement case under the Lanham Act, although no consumer is granted standing to sue under that statute.²⁰⁵ As with the common-law tort, the mark registrant must demonstrate that the infringer's acts resulted in consumer confusion, mistake, or deceit.²⁰⁶ Thus, the trademark owner protects the consumer from deception and simultaneously guards his own pecuniary interests. That the system permits only the owner to bring suit, barring numerous small consumer suits whose costs would be great, is both efficient and ultimately protective of consumers. The consumers' interest could never be protected adequately by individual consumer suits because the opposition would invariably have comparatively greater funds available for its defense. By encouraging the parties with the highest stakes in mark preservation to police the

203. *They Say There's No Substitute for a Brand Name*, CHEMICAL WEEK, Aug. 15, 1979, at 45, 45-46.

204. See J. CALIMAFDE, *supra* note 79, § 6.20.

205. See 15 U.S.C. § 1114 (1976) (original version at ch. 540, § 32, 60 Stat. 437 (1946)). Section 43 of the Lanham Act, 15 U.S.C. § 1125 (1976), forbids false designations of original and false descriptions, and affords a civil action to "any person doing business in the locality." Judicial interpretation has restricted the remedy's use to persons doing business in interstate commerce, excluding consumers. See *Colligan v. Activities Club, Ltd.*, 442 F.2d 686 (2d Cir.), *cert. denied*, 404 U.S. 1004 (1971); *Florida ex rel. Broward County v. Eli Lilly & Co.*, 329 F. Supp. 364 (S.D. Fla. 1971). See generally Taubes, *supra* note 84, at 91-99 ("The issues remain murky."). As with an infringement action, however, a showing of consumer deception is still an integral part of damage recovery under § 43. See *Hesmer Foods, Inc. v. Campbell Soup Co.*, 346 F.2d 356, 359 (7th Cir.) ("To establish a right to damages, actual deception must be shown. To obtain equitable relief, only a likelihood of consumer deception need be shown."), *cert. denied*, 382 U.S. 839 (1965). See generally Mulcahy, *Section 43(a) of the Lanham Act: Its Development and Potential*, 3 LOY. U. CHI. L.J. 327, 343 (1972); 72 COLUM. L. REV. 182, 190 (1972).

206. 15 U.S.C. § 1114 (1976). Proof of damages (loss of goodwill or sales) would be impossible absent such a showing.

market and instigate suits, the system protects the greatest number of individuals at the least cost to society.

1. THE ECONOMIC ROLE OF TRADEMARKS AND JOINT OWNERSHIP

In disregarding the economic value of joint ownership of marks, the PTO relies heavily on a theory of trademark function developed in the late nineteenth century. The theory that trademarks function to denote physical origin ignores the great distances that separate the modern consumer and trademark owner. No one expects that all goods bearing the same mark are manufactured or grown in the same location. Rather, a mark communicates quality by indicating sponsorship of an item.

Generally, when two or more individuals jointly own a mark, more than one source of marked goods arises. It is a misconception, however, that this disturbs the efficiency of our trademark system or is against public policy. All one need do is recall the modern theory of trademark function as it has emerged from cases such as *Menendez v. Holt*²⁰⁷ and as it was applied in *E.F. Prichard Co. v. Consumers Brewing Co.*²⁰⁸ The court in *Prichard* held that there is no reason to deny a mark owner protection simply because the goods he sells were neither from one geographical source nor produced by one person.²⁰⁹ Instead, trademark protection depends on the method in which marks are employed because the mark owners use the marks to convey consistent quality or particular business styles.

Of course, parties may incorporate or form some other juristic person to avoid restrictive statutes, regulations, and case law. If a single sponsor of a mark is unnecessary to the successful function of a mark, however, PTO policy is inefficient because it raises costs of doing business. Our present system already employs self-interest to create an environment in which mark owners police the market to prevent deceptive marketing through trademark infringement. The self-interest of mark owners is equally present in joint ownership situations. Joint owners have the same incentive as any other mark owner to ensure that their jointly owned mark promises consistent quality. If by chance this incentive is absent, the jointly owned mark will be valueless and therefore incapable of deceiving consumers. The system has built-in safeguards to prevent the mis-

207. 128 U.S. 514 (1888); see *supra* note 90 and accompanying text.

208. 136 F.2d 512 (6th Cir. 1943); see *supra* note 96 and accompanying text.

209. See *supra* note 97 and accompanying text.

use of trademarks.

Joint ownership of trademarks offers an economically efficient means of identifying goods. The cost of inhibiting joint ownership offers no countervailing benefits. The arbitrary policy of the PTO regarding joint applicants is economically wasteful, an anomaly in an otherwise efficient trademark system. The expense of delay and counsel involved in joint applicant registration is ultimately passed to the consumer through increased costs of marked goods. The cost of restricting joint ownership of trademarks is also passed on to the consumer in the form of federal income taxes that fund the PTO's activities discouraging joint ownership. The PTO should reconsider its policy and concentrate its efforts on promoting that cornerstone of the modern marketplace: the protected trademark.

V. ALTERNATIVES TO JOINT APPLICANT STATUS

A consensus exists that a trademark may be owned by an individual, firm, corporation, association, or any other juristic person.²¹⁰ The TMEP clearly provides for joint registration of trademarks by joint ventures,²¹¹ and clearly treats these applications more favorably than joint applications.²¹² In deciding whether an entity is a joint venture, the Trademark Trial and Appeal Board has quoted *Black's Law Dictionary*:

a "joint adventure" is, inter alia, "a commercial or maritime enterprise undertaken by several persons jointly; a limited partnership, not limited in the statutory sense as to the liabilities of the partners, but as to its scope and direction," and "[a]n association of two or more persons to carry out a single business enterprise for profit for which purpose they combine their property, money, efforts, skill and knowledge."²¹³

The Board itself defined a joint venture for the purposes of trademark registration as "an undertaking or 'adventure' in which sepa-

210. Section 45 of the Lanham Act provides the following definition of a natural or juristic person:

The term "person" and any other word or term used to designate the applicant . . . under the provisions of this chapter includes a juristic person as well as a natural person. The term "juristic person" includes a firm, corporation, union, association, or other organization capable of suing and being sued in a court of law.

15 U.S.C. § 1127 (1976) (original version at ch. 540, § 45, 60 Stat. 443 (1946)).

211. See TMEP, *supra* note 9, §§ 802.01; .02(b), .03(b), .03(d).

212. *Id.* § 802.03(d).

213. *In re Hercofina*, 207 U.S.P.Q. (BNA) 777, 779 (Trademark Tr. App. Bd. 1980) (quoting BLACK'S LAW DICTIONARY 753 (rev. 5th ed. 1979)).

rate legal entities combine to perform a specific function or to market the fruit of their combined labors under a mark created by them jointly to identify this venture."²¹⁴

In *In re Hercofina*,²¹⁵ the only trademark case dealing with joint venture applicants, the panel found that two separate and independent corporations had formed a joint venture. The parties had entered into a "Joint Venture Agreement" which provided, *inter alia*, for officials of the venture and distribution of authority within the enterprise. The panel noted as significant that the agreement contemplated that the venture could sue and be sued within a court of law and held that, absent evidence to the contrary, the venture was a juristic person, eligible to apply for registration. Although the parties in *Hercofina* set up the venture as a business organization with a supervising board of managers, the panel stated that there is no statutory restriction on the venturers (as separate legal entities) conducting business operations under their own identities.²¹⁶

It appears that *Hercofina* allows certain applicants to avoid the problems associated with joint applicant status by simply applying as joint venturers. The only restrictions are that the mark be created by the parties *jointly* and that the applicants intend to market the product through their *combined* labors.²¹⁷ Joint venture status, however, will not aid two independent parties who wish to jointly register a mark previously owned by either party or purchased from a third party.²¹⁸

214. *Id.* at 781; *cf. In re Diamond Walnut Growers, Inc.*, 204 U.S.P.Q. (BNA) 507, 510 (Trademark Tr. App. Bd. 1979) (although action urged joint applicant status, the court's language and justification of registration appears, in retrospect, applicable to a joint venture application).

215. 207 U.S.P.Q. (BNA) 777 (Trademark Tr. App. Bd. 1980).

216. *Id.* at 781.

217. *See supra* text accompanying note 214.

In non-trademark cases, the common-law definitions of joint venture appear narrower than that of the *Hercofina* panel. For example, the United States Court of Appeals for the Fourth Circuit has held that a joint venture "exists when two or more persons combine in a joint business enterprise for their mutual benefit, with an . . . agreement that they are to share in the profits or losses of the enterprise, and that each is to have a voice in its control and management." *Chisholm v. Gilmer*, 81 F.2d 120, 124 (4th Cir.), *aff'd*, 299 U.S. 99 (1936); *see DeWitt v. Sorenson*, 288 F.2d 455 (5th Cir. 1961).

Gladys Glickman states that the elements of a joint venture are: "(1) a community of interest in the performance of a common purpose, (2) joint control or right of control, (3) a joint proprietary interest in the subject matter, (4) a right to share in the profits, and (5) a duty to share in any losses sustained." G. GLICKMAN, 15 BUSINESS ORGANIZATIONS § 2.03[7] (1981).

218. The following hypothetical situation is offered as an example: A lettuce grower in Michigan sells fifty percent of the interest in its business and trademark to a lettuce grower

Several cases have recognized that marks may be jointly and concurrently used in nonregistration settings. In *California Fruit Growers Exchange v. Windsor Beverages*,²¹⁹ for example, the court sanctioned a contractual agreement between two plaintiffs in which each granted the other the right to employ the same mark.²²⁰ The court thus recognized that joint ownership of marks can be created by contract under common-law principles. Neither the PTO nor other courts have followed these cases in joint registration proceedings.

Similarly, the PTO has not analogized concurrent use registrations to joint applicant registration. Concurrent use registration allows two parties to use the same mark when there is a territorial distinction between the distribution areas of the parties' marked goods.²²¹ As with joint venture registration, this method of joint ownership is of limited use because it requires territorial division of distribution. Because joint applicant registration of trademarks is theoretically available, circuitous alternative methods are costly, inefficient, and unnecessary.

VI. CONCLUSION

*Non solum quid licet, sed quid est conveniens, est considerandum; quia nihil quod est inconveniens est licitum.*²²²

The PTO can easily change its policy on joint ownership of trademarks. The Lanham Act already regulates all forms of mark ownership, making statutory amendment unnecessary to implement the change. The PTO should delete all negative language relating to joint ownership of marks from the TMEP, and allow mark owners to freely take advantage of joint applicant status.

A large body of case law already exists covering joint use of marks by licensees and joint venturers. Successful agency and judi-

in Florida. A contract between the parties allows each mark owner to sell lettuce under the mark exclusively during one-half of the year. Neither grower will control the other, share profits, or combine labor. Both are willing to rely on the contractual promise of the other that only the highest grade lettuce will be sold under the mark during the respective six-month periods.

219. 118 F.2d 149 (7th Cir. 1941).

220. *Id.* at 151; accord *California Packing Corp. v. Sun-Maid Raisin Growers*, 81 F.2d 674 (9th Cir. 1936); *Waukesha Hygeia Mineral Springs Co. v. Hygeia Sparkling Distilled Water Co.*, 63 F. 438 (7th Cir. 1894).

221. See generally E. VANDENBURGH, *TRADEMARK LAW AND PROCEDURE* § 10.11(e) (2d ed. 1968 & Supp. 1979) (general discussion of concurrent use).

222. Not only what is lawful, but what is proper or convenient, is to be considered; because nothing that is inconvenient is lawful.

cial control in these situations exemplifies that joint ownership of marks poses no threat to the efficient function of our trademark system. More important, because the benefits of federal trademark legislation inure to both consumers and mark owners, its protections should not be arbitrarily denied to either. Thus, when joint applicant status is proper, the PTO should encourage and permit its use.