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Thomas W. Steed Jr.

John V. Hunter III

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TRADE-MARK ASSIGNMENTS AND RESTRAINTS OF TRADE: THE MAOLA ICE CREAM CASE

THOMAS W. STEED, JR.* AND JOHN V. HUNTER, III†

I. ASSIGNMENT OF TRADE-MARKS

The Maola Case

The problems involved in determining the extent of assignability of trade-marks led one observer to remark forty years ago that "in trade-mark matters the place where the most numerous and the most costly mistakes are most frequently made is in the matter of transfers." While much of the confusion and uncertainty in this segment of trade-mark law has been eliminated through the years by the gradual convergence of the legal and commercial concepts of trade-mark rights and functions, many questions are yet unsettled. No better evidence of this fact can be presented than the results of an assignment in the case of *Maola Ice Cream Company of North Carolina v. Maola Milk and Ice Cream Company.†* 3

The factual situation in the Maola case is simple. The plaintiff, an ice cream manufacturer, sold and distributed his product under the trade-mark "Maola" from two plants in North Carolina—one in Washington and the other in New Bern. During the time that the two plants were operated by the plaintiff there was a well defined division of territory between them so that distribution and sales of ice cream from one plant would not overlap that of the other. In 1935 the New Bern plant was sold to the defendant and with it was assigned the right to use the trade-mark "Maola" but only in the territory theretofore served by the New Bern plant. For a period of eighteen years the territorial division was observed by both parties except for rare encroachments at the border line. In March of 1953, however, the defendant purchased a dairy within the plaintiff's territory and began selling ice cream products under the trade-mark "Maola" in competition with the plaintiff's "Maola" products.

*Former Editor-in-Chief, THE NORTH CAROLINA LAW REVIEW.
†Associate Editor, THE NORTH CAROLINA LAW REVIEW.
‡ROGERS, GOODWILL, TRADE-MARKS AND UNFAIR TRADING 108 (1914).
§As used hereafter in this paper the word "trade-marks" shall include both technical trade-marks and trade names. There appears to be no reason for drawing a distinction for the purposes of assignability. Cf., however, Note, 28 COL. L. REV. 353 (1928).
The North Carolina Supreme Court sustained a demurrer ore tenus to the plaintiff's complaint of unfair competition and vacated a restraining order granted by the trial judge.

The court apparently did not question the validity of the trade-mark assignment, but it did decide that the restriction on the defendant's use of the mark "Maola" was invalid and unenforceable for three reasons: (1) the agreement was a limitation upon the rights of the defendant to do business anywhere in North Carolina within the meaning of G. S. § 75-4, which requires such agreements to be in writing and signed by the restricted party;⁴ (2) the agreement was a division of territory for the purpose of shutting off competition by preventing the defendant from engaging in the ice cream business under the trade-mark "Maola" outside of the restricted territory;⁵ (3) the agreement, even if not viewed as a division of territory, was a contract in partial restraint of trade greater in scope than was reasonable for the protection of the plaintiff.⁶

The agreement between plaintiff and defendant split a trade-mark on a single line of products between two independent firms for continued use by each firm on these same products. By invalidating the territorial restrictions the court allows the concurrent use of the identical trade-mark in the same market area. In fact the court declared by way of dictum that if there had been no provision in the contract regarding territory "it would seem that the defendant had a legal right to buy a dairy in Williamston and distribute and sell its products there under the trade-mark ‘Maola' in rivalry with the plaintiff without being guilty of unfair competition."⁷

⁴ N. C. Gen. Stat. § 75-4 (1950) : "No contract or agreement hereafter made limiting the rights of any person to do business anywhere in the State of North Carolina shall be enforceable unless such agreement is in writing duly signed by the party not to enter into such business within such territory. . . ." The applicability of this statute to the facts in the Maola case may be seriously questioned. For all that appears the defendant is free to enter the ice cream business anywhere in North Carolina under any other trade-mark.

⁵ The court relied on Culp v. Love, 127 N. C. 475, 37 S. E. 476 (1900); Shute v. Shute, 176 N. C. 462, 97 S. E. 392 (1918); Hill v. Davenport, 195 N. C. 271, 141 S. E. 752 (1928), all of which involve covenants not to compete made by vendors of businesses and good will.

⁶ Included among the authorities cited for this holding are Comfort Spring Corp. v. Burrough, 217 N. C. 658, 9 S. E. 2d 473 (1940); Sonotone Corp. v. Baldwin, 227 N. C. 387, 42 S. E. 2d 352 (1947); and Kadis v. Britt, 224 N. C. 154, 29 S. E. 2d 543 (1944), which are concerned with the validity of employer-employee contracts.

The court mentions the fact that there is nothing in the pleadings in Maola to show that the plaintiff ever sold ice cream in all of eastern North Carolina, perhaps implying that if the plaintiff had served the entire territory the transferred mark might have been confinable within the area for which it was assigned. Possibly a future case will reveal that this makes a difference; it is difficult to see why it should.

Assignability in General

Fettered by the outworn notion that the sole function of a trade-mark is to indicate to the consuming public the origin and source of the goods to which it is attached the courts have been slow in interpreting the law to conform with the functional development of the trade-mark in the business world. The traditional and orthodox rule is that trade-marks cannot be transferred in gross; that they can only be transferred as incidental to a transfer of the business in which they are used. If a certain trade-mark does in fact denote the origin or source of the goods the validity of the accepted rule cannot be doubted. To assign such a mark to another for use on goods emanating from a different source would obviously produce confusion and deception in the minds of the consumers. It is only by completely ignoring reality, however, that anyone can insist that such is the sole purpose of a trade-mark in the modern economy. That there would be a clash between the business man's conception of his trade-mark rights and the law's narrow conception of the same right was inevitable.11

Those advocating an overhaul of the rules governing the transfer of trade-marks have urged that a trade-mark could be a symbol of many factors combining to produce a state of mind in the public which causes them to buy certain goods, or from certain places or persons.2

8 "The primary and proper function of a trade-mark is to identify the origin or ownership of the article to which it is affixed." Hanover Star Milling Co. v. Metcalf, 240 U. S. 403 (1916); Columbia Mill Co. v. Allcorn, 150 U. S. 460 (1889); MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 Fed. 468 (8th Cir. 1901); 3 CALLMAN, UNFAIR COMPETITION AND TRADE-MARKS, 278 n. 12 (2d ed. 1950); 1 NIMS, UNFAIR COMPETITION AND TRADE-MARKS 86 n. 19 (4th ed. 1947).

9 "A trade-mark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it is used. An assignment or license without such a transfer is totally inconsistent with the theory upon which the value of a trade-mark depends and its appropriation by an individual is permitted. The essential value of a trade-mark is that it identifies to the trade the merchandise upon which it appears as of a certain origin, or as the property of a certain person. ... Disassociated from merchandise to which it properly appertains, it lacks the essential characteristics which alone give it value, and becomes a false and deceptive designation. It is not by itself such property as may be transferred." MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co., 113 Fed. 468, 474 (8th Cir. 1901). See also Crossman v. Griggs, 185 Mass. 275, 71 N. E. 560 (1904); Falk v. American West Indies Trading Co., 180 N. Y. 445, 73 N. E. 239 (1905); and cases cited in 2 CALLMAN, op. cit. supra note 8, at 1277 n. 6; 1 NIMS, op. cit. supra note 8 at 87 n. 19.


12 Ibid.; Lane, The Transfer of Trade-marks and Trade Names, 6 ILL. L. REV. 46 (1911); Grismore, The Assignment of Trade-marks and Trade Names, 30 MICH. L. REV. 489 (1932).
This state of mind is the concept conveyed by the term "good will." The factors which might engender good will are innumerable. In short, everything that increases the favor of a business with the public contributes to its good will. While origin or source of a particular product might well be the factor which creates the good will symbolized by its trade-mark there are many more instances where that factor is not significant. In fact it is probably more accurate to say that, owing to the ramifications of modern trade and the distribution of goods through jobbers, retailers and other middlemen, rarely does the consumer even know the origin of trade-marked goods.

Why then, asked many writers, should the courts insist on adhering to such a narrow conception of the purpose of a trade-mark in testing the validity of transfers? If the consuming public is not even aware of the manufacturing or commercial origin of goods would any confusion or deception be created if the goods were made by someone else or at some other place as long as whatever factors the trade-mark did symbolize to the public remained the same? In other words, a trade-mark could function as a guaranty to the consumer of the make and quality of the article he is buying. In determining the validity of a transfer, they argued, the first thing to determine is what is the function of the trade-mark in that particular case—what factors does it connote to the buying public? Then if the factors are contrary to this connotation after the transfer it is likely that the public will be deceived and the transfer should not be allowed; if the factors are the same there is no reason not to allow the transfer. The sole inquiry should be: Will the particular transfer cause the public to be deceived or confused?

To what extent this demand for a more rational viewpoint regard-
ing transfers influenced the decisions of the courts is difficult to measure since they have continued to pay at least verbal obedience to the old rules.\(^{27}\) The principle that a trade-mark is a symbol of good will has been accepted and the courts no longer require that the physical assets of a business be transferred along with a trade-mark in all cases. It is enough if the right to engage in the particular business in which the mark is used is conveyed, if some tangible indicia of the good will are transferred with it.\(^{28}\) The net result would seem to be that actually the only limitation on the assignability of trade-marks is the likelihood of deception despite what the courts say, since the requirement that good will which has been built around the mark must be transferred is only another way of saying that the significance of the mark in the mind of the customer must remain the same after the transfer.\(^{19}\)

**Partial Transfers**

With this summary of the development of trade-mark transfer, it is necessary to revert to those cases which deal more specifically with partial transfers. Earlier interpretations of the law would not allow a transfer if the transferor continued to manufacture articles identical with those on which the assigned mark was used, even if the transferor used a different mark. Thus in the case of *Independent Baking Powder v. Boorman*\(^{20}\) a baking powder manufacturer using five trade-marks assigned one of them and continued to make and sell baking powder under the other marks. The court held the assignment to be ineffective:

"[N]either the good will of a business, nor the business itself, can be thus split up. I am persuaded that the use of decimal fractions will not be adopted for the purpose of determining just how much or how little of the good will of a business, or of the business itself, must be transferred with a trade-mark, in order that its assignment should be valid. * * * [T]he assignor cannot, after the assignment, continue the same identical business and at the same place as before, under unassigned trade-marks, and at the same time authorize his assignee to conduct the same business elsewhere under an assigned trade-mark."\(^{21}\)

\(^{27}\) See Notes, 43 Harv. L. Rev. 636 (1930); 24 Va. L. Rev. 440 (1938).


\(^{17}\) See Grismore, *The Assignment of Trade-Marks and Trade Names*, 30 Minn. L. Rev. 489, 498 (1932) where this proposition is convincingly demonstrated by an analysis of cases. See also Note, 88 U. or Pa. L. Rev. 863 (1940).


\(^{21}\) Id. at 453.
The court in the *Baking Powder* case relied on the earlier decision in *Eiseman v. Schiffer* where the factual situation was similar except that the assignor had used only one trade-mark, and after assigning this together with the good will of the business, continued to manufacture the same product under a new trade-mark. The attempted assignment was void according to the court, since the special business in which the mark was used was not transferred but remained with the assignor.

The development of the law in this particular situation is evidenced by Section 10 of the Lanham Act, which does not require that the good will of an entire business be assigned with a mark but permits the transfer of only so much of the good will as is connected with the use of the mark. Likewise, several states now have similar provisions on assignment in their trade-mark statutes. Such a provision necessarily implies that a trade-mark indicates more than the origin of goods.

Thus the law will sanction at least one type of partial transfer; for example, Phillip Morris & Co. could assign its "Marlboro" trade-mark, together with the part of its good will in the cigarette business symbolized by that mark, and continue to make and sell "Phillip Morris" cigarettes.

Another type of partial transfer might occur where different goods...
of the same class are sold under one trade-mark and the right to use the mark on particular goods within that class is assigned to another. Such transfers seem to have met the approval of the courts.\textsuperscript{24} The most notable example involved the trade-mark "Prang," which had become well known on school and art supplies. An assignment of that mark in connection with the sale of parts of the business involving certain school supplies was sustained even though the assignor retained the use of "Prang" on many other closely related goods.\textsuperscript{25} Reconciling the results in this type of transfer with the notion that a trade-mark functions only as an indication of source is impossible; it is only by accepting the guaranty function of a trade-mark that the decision is intelligible.\textsuperscript{26}

A quite similar case was Chester H. Roth, Inc. v. Esquire Inc.\textsuperscript{26a} The plaintiff, a hosiery manufacturer, used the trade-mark "Esquire" on its socks; the defendant publishing house used the same mark on its magazine. Both marks were registered. The Court of Appeals for the Sixth Circuit held valid a contract between the two binding them, among other things, not to infringe upon one another's business by use of the mark, and to pool their efforts in its defense against third-party usurpers.

The next logical step leads directly to the problem in the \textit{Maola} case, i.e., whether a trade-mark used on one product can be split by assignment between two independent owners to be used by each on the same type goods. Two very important distinctions which must be recognized are emphasized by the italicized words:

First, it is quite possible that two persons might independently adopt the same mark upon goods of the same class in separate and remote market areas.\textsuperscript{27} In such a case concurrent use of the same mark

\textsuperscript{24} American Crayon Co. v. Prang Co., 38 F. 2d 448 (3d Cir. 1930); Shephard v. Shephard, 145 Neb. 12, 15 N. W. 2d 195 (1944); Jergens Co. v. Woodbury, Inc., 197 N. Y. 66, 90 N. E. 344 (1909).
\textsuperscript{25} American Crayon Co. v. Prang Co., 38 F. 2d 448 (3d Cir. 1930); Note, 24 ILL. L. Rev. 591 (1930).
\textsuperscript{26} See, however, Schechter, \textit{The Rational Basis of Trade-mark Protection}, 40 HARV. L. Rev. 813, 816 (1927): "Discarding then the idea that a trade-mark or trade name informs the consumer as to the actual source or origin of goods, what does it indicate and with what result? It indicates, not that the article in question comes from a definite or particular source, the characteristics of which or the personalities connected with which are specifically known to the consumer but merely that the goods in connection with which it is used emanate from the same—possibly anonymous—source or have reached the consumer through the same channels as certain other goods that have already given the consumer satisfaction and that bore the same trade-mark." See also 1 Nims, \textit{op. cit. supra} note 8, at 94, who has this to say about the \textit{Prang} situation: "The plight of the unfortunate consumer who is deceived as a result of such split-ups of business concerns apparently was ignored by all hands, the courts included."

\textsuperscript{26a} 186 F. 2d 11 (6th Cir. 1951).
\textsuperscript{27} The two landmark cases: United Drug Co. v. Rectanus Co., 248 U. S. 90 (1918) and Hanover Star Milling Co. v. Metcalf, 240 U. S. 403 (1916). Con-
would be perfectly valid. It is obvious, however, that this situation is different from one where the concurrent use is created by a partial transfer of a trade-mark by the person who originally acquired it.

Second, the right to use a trade-mark may be granted to another by some form of controlled license. The licensor-owner grants to the licensee permission to use the trade-mark for a specific purpose and the right to the mark remains in the licensor. An excellent example of this type of trade-mark transfer is demonstrated by the Coca-Cola cases where the licensor is the manufacturer of the basic syrup which is furnished to the licensee-bottling companies to be combined with carbonated water and sold as a finished drink. Although the bottlers use the trade-mark “Coca-Cola” the quality of the product is under complete control of the licensor, since it manufactures the chief ingredient and exercises rigid supervision over the bottling process. On the other hand, in the normal assignment the assignee receives full rights to the mark and there is no element of control between assignor and assignee.

Partial assignments covering the business in an entire country have been sanctioned by the courts. Thus in A. Bourgeois and Co. v. Katzel a French concern doing business in that country and in the United States was held to have effectively transferred its trade-mark rights in this country by a sale of its United States business and good will. The assignee, however, continued to purchase the goods on which he affixed the mark from the French concern. It is apparent that under any view of the function of a trade-mark there would be no reason not to uphold this assignment; the assignee was in effect no more than a selling agent for the assignor’s goods.

Current registration of trade-marks in situations where two persons have adopted the same mark is provided for by § 2(d) of the Lanham Act if “confusion or mistake or deceit of purchasers is not likely to result.” See generally Halliday, Concurrent Registrations Under the New Trade-mark Law, 37 T. M. Rep. 243 (1947). Extensive discussions of controlled licensing at common law and under the “related company” provisions of the Lanham Act may be found in Taggart, Trade-marks and Related Companies: A New Concept in Statutory Trade-mark Law, 14 Law & Contemp. Prob. 234 (1949) and Schniderman, Trademark Licensing—A Saga of Fantasy and Fact, 14 Law & Contemp. Prob. 248 (1949).


This selling agent feature was not present, however in Mulhens & Kropp v. Ferd Muelhens, 43 F. 2d 937 (2d Cir. 1930), which also involved a country-wide transfer of a trade-mark. A German manufacturer had developed a cologne by a secret formula which along with other related products had become well known throughout the world under the trade-mark “4711.” The purchaser of the business, good will and trade-marks for the United States was not allowed to...
Therefore, it would appear that the territorial transfer of a trade-mark for use in the entire United States will be upheld if it meets the normal requirements of transfers—if the use of the mark by the transferee does not result in confusion or deception of the consumers. In fact, so far as the consumers in this country are concerned the situation is little different from an assignment of all rights in a trade-mark. Although the foreign transferor will continue to use the mark in other countries, there is very little likelihood that there will be any confusion between the goods of the two independent users of the mark since the market areas are remote and separate.

More serious consideration must be given to partial transfers limited to particular states or districts within the United States, and, especially, to those limited to particular territories within one state. Unfortunately there appears to be a dearth of decisions which have dealt with this problem. A Missouri court in 1882 indicated that such transfers would be invalid and in fraud of the public. Dictum in a Utah decision to the opposite effect is very questionable since the court in support of its statement relied on a "controlled license" case.

Other cases have closely approached the question but have produced no clear-cut decision on the problem of assignments. Only Griggs, Cooper & Co. v. Erie Preserving Co. deserves extended consideration. The plaintiff had started using the trade-mark "Home-Brand" on his canned fruit and jellies but discovered that another concern had previously adopted the same mark on the same type merchandise. The prior acquirer then assigned to the plaintiff the right to use the name "Home-Brand." The assignment further provided that neither party was to imitate in design or color the label of the other. The court upheld the transfer, stating that "the assignor parted with the exclusive ownership and good will in its arbitrarily selected trade-mark 'Home-Brand' within the territory specified in the assignment, use the mark on cologne since he had not acquired the secret recipe, but he did become entitled to exclusive use of the mark in this country on those items on which the mark did not denote manufacture by the formula.

It is probable that many such territorial transfers have occurred and are upheld by gentlemen's agreements that do not rely on the law. See Isaacs, Traffic in Trade Symbols, 44 Harv. L. Rev. 1210 (1931).


131 Fed. 359 (C. C. W. D. N. Y. 1904).
merely reserving to itself . . . certain permissive rights to its personal use." Although not mentioned in the opinion, apparently the court felt that the difference in labels would eliminate the possibility of confusion, which fact would distinguish the Maola situation where the labels were practically identical. The result, however, is that two competing companies had the right to use "Home-Brand" on the same products in the same area.

The Legal Effect of the Maola Case

By no means have all the possible sources of authority been exhausted, but perhaps it is now possible to reach some conclusion regarding the Maola dilemma. For all that appears the trade-mark "Maola" functions as a guarantee to the consumers of the quality of the ice cream products which it identifies. It would seem, therefore, if the ice cream of both plaintiff and defendant was of the same quality, that there would be no reason why each owner should not be able to use the mark in its territory. There is no evidence, however, that the defendant made its product according to the same standards or formulae as the plaintiff, or that the defendant's ice cream was of equal quality with that of the plaintiff. Had the plaintiff when it assigned the mark stipulated that the defendant might use it only on products made by a certain formula or meeting a certain standard perhaps concurrent use of the same mark in the two territories might not be against public policy. But even so, difficult questions arise if there is no relation or element of control between the two users. Who would make certain that the defendant did not alter his product? Suppose the plaintiff materially altered the formula by which he manufactured his own product? The irresistible conclusion is that such a territorial assignment as occurred in the Maola case should be held invalid because of its confusing and deceptive possibilities to the public. A "controlled license" agreement would not only have protected the value of the trade-mark to the plaintiff but the interests of the public as well.

The court's dictum that if no territorial restrictions had been included in the assignment the two parties could have used the mark in the same market area is even more unsound if the above conclusions are valid. Unless the products of the two companies were identical in every respect confusion and deception of the public would be inevitable.

From the foregoing, it appears that there is not very much support for the view of the court that the transfer of the trade-mark in the

8 Id. at 362. See the comments on this case in 3 Callman, op. cit. supra note 8, at 1284.
circumstances of the *Maola* case is valid. And, moreover, the possibility that by the transfer the plaintiff may have abandoned his rights to the mark should not have been overlooked.39

II. THE PROBLEM OF RESTRAINT OF TRADE

Maola's *Treatment of the Problem*

Assuming that a trade-mark can be "split" territorially or otherwise, a further intriguing and as yet unsettled issue raised by the *Maola* case40 is the question of whether the resulting symbolic schizophrenia may constitute or contribute to an unlawful restraint of trade. The court thought that there was such a restraint in *Maola*. In reaching that conclusion, it relied upon *Shute v. Shute*,41 a case that held unenforceable a covenant by the vendee of a cotton gin not to engage in ginning and certain related businesses north of a certain line in a North Carolina County. But *Shute* is almost entirely unrelated to *Maola*, for the vendee in the latter case was always perfectly free to sell ice cream anywhere he pleased under any other trade mark except "Maola." It is difficult to understand in what manner competition would be diminished by having "Maola" ice cream marketed in eastern North Carolina by two companies in different areas, rather than by one company supplying both areas.

The trade restraint aspect of the case raises a number of questions. Would the agreement not to sell outside the territory previously supplied by the transferred plant have been enforceable had the transferor been doing business everywhere else in eastern North Carolina from the plant he retained? In the future, will the transferor's successors be able to sell with impunity under the mark "Maola" in territory heretofore served by the transferred plant?

Whatever the answers to these questions, the most perplexing part of the decision is the court's assumption that competition will be stimulated by a result that allows offering to the same public two entirely distinct "Maola" ice creams. Competition is dependent, to a large extent, upon the ability of the public to distinguish the products of different manufacturers;42 the *Maola* decision, therefore, is likely to

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39 An attempt to transfer a trade-mark dissociated from the good will usually destroys the rights in it for it is presumed to have been abandoned. This would seem to be applicable, however, only in those cases where the transferor after the ineffective transfer ceases to use the mark himself; in a partial transfer the transferor intends to continue his own use of the mark. For a general discussion see 1 Nims, *op. cit. supra* note 8, § 408; 2 CALLMAN, *op. cit. supra* note 8, § 78.3 (a); Note, *Trade Mark Protection Following "Ineffective" Assignment*, 88 U. of Pa. L. Rev. 863 (1940).

40 238 N. C. 317, 77 S. E. 2d 910 (1953).

41 176 N. C. 462, 97 S. E. 392 (1918).

give far more impetus to confusion than to competition. The rule therein enunciated—that a mark cannot be confined within the territory to which it has been assigned—will doubtless discourage any future territorial assignment in North Carolina.

*Maola* seems to be unique, among common-law decisions, in imparting the stigma of trade restraint to a mere partial or territorial assignment. As we noted earlier, there are cases upholding various sorts of partial and territorial assignment without even mentioning trade restraint. At any rate, North Carolina seems to be the only jurisdiction where territorial assignment and nothing more, amounts to restraint of trade.

**The Federal Cases**

Once we pass from the realm of state court decisions involving assignment and the use of marks in restraint of trade, the issues became more complex. It is probably not rash to predict that an appreciable amount of future litigation will see partial and territorial assignment of trade-marks and, indeed, the use of trade-marks in general examined in the penetrating light of federal antitrust law. Such an expectation seems reasonable in view of (1) expanding international trade, increasing the problem of concurrent use of marks, (2) the ever greater significance given to marks by modern advertising, and (3) the growing tendency to fix resale prices. Two significant federal cases have recently touched on assignment and related problems, and, while neither is concerned with trade-marks alone, each constitutes an important milepost in trade-mark law.

In *Timken Roller Bearing Company v. United States* American Timken was adjudged guilty under Section 1 of the Sherman Act for restraining, by agreement with its associates British and French Timken, international trade in tapered roller bearings. While it is impossible to say with any precision who owned the mark "Timken" when the restrictive agreements went into effect, the net result of various assignments was the three-fold division of the mark for use in three sharply defined areas of the world. This arrangement, reinforced by agreements not to compete, had effectively eliminated competition among the three companies. American Timken defended the

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*Trade-Marks and the Monopoly Phobia, 50 Mich. L. Rev. 967 (1952); Taggart, Trade-Marks: Monopoly or Competition? 43 Mich. L. Rev. 659 (1945).*  
*Stedman, Patent and Trade-Mark Relief in Antitrust Judgments, 10 Fed. B. J. 260 (1949).*  
*341 U. S. 593 (1951).*  
*"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal..." 26 Stat. 209 (1890), as amended 50 Stat. 693 (1937), 15 U. S. C. § 1 (1952).*
suit on the ground that the restraints involved were reasonable and ancillary to the trade-mark contracts. This contention the majority of the Supreme Court of the United States rejected in summary fashion.

"Nor can the restraints of trade," wrote Justice Black, "be justified as reasonable steps taken to implement a valid trade-mark licensing system. . . ."46 The case is rather novel in holding that the Sherman Act requires competition among affiliates,47 but *a fortiori* it requires it among non-affiliates and it may, of course, in the future be applied where non-affiliates have split a mark to restrain trade. The greatest impact of the case may in the long run be on domestic commerce, since well recognized principles of international law place certain limits upon the capacity of the courts of the United States to deal effectively with restraints of trade that reach beyond the nation's borders.48 In any event, statistics set forth in the trial court's *Timken* opinion show the potency of territorial manipulation of trade-marks as a device to minimize competition.49

The other case, *United States v. General Electric Co.*,50 involved the licensing of a trade-mark—in this instance the famous "Mazda" used on incandescent lamps—by General Electric to Westinghouse. The government's contention was that this arrangement, by flooding the market with "Mazda" lamps produced by both of the nation's largest electric companies, was designed to induce in the public mind the impression that only "Mazda" was the "standard" incandescent lamp; it was further contended that this arrangement had been so successful that "Mazda" had become a generic term for such lamps, so that it no longer deserved protection as a trade-mark. This latter argument the court rejected, but it did find the defendants guilty, because of their joint exploitation of the trade-mark, of violating Sections 1 and 2 of the Sherman Act.51 To assess the role played by trade-marks in the violation, it is not necessary to look beyond the final judgment in

46 341 U. S. 593, 598 (1951).


48 This topic is well covered by Haight, *International Law and Extraterritorial Application of the Antitrust Laws*, 63 Yale L. J. 639 (1954); and Whitney, *Sources of Conflict Between International Law and the Antitrust Laws*, 63 Yale L. J. 655 (1954). In Steele v. Bulova Watch Co., 344 U. S. 280 (1952), however, the Supreme Court of the United States projected this country's judicial power into Mexico to enjoin infringement there by an American citizen of a mark owned by the Bulova Co.


51 26 Stat. 209 (1890), as amended 50 Stat. 693 (1937), 15 U. S. C. §§ 1, 2 (1952). Section 1 is set forth in note 45, supra. Section 2 reads: "Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. . . ."
the case, which placed extremely severe restrictions upon General Electric's use of its trade-mark. "Mazda" was restricted to use in connection with not more than one per cent of yearly sales.

General Electric and Timken are only portions of a rather extensive literature. Both illustrate the effective restraint of trade obtainable by the imaginative use of trade-mark assignment or licensing. Timken is an example of the "double" guarantee of restraint effectuated where both territory and trade-marks are divided: in addition to the often unenforceable agreement not to compete, the parties to such an arrangement can utilize the subtler sanction of injunction against infringement of the trade-mark, whenever one yields to the temptation to sell in territory allotted to another. But it is hardly likely that these and similar practices will escape the full impact of the federal antitrust laws, for as Judge Freed, who wrote the trial court opinion in the Timken case, has noted: "If a trade mark may be the legal basis for allocating world markets, fixing of prices, restricting competition, the unfailing device has been found to destroy every vestige of inhibition set up by the Sherman Act."

The Lanham Act

Violation of federal antitrust law by the use of a mark may have certain special consequences to the owner where the mark is registered under the Lanham Act of 1946. Whatever extension of trade mark rights is encompassed in the Lanham Trade-Mark Act, . . . its enact-

52 "Section VI. Competitive Bidding and Trademarks:
B. General Electric is enjoined and restrained from making any use of the United States trade-mark 'Mazda' in connection with more than 1% of its sales of lamps in any calendar year.
C. General Electric is enjoined and restrained for a period of three years from the date of the Judgment from:
(1) Directly or indirectly authorizing any other person in the United States to use in any manner, in connection with lamps not manufactured by or for General Electric, any United States trade-mark owned or controlled and used by General Electric in the United States in connection with lamps, except with respect to lamps sold by such person to General Electric.
(2) Using, in any manner, in connection with lamps manufactured by or for General Electric and sold in the United States, any United States trade-mark known by it to be owned or controlled and used by any person in connection with lamps manufactured by or for such other person and sold in the United States, except where such sale is made by General Electric to such trademark owner."


53 See, for example, Hearings Before a Subcommittee of the Committee on Patents, United States Senate, 78th Cong., 2d Sess., on H. R. 82, Nov. 15 and 16, 1944, pp. 58-71, Report of the Department of Justice. Other examples are noted in Diggins, Trade-Marks and Restraint of Trade, 32 Geo. L. J. 113 (1944).

54 See Stedman, Elimination of Trade Barriers Based Upon Trade-Marks, 10 Fed. B. J. 162 (1949).


TRADE-MARK ASSIGNMENTS

ment did not open the door to employ a trade mark as an instrument to undermine the antitrust laws. This is borne out with transparent clarity by its legislative history. These words, having been spoken by a federal judge, may be taken at face value. Yet it is impossible at the present time to be very specific about this facet of the Lanham Act without indulging in speculation. The section involved is 33 (b) (7):

“If the right to use the registered mark has become incontestable under section 15 hereof, the certificate shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce or in connection with the goods or services specified in the certificate subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

(7) That the mark has been or is being used to violate the antitrust laws of the United States.”

Well-known authorities in the field of trade regulation are unable to agree upon the meaning of these words. Do they relate simply to losing incontestability, or also to the ultimate disposition of litigation—which would mean that an infringer could set up a complete defense by proving that the registered owner's use of the mark was in violation of the antitrust laws? Congressman Lanham, the author of the Act, and the managers on the part of the House of Representatives, who sponsored it, were of the opinion that the sole consequence of 33 (b) (7) to a trade-restraining registrant was to "dilute the weight the court is to give to his certificate of registration as evidence of ownership and the right to use the mark." A federal case dealing with


Handler, Trade-Marks and Anti-Trust Laws, 38 T. M. REP. 387 (1948) thinks these words relate to the ultimate disposition of litigation; 4 TOULMIN, ANTI-TRUST LAWS OF THE UNITED STATES § 27.33 (1950), agrees with Handler. 4 CALLMANN, LAW OF UNFAIR COMPETITION AND TRADE-MARKS § 97.3 (c) (4) (2d ed. 1950), seems uncertain. But in volume 1, § 15.5, Callmann states flatly that Section 33 (b) (7) of the Lanham Act applies to trade-marks the "unclean hands" theory of the patent cases, making violation of the antitrust laws by a registrant a complete defense in an action for infringement.

Lanham, 92 CONG. REC. 7524 (1946). The statement of the managers on the part of the House is particularly illuminating: "This amendment provides that the use of a registered mark in violation of the antitrust laws shall constitute a defense to a suit by the registrant. The House recedes with an amendment substituting the words 'to violate' for the words 'in violation of.' This amendment provides an additional defense to the conclusive evidence rule of the certificate of registration of a mark which has become incontestable under section 15. It does not and is not intended to enlarge, restrict, amend or modify the substantive law of trade-marks either as set out in other sections of this Act.
the problem seems to contain only dictum on this point, and is probably not an authoritative interpretation of the Act.\textsuperscript{61}

It would appear that the correct interpretation of this section of the Lanham Act is that ascribed to it by Congressman Lanham who said in substance that a registrant using a mark to violate the antitrust laws loses the incontestability the Act ordinarily gives him after five years' use of the registered mark, and is also deprived of the benefit of "the corollary thereto that the certificate of registration is conclusive evidence of ownership and the right to exclusive use of the mark."\textsuperscript{62} The certificate of registration then becomes only prima facie evidence of the registrant's right to exclusive use of the mark. Whether a court might, nevertheless, completely deny relief against infringement by applying in its decision a principle analogous to the "unclean hands" maxim of equity, as happened in Morton Salt Co. v. G. S. Suppiger Co.,\textsuperscript{63} is a separate problem which we shall consider later.

Section 33 (b) (7) poses still another complex problem of interpretation: what sort of conduct must be indulged in with a mark before a court will say that it has been used or is being used "to violate the antitrust laws of the United States"? Probably, the mark itself must have been an active, causative instrumentality in violating those laws; the naked fact that a violator of the laws also happened to use trade-marks on his products will in all likelihood not strip those marks of the benefits accorded them by the Lanham Act. This was the interpretation advanced by the managers on the part of the House of Representatives before the Act was passed—in fact, the bill was amended by substituting the words "to violate" for "in violation of."\textsuperscript{64} Still, 33 (b) (7) is not a paragon of statutory clarity on this particular point, and the recommendation has been made that Subsection 7 be or as heretofore applied by the Courts. The amendment does not and is not intended to affect the validity of a mark nor affect the right of the registrant to continue use or enforce his rights in the mark. If it is established that a registrant has used or is using his registered mark, which has become incontestable, as the legal, causal and efficient instrumentality to violate the antitrust laws of the United States, such registrant is denied the benefit of the rule that the certificate of registration is conclusive evidence of his exclusive right to use the mark. Under such circumstances, the certificate is only prima facie evidence of his exclusive right to use and he must be prepared to carry the additional burden of proof as though his mark had not become incontestable."\textsuperscript{92}

\textsuperscript{62} Lanham, in 92 Cong. Rec. 7524 (1946). An amendment has been proposed which would write this interpretation into the Act: Sen. 2540, 83rd Cong., 1st Sess. (1953) introduced by Senator Wiley, July 31, 1953. This is a revision of Sen. 1957, 82d Cong., 2d Session (1952), also sponsored by Senator Wiley, but on which no hearings were held.
\textsuperscript{63} 314 U. S. 488 (1942).
\textsuperscript{64} 92 Cong. Rec. 7523 (1946).
amended so as to read "that the mark is being used as an instrument to violate the antitrust laws of the United States."65

Even with the section as it stands, the courts should be able to apply tort law principles of causation and limit its application to cases where a trade-mark is used as a "legal, causal and efficient instrumentality"66 in the violation of the antitrust laws. Professor Milton Handler, after speculating on the use of 33 (b) (7) in infringement suits, is not disturbed at its potentialities:

"Unscrupulous defendants will doubtless try to drag red herrings across the trail, but if the courts apply the section as written and as intended to be administered to the limited case where the mark itself is a vehicle of antitrust violation, short shrift will be made of most bogus violations."67

This prophecy should put most trade-mark owners at ease, but it should be remembered that, even under this view of the law, territorial assignments in restraint of trade are almost always likely to involve such an active illegal use of marks as to bring home to their owners the full impact of the antitrust clause of the Lanham Act.

If a mark, through territorial assignment or otherwise, has been used to violate the antitrust laws, will that fact permanently deprive it of all protection at the hands of the courts? Unless the violation is going on at the time when an infringement suit is brought to protect the mark, or has been terminated under circumstances suspicious enough to make a court sense false repentence for the sole purpose of bringing a guileless mark to trial, the court will probably not apply 33 (b) (7) at the defendant’s request.68 Such has been the rule where the defense of misrepresentation by the plaintiff has been interposed;69 the same philosophy governs in the fields of patent70 and copyright law.71 Even under the Lanham Act, then, it is unlikely that infringement suits will become proceedings wherein the court is cast in the awe-inspiring role of “an avenger of wrongs committed at large by those who resort to it for relief.”72

66 Expression used by the managers on the part of the House., 92 CONG. REC. 7523 (1946).
68 4 CALLMANN, LAW OF UNFAIR COMPETITION AND TRADE-MARKS § 97.3 (c) (4) (2d ed. 1950).
69 Diamond Crystal Salt Co. v. Worcester Salt Co., 221 Fed. 66 (2d Cir. 1915); 4 CALLMANN, op. cit. supra note 68, § 87.1 (b) (2); 2 NIMS, LAW OF UNFAIR COMPETITION AND TRADE-MARKS § 393 (1947).
"Clean Hands"

Completely aside from the Lanham Act, territorial assignment in restraint of trade may have other important effects on the ability of the parties to the assignment to protect the mark against infringers. Shortly after the enactment of the Sherman Act, infringers began to interpose the defense that the mark they were accused of usurping was being used to violate that Act. At first they did so to no avail, since federal courts proved unwilling to try such a collateral issue in the course of an infringement suit. But a recent United States Supreme Court case, Morton Salt Co. v. G. S. Suppiger Co.,

314 U. S. 488 (1942),
denying relief against infringement to a patentee who was using his patent to restrain trade in non-patented goods, may have sounded the death-knell of this particular line of federal trade-mark decisions. Whether the principles enunciated in Morton and the line of cases it inaugurated

will be applied to trade-mark litigation is one of the crucial enigmas of contemporary trade-mark law. Because injunction is the standard and most effective remedy in infringement cases, trade-mark owners who use their marks in restraint of trade are at the mercy of the "clean hands" maxim of equity. They might fare no better at law, since there is language in Morton which indicates that the Supreme Court would apply the same general principle in the traditionally amoral atmosphere of the law court.

Certain it is that the Court, by expanding the not-

313 U. S. 488 (1942).

See Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661 (1944),
denying infringement protection to patents being used in a cross-licensing system which restrained trade; Sola Electric Co. v. Jefferson Electric Co., 317 U. S. 173 (1942),
holding a licensee not estopped to challenge the validity of a patent being used by the patentee to fix resale prices; Edward Katzinger Co. v. Chicago Metallic Mfg. Co., 329 U. S. 394 (1947),
reaching the same result where the licensee had contracted not to challenge the patent; United States v. Paramount Pictures, 334 U. S. 131 (1948),
where the court held that the copyright privilege was subservient to the public policy expressed in the antitrust laws.

It is a principle of general application that courts, and especially courts of equity, may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest." Morten Salt Co. v. G. S. Suppiger Co., 314 U. S. 488, 492 (1942).

313 U. S. 488 (1942).
so-ancient maxim beyond its ordinary confines (cases where some wrong has occurred between plaintiff and defendant) to the comprehension of the plaintiff's wrong to the public at large, has cut away a substantial part of its previously enunciated doctrine that "equity does not demand that its suitors shall have led blameless lives."78

Those familiar with the general complexity of federal antitrust law may wonder what effect the injection of complicated antitrust issues would have in the course of a relatively simple action for trade-mark infringement. In the patent cases, determination of the antitrust issue has, surprisingly enough, not been as difficult for court and counsel as might have been expected; in some instances the Supreme Court has not even reached a decision as to whether the plaintiff violated a particular statute but has based its denial of relief on the ground that he has contravened the general public policy, favoring free competition, which the antitrust statutes symbolize.79 Since the common law, even when not reinforced by statute, favors competition, it is conceivable that state courts may in the future reason along similar lines, if trade-mark splitting at the intrastate level proves to be the subject of serious abuse. In federal courts, even where the specific violation of the Sherman Act is considered, issues ought not to be unreasonably complex, for the foreclosing of competitors from a substantial market is a per se violation of the Act,80 and will be present in most instances of restrictive use of trade-marks.

But all this prognostication is based on the assumption that the new "clean hands" jurisprudence will in fact be extended to trade-mark cases. Is this a reasonable assumption? One can reason that if the patent privilege, sanctified by the Constitution,81 has been of late abridged where restraints of trade were involved, the trade-mark cannot hope to escape rough treatment in similar circumstances. On the other hand, the patent cases may be only the judicial manner of saying "unto whomsoever much is given, of him shall much be required," so that the trade-mark will continue to enjoy a relatively cordial reception in infringement proceedings. This much is certain: the trial of issues beyond those existing between the parties is dangerous practice in any suit, alien to our manner of legal thinking, and to be

77 "The clean hands maxim is exactly as old as the United States Constitution," CHAFEE, SOME PROBLEMS OF EQUITY, p. 5 (1950).
indulged with caution. A guilty defendant ought not to go from the courtroom without being enjoined simply because he has been able to produce an unfavorable character sketch of the plaintiff. Yet, if trade-mark abuses become pronounced, those who own marks may find that the law has assumed the outlines prophetically drawn in a federal district court, in 1941:

"It is well established that the violation of the Sherman Act . . . cannot be set up as a defense in a suit for infringement of copyright, trade-mark, or otherwise collaterally in a suit. ** But, if the illegal combination is a part of the actual transaction about which the plaintiff seeks equitable relief, and to grant such relief would amount to invoking the aid of the court in furthering such illegal combination, then, under the doctrine of 'unclean hands' the plaintiff might be deprived of its right to equitable relief."  

The Future

All this seems a long way from the Maola case, which may appear entirely unrelated to international market-splitting, the Lanham Act, and the Sherman Act. The future will probably prove that the relation is indeed slight. The danger that marks on simple products will be split within a state to restrain trade is small, but the chances are that territorial assignment of marks used on items distributed nationally and internationally will give rise to still more litigation. The reports of federal courts' decisions will be the source to watch for important developments in an issue that was first raised within their pages and probably was echoed only coincidentally and inadvertently in the Maola decision.

To predict how federal law will develop is not easy. The use of trade-marks to restrain trade is only in its infancy, and the attitude of the courts toward that use is in a formative stage. Trade-marks may yet appear to be far more efficient mechanisms for restraining competition than the courts, heretofore preoccupied with their basic theory of marks as an identification of source and therefore the sine qua non of free competition, have thus far perceived. There are signs that this new perception may effect a radical evolution in a vital aspect of trade-mark law, signs which the attorney handling trade-mark work must interpret intelligently, lest he act at his clients' peril.

82 Chafee, in the first three chapters of Some Problems of Equity (1950), points out the threat to justice that often arises from a careless application of the "clean hands" maxim.
CONCLUSIONS

If partial transfer of a trade-mark is permissible, as the North Carolina Supreme Court has assumed, then it should follow that the resulting division of territories should be upheld in order to prevent the public from being greeted with identical names and trade-marks in the same territory on the same product. There is little danger that this division will have adverse effects on freedom of competition; it is not like a covenant not to compete because here the parties can compete all they please so long as they use different marks. Indeed, the normal situation is that parties who really compete should and must use different names.