

January 2021

Intellectual Property

Timothy W. Gordon

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Recommended Citation

Timothy W. Gordon, Intellectual Property, 73 Denv. U. L. Rev. 829 (1996).

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INTELLECTUAL PROPERTY

INTRODUCTION

The Tenth Circuit issued two published intellectual property opinions during the September 1994 to September 1995 survey period. These cases warrant discussion for their advancement of new law and adoption of legal principles common in other circuits. In *Vornado Air Circulation Systems v. Duracraft Corp.*,¹ the Tenth Circuit demonstrated the dormant power of federal patent law.² In *Vornado*, the court permitted patent law “principles” to trump the clear statutory language of the Lanham Act.³ According to the court, the Lanham Act may not protect a nonfunctional product configuration constituting part of a utility patent claim, even if the configuration falls within the Act’s explicit protections.⁴ The Tenth Circuit also decided *Stanfield v. Osborne Industries*.⁵ In a holding consistent with other circuits, the *Stanfield* court held that granting a license to use a trademark without maintaining adequate quality control measures results in the licensor’s abandonment of rights to the trademark.⁶

This Survey analyzes both *Vornado* and *Stanfield*. Part I discusses the history and relationship between the federal patent system and the Lanham Act’s protection for trademarks and trade dress. After presenting the facts and decision in *Vornado*, Part I compares the Tenth Circuit’s decision to those of other circuits and then analyzes the court’s reasoning. In addressing the *Stanfield* decision, Part II first discusses the history of trademark licensing and the requirements of quality control. Part II then presents the facts and decision in *Stanfield*, analyzes the court’s position, and briefly addresses the positions of other circuits on similar issues.

I. PATENT LAW’S CORE PURPOSE PREEMPTS THE LANHAM ACT

A. Statutory Background

Three basic principles support the federal patent system: (1) “to foster and reward invention[.]” by permitting an inventor to enforce contracts licensing inventions in exchange for royalties;⁷ (2) to “promote[] disclosure of

1. 58 F.3d 1498 (10th Cir. 1995).

2. *Vornado*, 58 F.3d at 1508-10 (discussing the relevance of federal patent law principles and policy).

3. *Id.*; see Lanham Act, Pub. L. No. 79-489, 60 Stat. 427 (1946) (codified as amended at 15 U.S.C. §§ 1051-1127 (1994)).

4. *Vornado*, 58 F.3d at 1510.

5. 52 F.3d 867 (10th Cir. 1995).

6. *Stanfield*, 52 F.3d at 871 (adopting the views of the Second and Ninth circuits).

7. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). To qualify for a patent, an invention must satisfy the three elements of utility, novelty, and non-obviousness. 35 U.S.C. §§ 101-103 (1994). The inventor must first show that the invention is “useful.” *Id.* § 101. “Useful”

inventions . . . once the patent expires" and thus allow public use of the patented invention;⁸ and (3) "to assure that ideas in the public domain remain there for the free use of the public."⁹

Section 43(a) of the Lanham Act provides protection for trademarks.¹⁰ Courts have interpreted section 43(a) to protect "trade dress," the features comprising a product's look or image.¹¹ When litigating trade dress infringement issues, plaintiffs must establish that the trade dress is either (1) inherently distinctive, or (2) has acquired secondary meaning and that confusion in the marketplace would result from copying.¹² If determined primarily functional,¹³ however, competitors may copy the trade dress.¹⁴ Both courts and commentators acknowledge that the functionality defense prevents the Lanham Act from conflicting with federal patent law.¹⁵

generally means that the item serves some identifiable benefit to people. *See, e.g., Brenner v. Manson*, 383 U.S. 519-30 (1966) (explaining the requirement and definition of utility). An invention is "novel" if another person has not already produced the exact same invention. 35 U.S.C. § 102. Finally, the inventor must establish that the invention is "'non-obvious' to a person having ordinary skill in the art which the subject matter pertains." *Id.* § 103.

8. *Aronson*, 440 U.S. at 262.

9. *Id.*

10. Section 43(a) provides in part:

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

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin . . . of his or her goods . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a) (1994).

11. The Tenth Circuit explains trade dress as follows:

Trade dress is a complex composite of features. One may be size, another may be color or color combinations, another may be texture, another may be the graphics and arrangement and so on. Trade dress is a term reflecting the overall general impact, usually visual, but sometimes also tactile, of all these features taken together.

Hartford House, Ltd. v. Hallmark Cards, Inc., 846 F.2d 1268, 1271 (10th Cir.) (citing *SK & F Co. v. Premo Pharmaceutical Lab.*, 481 F. Supp. 1184, 1187 (D.N.J. 1979), *aff'd*, 625 F.2d 1055 (3d Cir. 1980)), *cert. denied*, 448 U.S. 708 (1988).

12. *Vornado*, 58 F.3d at 1502-03.

13. In *W.T. Rogers Co. v. Keene*, 778 F.2d 334 (7th Cir. 1985), the Seventh Circuit discussed extensively the concept of functionality. The court provided an example: "A firm that makes footballs could not use as its trademark the characteristic oval shape of the football, thereby forcing its rivals to find another shape for their footballs." *Id.* at 339. Because a football must be oval to function correctly, the shape is functional. *Id.* No alternative shapes exist that would suffice for a football. *Id.*

One test used to determine functionality is to ask "whether the protection of the feature would hinder competition or impinge upon the rights of others to compete effectively in the sale of goods." *Hallmark Cards*, 846 F.2d at 1272. If competitors could use alternative designs, the challenged feature would likely be found nonfunctional. *Id.* at 1273.

As one commentator explained, "[A] nonfunctional feature . . . is one with perfect (or nearly perfect) substitutes." Malla Pollack, *Unconstitutional Incontestability? The Intersection of the Intellectual Property and Commerce Clauses of the Constitution: Beyond a Critique of Shake-speare v. Silstar Co.*, 18 SEATTLE U. L. REV. 259, 265 (1995).

14. *Vornado*, 58 F.3d at 1503.

15. *See infra* note 32.

B. Case Law Background

1. The *Sears-Compco* Decisions

The idea that the federal patent system prevents other laws from protecting an invention originates from *Sears, Roebuck & Co. v. Stiffel Co.*¹⁶ and *Compco Corp. v. Day-Brite Lighting, Inc.*¹⁷ Because these decisions were consistent and announced on the same day, they have become known as the *Sears-Compco* decisions. The *Sears-Compco* decisions prohibit states from enacting laws protecting objects if such protection is inconsistent with the objectives of federal patent laws.¹⁸

The dispute in *Sears* began when Sears copied a pole lamp design for which Stiffel had obtained both design and utility patents.¹⁹ Stiffel sued Sears for patent infringement and unfair competition, claiming that Sears had caused confusion in the market about the source of Sears's lamps.²⁰ The Supreme Court found the lamp unpatentable and held that federal patent law preempted Illinois unfair competition laws.²¹ The Court explained that "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."²² This reasoning led to a similar result in *Compco*.²³

2. Cases Following the *Sears-Compco* Decisions

Over two decades later, the Supreme Court returned to this issue in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*²⁴ Bonito sued Thunder Craft under a Florida statute prohibiting "direct molding," a simple and inexpensive way of duplicating boat hulls.²⁵ The Supreme Court held that the Florida law "substantially impede[d] the public use of the otherwise unprotected design and

16. 376 U.S. 225 (1964).

17. 376 U.S. 234 (1964).

18. *Sears*, 376 U.S. at 231. The Supreme Court subsequently explained the *Sears-Compco* decisions as follows:

[I]deas once placed before the public without the protection of a valid patent are subject to appropriation without significant restraint.

At the heart of *Sears* and *Compco* [sic] is the conclusion that the efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions.

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 156 (1989) (citations omitted).

19. *Sears*, 376 U.S. at 225-26.

20. *Id.* at 226.

21. *Id.* at 231-33. The Court stated, "When [a] patent expires, the monopoly created by it expires, too, and the right to make the article—including the right to make it in precisely the shape it carried when patented—passes to the public." *Id.* at 230.

22. *Id.* at 231.

23. *Compco*, 376 U.S. at 238. *Compco* also involved a lamp design protected by a state unfair competition law that conflicted with federal patent laws. *Id.* at 234. Day-Brite sued *Compco* for unfair competition for copying the design of its lighting fixtures. *Id.* at 235. The district court held the design of the lighting fixtures manufactured by Day-Brite unpatentable. *Id.* As in *Sears*, the Supreme Court held that federal patent law preempted state unfair competition laws protecting the lighting fixture. *Id.* at 238.

24. 489 U.S. 141 (1989).

25. *Bonito Boats*, 489 U.S. at 144-45. Bonito Boats did not have a patent for the boat hull design in question. *Id.* at 144.

utilitarian ideas embodied in unpatented boat hulls," and therefore federal patent law preempted the Florida statute.²⁶

The Third Circuit, however, in *Sylvania Electric Products v. Dura Electric Lamp Co.*, recognized a situation where trademark protections survive against federal patent law.²⁷ *Sylvania* sued *Dura* for copying *Sylvania*'s registered "blue dot" flash bulb system.²⁸ Applying the general rule that trademark protection does not extend to functional articles,²⁹ the *Sylvania* court held that it may extend to a feature of a patentable article as long as the portion protected by the trademark adds no functional use or value.³⁰ *Sylvania*'s claim ultimately failed because the blue dot flash bulb system itself was functional.³¹

Other courts and commentators have recognized the necessity of this functionality exception to trademark protection.³² As the next section discusses, however, the Tenth Circuit departed from this trend and distanced itself from the functionality requirement.

C. *Vornado Air Circulation Systems v. Duracraft Corp.*:³³

The Tenth Circuit's Rejection of the Functionality Defense

In *Vornado*, the Tenth Circuit confronted competing policies. *Vornado* alleged a classic claim of trade dress infringement, but the claim also involved an object in the public domain.³⁴ On February 22, 1994, the Patent Office issued a utility patent to *Vornado*'s founders for a ducted fan manufactured

26. *Id.* at 157, 168. The Court also referred to the "balance struck by Congress in our patent laws" between protection and public domain, and noted that "state regulation of intellectual property must yield" to that balance. *Id.* at 152. As a matter of law, once a patent has expired, the public is free to use the subject matter of the expired patent. *Id.*

In dicta, the Court recognized that "the common-law tort of unfair competition has been limited to protection against copying of nonfunctional aspects of consumer products which have acquired secondary meaning such that they operate as a designation of source." *Id.* at 158. It is this nonfunctional requirement that supposedly prevents friction between the Lanham Act and federal patent law. See *W.T. Rogers Co. v. Keene*, 778 F.2d 334, 337-38 (7th Cir. 1985) (recognizing a nonfunctionality defense).

27. 247 F.2d 730 (3d Cir. 1957).

28. *Sylvania*, 247 F.2d at 731. The blue dot indicated when the bulb was spent. *Id.*

29. *Id.* at 732; see RESTATEMENT OF TORTS § 715 (1938) (stating that "[a] trade-mark is any mark, word, letter, number, design, picture, or combination thereof in any form or arrangement, which . . . (c) is not . . . a designation descriptive of goods or of their quality, ingredients, properties or functions").

30. *Sylvania*, 247 F.2d at 734 n.1.

31. *Id.* at 734. The court stated that "[t]he purpose of this rule is obviously to prevent the grant of perpetual monopoly by the issuance of a trade-mark in the situation where a patent has either expired, or for one reason or another, cannot be granted." *Id.* at 732.

32. For example, in *W.T. Rogers Co.*, the Seventh Circuit stated that when dealing with a claim for trademark/trade dress infringement, "provided that a defense of functionality is recognized, there is no conflict with federal patent law." *W.T. Rogers Co.*, 778 F.2d at 337. The court recognized that the functionality defense only exists to "head off a collision between section 43(a) and patent law." *Id.* at 338. Commentators have embraced the idea that the functionality defense keeps the Lanham Act and patent laws in separate corners. One commentator stated that the purpose behind the doctrine of functionality is "to exclude from trademark protection subject matter properly covered by utility patents." Jay Dratler Jr., *Trademark Protection for Industrial Designs*, 1988 U. ILL. L. REV. 887, 928.

33. 58 F.3d 1498 (10th Cir. 1995).

34. *Vornado*, 58 F.3d at 1500.

with a spiral grill.³⁵ Although patent protection did not extend to the grill itself because it was already in the public domain,³⁶ Vornado was able to patent the entire configuration because of the fan,³⁷ and in the original patent request asserted that the spiral grill increased air flow and enhanced the fan's safety.³⁸ Vornado's own tests, however, had revealed that fans adorned with commonly shaped grills worked as well as Vornado fans.³⁹ Thus, according to Vornado, the spiral design served no useful function other than pure aesthetic enhancement.⁴⁰ From November 1988 until August 1990, Vornado was the only company selling fans with a spiral grill.⁴¹ Thus, according to the district court, consumers associated the grill design solely with Vornado fans.⁴²

In August 1990, Duracraft began selling the DT-7 "Turbo Fan."⁴³ The DT-7 "Turbo Fan" was an inexpensive house fan with a spiral grill designed specifically to avoid infringing upon Vornado's patent while replicating the appearance of Vornado's spiral grill.⁴⁴ Vornado sued Duracraft, alleging that Duracraft infringed upon Vornado's trade dress.⁴⁵ The district court found that the spiral grill design was nonfunctional and inherently distinctive and that "consumers were likely to be confused by Duracraft's use of a similar grill."⁴⁶

35. *Id.* Vornado's founders acquired their first patent on May 22, 1990, and subsequently applied for a reissue patent which was granted on February 20, 1994. *Id.*

36. *Id.* The spiral grill was in the public domain because it was part of earlier expired patent. *Id.* The grill was known as the AirTensity Grill. James W. Dabney, *Trademarks, Unfair Competition, and Copyrights: Recent Developments and Other Selected Issues*, C962 ALI-ABA 179, 201 (1994).

37. *Vornado*, 58 F.3d at 1500.

38. Dabney, *supra* note 36, at 200, 202. Specifically, the 1990 patent claimed that the grill design was superior to a conventional grill in that it absorbed impact shock better, provided higher air flow at a normal power usage, and focused output where the vents were spaced at their maximum. *Id.* Vornado also advertised that the AirTensity Grill served a functional purpose. Examples of advertisements included claims that the AirTensity grill: "actually amplifies the vortex for better, more efficient operation," *id.*; "is specifically designed to amplify and enhance the naturally occurring vortex created by the propeller"; and "[it] accomplishes a high degree of safety and functionality." *Id.* at 202-04.

39. *Vornado*, 58 F.3d at 1500. In fact, according to Vornado's expert, alternative grill designs produced better results. Dabney, *supra* note 36, at 259. An in-court comparison of Vornado fans with different grills illustrated little or no difference in the velocity or effect of the air flow when using a spiral grill rather than a straight radial grill. *Id.* at 261. The district court found that any difference in performance between fans using spiral grills and fans using normal radial grills was minimal at best and that there was no "practical difference in the performance between such grills." *Id.* at 264.

40. *Vornado*, 58 F.3d at 1501. Vornado argued that the spiral shape was chosen mainly to associate the fan with the name "Vornado," a combination of "vortex" and "tornado." Dabney, *supra* note 36, at 248.

41. *Vornado*, 58 F.3d at 1500. Vornado began selling its fans in November 1988. *Id.* Apparently, no other competitors offered fans with spiral grills. *Id.*

42. *See id.* at 1502 n.7 (noting that the district court found "an association between the grill design and [the] Vornado [name]").

43. *Id.* at 1500.

44. *Id.* at 1500-01. The President/CEO of Duracraft had decided "'to borrow some ideas from' the Vornado," and the result was the DT-7 "Turbo Fan." Dabney, *supra* note 36, at 254.

45. *Vornado*, 58 F.3d at 1501.

46. *Id.* at 1501-02. Vornado introduced evidence of a consumer who had bought both a Vornado fan and a Duracraft DT-7 "Turbo Fan" and believed that the same company manufactured both fans due to similarities in fan design. Dabney, *supra* note 36, at 264-65. Other witnesses associated with retailers who sell Vornado fans testified that they had confused DT-7 "Turbo

The Tenth Circuit admitted that it was reasonable "to assume that a nonfunctionality requirement would eliminate any possible conflicts between the Lanham Act and the Patent Act."⁴⁷ Relying on *Bonito Boats*, however, the Tenth Circuit reversed the district court, stating that the Supreme Court had previously determined that once a product feature enters the public domain, competitors may copy and use the product feature.⁴⁸ Therefore, the Supreme Court's precedent mandated that when unfair competition laws protecting a product shape from copying clashes with the right to copy under federal patent law, "the right to copy must prevail."⁴⁹

Because of the conflict between the Lanham's Act trade dress protection and the right to copy under federal patent law, both statutes cannot simultaneously apply. Therefore, the Tenth Circuit looked to the "fundamental purposes" of each statute to determine which statute prevailed.⁵⁰ The court stated that federal patent law's objective was to pass on technological progress to the public.⁵¹ The Tenth Circuit also concluded that protecting against consumer confusion associated with copying a product configuration is not a primary emphasis of section 43(a) of the Lanham Act.⁵² Therefore, in resolving the conflict between federal patent laws and federal trademark protections, the Tenth Circuit favored "core patent principles."⁵³ The court held that

where a disputed product configuration is part of a claim in a utility patent, and the configuration is a described, significant inventive aspect of the invention . . . so that without it the invention could not fairly be said to be the same invention, patent law prevents its protection as trade dress, even if the configuration is nonfunctional.⁵⁴

D. Other Circuits

The Court of Patent Appeals faced a factually similar situation in *In re Shakespeare Co.*,⁵⁵ also finding in favor of the federal right to copy expired patents.⁵⁶ The appellant in *Shakespeare* manufactured fishing rods using a patented process.⁵⁷ A natural result of the unique manufacturing process was a spiral design embedded in the rod.⁵⁸ After the public began associating the spiral mark with Shakespeare's rods, the company attempted to register the

Fans" with Vornado fans. *Id.* at 265. Also, a store employee who sells Vornado fans testified that upon seeing the DT-7 "Turbo Fan," he knew that the fan was "a 'copycat' or [a] 'knockoff' of a Vornado [fan]." *Id.*

47. *Vornado*, 58 F.3d at 1506.

48. *Id.* at 1503.

49. *Id.* at 1504.

50. *Id.* at 1507.

51. *Id.* at 1508.

52. *Id.* at 1509.

53. *Id.*

54. *Id.* at 1510.

55. 289 F.2d 506 (C.C.P.A. 1961).

56. *Shakespeare*, 289 F.2d at 508.

57. *Id.* at 507.

58. *Id.*

spiral mark.⁵⁹ The court denied Shakespeare's request because the patented process would eventually pass into the public domain.⁶⁰ The court believed that the spiral design was nonfunctional.⁶¹ Despite this belief, the court denied Shakespeare trade dress protection because such protection violated the right to copy under federal patent law.⁶²

In contrast, the Ninth Circuit applied the Third Circuit's functionality distinction when addressing a similar situation in *Clamp Manufacturing v. Enco Manufacturing*.⁶³ Clamp Manufacturing (Clamp) manufactured and distributed the Kant-twist c-clamp under an expired patent.⁶⁴ When Enco began selling an identical c-clamp, litigation ensued and the district court held that Enco infringed upon Clamp's configuration.⁶⁵ After examining the meaning of functionality in detail,⁶⁶ the Ninth Circuit upheld the district court's ruling. The Ninth Circuit held that although the Kant-twist clamp was the subject matter of an expired utility patent, the Kant-twist clamp's configuration was nonfunctional.⁶⁷

E. Analysis

The Tenth Circuit in *Vornado* ignored the fact that the spiral design failed to improve the performance of Vornado's fans. Vornado argued, and the district court found, that the spiral design is neither functional nor necessary for competition since the Vornado fan worked equally well with other grill designs.⁶⁸ The only reason to copy the spiral grill design, therefore, was aesthetic enhancement. Despite Vornado's argument, the Tenth Circuit concluded that preventing others from copying features of a product with an expired patent

59. *Id.*

60. *Id.* at 508. If competitors could not make rods with the unique spiral markings, competitors would be unable to practice the patented process upon the patent's expiration. Thus, allowing trademark protection would grant the appellants a perpetual monopoly on the process or require competitors to incur the expense of grinding off the spiral mark from their rods. Either way, allowing protection hinders competition. *Id.*

61. *Id.*

62. *Id.*

63. 870 F.2d 512 (9th Cir.), *cert. denied*, 439 U.S. 901 (1989).

64. *Clamp*, 870 F.2d at 513 & n.1.

65. *Id.* at 514. The district court found "that the Kant-twist clamps were distinctive, primarily nonfunctional, arbitrary, and that commercially feasible alternative configurations existed." *Id.* at 516.

66. *See id.* at 515-17. The *Clamp* court quoted from an earlier Ninth Circuit decision: "Functional features of a product are features 'which constitute the actual benefit that the consumer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product.'" *Id.* at 516 (quoting *Vuitton Et Fils S.A. v. J. Young Enters.*, 644 F.2d 769, 772 (9th Cir. 1981)). The court looked at several factors in analyzing functionality, including: [T]he existence of an expired utility patent disclosing the utilitarian advantage of the design sought to be protected as a trademark; the extent of advertising touting the utilitarian advantages of the design; the availability of alternative designs; and whether a particular design results from a comparatively simple or cheap method of manufacture.

Id.

67. *Id.* at 516-17. Necessary to the court's decision was the fact that the "C" design of the clamp added nothing to the utility of the clamp and that other designs were available. *Id.* at 516.

68. *Vornado*, 58 F.3d at 1501.

seriously conflicts with the patent system's core objectives, "even when those features are not necessary to [sic] competition."⁶⁹

Both *Vornado* and *Shakespeare* enable competitors to legally produce similar, but inferior, products. Under these decisions, competitors can legally manufacture an inferior fishing rod affixed with a spiral design or produce a poor-quality fan adorned with a spiral grill.⁷⁰ In *Shakespeare*, however, practicing the patent necessarily resulted in the appearance of a spiral marking on the rod.⁷¹ Competitors practicing the *Vornado* patent, on the other hand, could easily achieve the *Vornado*'s functionality without including the spiral grill because the grill failed to enhance the fan's functionality. A competitor's ability to practice the useful aspects of an expired patent is certainly important. If, however, the overall appearance of a patented invention has become associated with a particular company, and practicing the patent does not dictate a particular appearance for the resulting product, the invention's appearance should be entitled to trade dress protection.

The Tenth Circuit considered important the fact that the spiral grill constituted part of an expired patent.⁷² The court, however, should not have ignored *Vornado*'s tests demonstrating that the spiral design failed to improve the fan's performance. If accurate, the tests show that the spiral design is not necessary to foster competition. Competitors simply employ the spiral design to enhance sales by confusing potential *Vornado* fan consumers. Benefits certainly result from allowing subsequent inventors to build upon the genius and practical experience of expired patent holders. These benefits, however, should not preempt Lanham Act protection for the general appearance of a patented invention if the appearance is not a necessary aspect of the patent's utility.⁷³

69. *Id.* at 1508.

70. *Vornado* fans actually function differently from ordinary house fans. *Vornado* fans shoot a beam of air into a wall at such a high speed that streams of air begin circulating around the room. Susan Caba, *From Futuristic to Vintage, Fans Today are so Cool, They're Hot*, ARIZ. REPUBLIC, Aug. 6, 1994, at AH6. By putting a spiral grill on their fans similar to *Vornado*'s, Duracraft can mislead the public into believing that their fan operates the same as a *Vornado* fan.

On the other hand, Duracraft attorneys have called the decision "a great victory for consumers" since *Vornado* will not be able to hold a perpetual monopoly on patented subject matter. Roz Hutchinson, *Vornado Loses Appeals Ruling on Trademark*, WICHITA BUS. J., July 21, 1995, § 1, at 1.

71. *Shakespeare*, 289 F.2d at 507.

72. *Vornado*, 58 F.3d at 1500.

73. Although the Tenth Circuit's decision seems contrary to what the functionality doctrine directs, some support exists for the *Vornado* decision in past Supreme Court cases. In *Bonito Boats*, the Supreme Court conceded that "all state regulation of potentially patentable but unpatented subject matter is not ipso facto preempted by the federal patent laws." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989). By analogy, the same would be true for Lanham Act protection since the Lanham Act is simply the federal government's version of an unfair competition law. *Id.*

However, the Supreme Court also stated that "the heart of *Sears and Compco* [sic] is the conclusion that the efficient operation of the federal patent system depends upon substantially free trade in publicly known, unpatented design and utilitarian conceptions." *Id.* at 156. Further, the Supreme Court has recognized that "the ultimate goal of public disclosure and use [of once-patented inventions] is the centerpiece of federal patent policy." *Id.* at 157.

II. LICENSING RIGHTS TO A TRADE NAME

A. *Background*

Trademark law permits trademark owners to issue licenses for the use of registered trademarks.⁷⁴ The trademark owner, however, must ensure that the licensee maintains the quality of goods bearing the trademark.⁷⁵ Failure to ensure quality control results in a "naked" license.⁷⁶ A naked license may justify a court's finding that the trademark owner has abandoned the trademark.⁷⁷ Once abandonment occurs, the trademark owner may not assert rights to the trademark.⁷⁸

The belief that naked licensing is "inherently deceptive" underlies the quality control requirement.⁷⁹ The quality control requirement protects the public from being misled.⁸⁰ The Second Circuit decided one of the principal naked licensing cases in 1959.⁸¹

In *Dawn Donut Co. v. Hart's Food Stores*,⁸² the plaintiff brought an action to enjoin the defendant, Hart's Food, from using the name "Dawn" in connection with its donut sales.⁸³ As part of its defense, Hart's Foods claimed Dawn had failed to exercise adequate control over the quality of donuts sold by Dawn's licensees and thus had abandoned the mark.⁸⁴ The Second Circuit noted that failing to include quality control requirements in licensing agreements results in the production and sale of goods with varying qualities

74. *Moore Business Forms v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992).

75. *Id.* The Lanham Act allows companies related to the owner of a trademark to use the owner's mark so long as the use of the mark does not deceive the public. 15 U.S.C. § 1055 (1994). The Lanham Act defines "related company" as "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used." *Id.* § 1127. To ensure that the use does not deceive the public, the owner of the trademark must control the nature and quality of goods bearing the mark. *Id.* § 1055.

76. *Moore*, 960 F.2d at 489.

77. *Id.*

78. *Id.* Abandonment precludes the licensor from bringing any complaints concerning infringement of the mark. *AmCan Enters. v. Renzi*, 32 F.3d 233, 235 (7th Cir. 1994).

79. *First Interstate Bancorp v. Stenquist*, 16 U.S.P.Q.2d 1704, 1706 (N.D. Cal. 1990). Quality control ensures that the "trademark is not used to deceive the public as to the quality of the goods or services bearing the name." *Oberlin v. Marlin Am. Corp.*, 596 F.2d 1322, 1327 (7th Cir. 1979).

80. *Haymaker Sports, Inc. v. Turian*, 581 F.2d 257, 261 (C.C.P.A. 1978). Commentator Frank I. Schechter remarked that "the trade-mark is not merely the symbol of good-will but often the most effective agent for the creation of good-will, imprinting upon the public mind an anonymous and impersonal guaranty of satisfaction, creating a desire for further satisfactions." Kevin Parks, "Naked" Is Not a Four-letter Word: Debunking the Myth of the "Quality Control Requirement" in *Trademark Licensing*, 82 TRADEMARK REP. 531, 532 (1992). Furthermore, the trademark has become an assurance of quality. *Id.* Failing to maintain the quality of products bearing a licensed trademark defrauds the public since the public is relying on the trademark name as guarantee of quality. *Id.* at 533.

81. *See Dawn Donut Co. v. Hart's Food Stores*, 267 F.2d 358 (2d Cir. 1959) (discussing whether the Lanham Act protects the "Dawn" trademark).

82. 267 F.2d 358 (2d Cir. 1959).

83. *Dawn*, 267 F.2d at 360. Hart's Food Stores sold baked goods in their grocery stores with the word "Dawn" imprinted on the packages. *Id.* at 361. Dawn sold doughnut mix to bakeries and allowed those bakers to sell the doughnuts under its name. *Id.*

84. *Id.* at 366.

bearing the same trademark.⁸⁵ The Second Circuit determined that the correct inquiry asks "whether the [licensor] sufficiently policed and inspected its licensees' operations to guarantee the quality of the products they sold under its trademarks to the public."⁸⁶ Although no one disputes the necessity of quality control, no bright-line rule exists explaining what constitutes an "adequate" level of quality control.⁸⁷

Courts determine the adequacy of control on a case-by-case basis.⁸⁸ One commentator divided the types of quality control into six categories: (1) actual control by the licensor;⁸⁹ (2) a mere contractual right to control; (3) control by an agent of the licensor; (4) control by a third party;⁹⁰ (5) reasonable reliance on the licensee to control itself; and (6) control by stock ownership.⁹¹

B. *Stanfield v. Osborne Industries*:⁹²

The Tenth Circuit's Adoption of the "Naked" License Rule

Stanfield, a developer of agricultural products, agreed to allow Osborne Industries, Inc. (OII) to manufacture certain agricultural products for royalties.⁹³ Additionally, Stanfield began working for OII.⁹⁴ Pursuant to a subsequent agreement, Stanfield allowed OII to use "Stanfield" as a trademark for fifteen years in exchange for \$75.00.⁹⁵ Eventually the relationship between Stanfield and OII soured.⁹⁶ Stanfield quit his job at OII, and the contract

85. *Id.* at 367. The court reasoned that because the primary goal of the Lanham Act is to protect against confusion, and the public cannot adequately protect itself against deceptive use of a trademark, a licensor must take steps to ensure that others do not misuse the trademark. *Id.*

86. *Id.* The Second Circuit found no error in the district court's finding that Dawn had exercised adequate control and supervision. *Id.* at 367-68.

87. The licensor does not need to be involved in the day-to-day operations of the licensee to ensure quality control. *Oberlin*, 596 F.2d at 1327.

88. Parks, *supra* note 80, at 540.

89. William M. Borchard & Richard M. Osman, *Trademark Sublicensing and Quality Control*, 70 TRADEMARK REP. 99, 100-04 (1980).

90. *Id.* at 105. Granting a license to use the trademark on pharmaceutical products falls within this category. *Id.* Since the FDA regulates the quality of pharmaceuticals, the licensor may rely on the FDA's regulation of quality control. *Id.*

91. *Id.* at 106-07.

92. 52 F.3d 867 (10th Cir.), *cert. denied*, 116 S. Ct. 314 (1995). It is not surprising that the Tenth Circuit recognized the requirement of quality control. Presumably everyone accepts the quality control requirement without controversy. Parks, *supra* note 80, at 534-35.

93. *Stanfield*, 52 F.3d at 869.

94. *Id.*

95. *Id.* The pertinent language of the license follows:

WHEREAS, Second Party [OII] desires to use the name "Stanfield" on all or part of the products manufactured by Second Party whether or not the same be invented by First Party, as a distinctive mark on said products in conjunction with the name of said products, and

WHEREAS, Second Party [OII] desires to use the name "Stanfield" as a distinctive mark on all or part of its products manufactured, at its discretion for a period of Fifteen (15) years from the date of this agreement and that said design of the distinctive mark bearing the name "Stanfield" shall be at the sole discretion of said party of the Second Part [OII] as to the design of the same

Id.

96. *Id.* at 870.

between OII and Stanfield expired.⁹⁷ OII registered "Stanfield" as its trademark.⁹⁸ In September 1991 Stanfield requested that OII discontinue using "Stanfield" as a trademark.⁹⁹ OII continued using the "Stanfield" name and Stanfield initiated suit against OII.¹⁰⁰ Stanfield alleged that OII's use of the "Stanfield" name violated 15 U.S.C. § 1125, which prohibits false representations about the quality of goods and false designation of product origin. Stanfield also alleged that OII fraudulently procured the mark, and that OII was liable under various state laws.¹⁰¹ The district court entered summary judgment in favor of OII.¹⁰²

The Tenth Circuit held that the July 1975 agreement granted OII a naked license.¹⁰³ Pursuant to the agreement, Stanfield had allowed OII "to use the mark on any quality or type of good [OII] chooses."¹⁰⁴ The court concluded that under the agreement, Stanfield failed to exercise control over the quality of goods produced by OII bearing the "Stanfield" name. Hence, Stanfield abandoned any rights to the trademark by granting OII a naked license to the trademark.¹⁰⁵

The Tenth Circuit also addressed Stanfield's claim that even if he had not expressly controlled quality through the agreement, he had reasonably relied on OII to maintain quality.¹⁰⁶ The court rejected this argument, stating that Stanfield and OII did not have the "special relationship" required for reliance to substitute for quality control.¹⁰⁷ The continued litigation between Stanfield and OII and the acrimonious nature of the parties' relationship persuaded the court that such a relationship did not exist.¹⁰⁸

C. Other Circuits

Every circuit addressing this issue has recognized the naked license theory, under which the holder of a trademark can lose trademark rights through non-use or abandonment.¹⁰⁹ However, some cases indicate that a licensor does not automatically abandon a trademark by failing to personally maintain

97. *Id.*

98. *Id.*

99. *Id.* at 869-70.

100. *Id.* at 870.

101. *Id.* Because the district court did not exercise jurisdiction over the state law claims, the Tenth Circuit did not address them. *Id.*

102. *Id.* at 868.

103. *Id.* at 871.

104. *Id.*

105. *Id.* at 871-72. It is irrelevant that the license was for a fixed term of years, since the right that Stanfield must retain is the right to control the quality of the products that bear the name "Stanfield." *Id.*

106. *Id.* at 872.

107. *Id.* The court cited, as examples of cases in which a "special relationship" existed, *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991) and *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co.*, 330 F.2d 667 (7th Cir. 1964). *Id.*

108. *Stanfield*, 52 F.3d at 873.

109. *E.g.*, *Taco Cabana*, 932 F.2d at 1121; *Tally-Ho, Inc. v. Coast Community College Dist.*, 889 F.2d 1018, 1022-23 (11th Cir. 1989); *Kulack v. The Pearl Jack*, 178 F.2d 154, 156 (6th Cir. 1949).

quality control. These cases involve a licensor who reasonably relies on the licensee's control of quality.

In *Taco Cabana International, Inc. v. Two Pesos, Inc.*,¹¹⁰ the Fifth Circuit held that a lack of certified quality control did not result in abandonment.¹¹¹ Two brothers operated several Taco Cabana Mexican restaurants.¹¹² The brothers later split the business, one retaining the Taco Cabana name and the other using the name "TaCasita."¹¹³ Despite the split, the brothers agreed to share the Taco Cabana trade dress.¹¹⁴ The Fifth Circuit held that the brothers did not abandon the Taco Cabana trade dress because the brothers had engaged in a close working relationship and could rely on each other's working relationship to maintain quality control.¹¹⁵

Similarly, in *Land O'Lakes Creameries v. Oconomowoc Canning*,¹¹⁶ the Seventh Circuit recognized a set of circumstances in which a licensee could rely on the licensor to exercise quality control. In *Land O'Lakes*, the defendant agreed to allow a licensee to use the trade name "Land O'Lakes" on canned goods.¹¹⁷ The licensee used the name for forty years.¹¹⁸ The court held that the agreement was "more than a naked license" and did not constitute an abandonment of the mark because there had been no complaints about the quality of goods over this forty year time period.¹¹⁹ The court affirmed the lower court's decision that the "defendant's reliance on the Licensee's control over the quality of products constituted sufficient supervision to protect the quality of the goods bearing the trade-mark."¹²⁰

D. Analysis

In *Stanfield*, the Tenth Circuit adopted the majority rule that granting a license to use a trade name without maintaining quality control results in a trademark's abandonment. *Stanfield* clearly granted a license without maintaining quality control, as the license agreement did not provide for quality control and *Stanfield* did not exercise actual quality control.

The Tenth Circuit gave little credit to the fact that *Stanfield* had once worked for OII and was reasonably aware of the quality of OII's goods. Likewise, the fact that no litigation ensued over the quality of goods bearing the "Stanfield" trademark did not persuade the court. The Tenth Circuit emphasized that the parties must have a "special relationship" before a licensor may

110. 932 F.2d 113 (5th Cir. 1991), *aff'd on other grounds*, 505 U.S. 763 (1992).

111. *Taco Cabana*, 932 F.2d at 1121-22.

112. *Id.* at 1117.

113. *Id.*

114. *Id.*

115. *Id.* at 1121-22.

116. 330 F.2d 667 (7th Cir. 1964).

117. *Land O'Lakes*, 330 F.2d at 669.

118. *Id.* at 670.

119. *Id.* The district court also based its decision on the following factors: (1) that the licensee exercised adequate quality control; (2) that the licensor was familiar with the quality of products produced by the licensee; and (3) that the licensee's distributor received all quality related complaints. Borchard & Osman, *supra* note 89, at 106.

120. *Land O'Lakes*, 330 F.2d at 670.

rely on the licensee to maintain quality control. But the court failed to describe the circumstances under which such a relationship might exist. Thus, the circumstances in which reliance on a licensee can substitute for a licensor's obligation to maintain quality control remains an open question.

CONCLUSION

The importance of *Vornado* and *Stanfield* goes beyond the fact that both are cases of first impression in the Tenth Circuit. Attorneys practicing in the intellectual property area should be aware that the Lanham Act may not protect an invention with a completely nonfunctional and unique appearance, even if the invention is "a described, significant inventive aspect of [an] invention."¹²¹ *Stanfield* gave the Tenth Circuit the opportunity to address the importance of maintaining quality control when licensing a trade name, and providing an example of when a licensor cannot rely on a licensee to maintain quality control. Perhaps the best lesson to be learned from *Stanfield* is that prospective licensors should seek representation prior to entering into an agreement.

Timothy W. Gordon

121. *Vornado*, 58 F.3d at 1510.

