

## **Don't Lose Your Trademark When Licensing It (...or How Not to "Run Naked")**

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For established brands, trademark licensing can be a very lucrative enterprise. It allows the brand to expand its existing markets or venture into new ones with little additional risk or investment. This was not always the case. Under common law, licensing was tantamount to abandonment, the rationale being third party use of the trademark meant the mark could no longer be associated with a single source. See Macmahon Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 468 (8th Cir. 1901). The law has evolved to embrace the reality of most intellectual property, that a trademark itself is a revenue generating property, not merely a means to protect goodwill.

Today, a trademark is licensable so long as the licensor maintains control over the quality of the product marketed under the mark. This standard is not clearly defined in a statute, but the authority to do so is: 15 U.S.C. §1055 provides that use of a trademark by a "related company . . . shall not affect the validity of such mark or registration, provided such mark is not used in such a manner as to deceive the public."

### **No Control Means You're "Running Naked"**

How does one not deceive the public? In short, exert quality control over the goods produced by the "related company." A "related company" is defined as any person who "is controlled by the registrant . . . in respect to the nature and quality of the goods or services in connection with which the mark is used." 15 U.S.C. §1127. The courts have further filled in the gaps, determining that failing to maintain "any control over the quality of goods produced by the licensee... is inherently deceptive." Stanfield v. Osborne Indus., 52 F.3d 867, 871 (10th Cir. 1995).

Often referred to as "naked licensing," licensing a trademark without maintaining any control will usually result in a determination that the trademark has been abandoned. In other countries, such as the United Kingdom, naked licensing may even make the trademark vulnerable to attack by the licensee or a third party.

### **Just How Much Control?**

Unfortunately, the amount of control the licensor must maintain has not been clearly spelled out. It is dependent upon a contextual inquiry based on the nature of the business and the expectations of customers. Eva's Bridal Ltd. v. Halanick Enterprises, Inc., 98 U.S.P.Q.2d. 1662 (7th Cir. 2011). What clarity the courts have provided is the fact exercising real control, as opposed to merely holding the right to exercise quality control, is imperative to avoid abandonment. General Motors Corp. v. Gibson Chemical & Oil Corp., 786 F.2d 105, 110 (2nd Cir. 1986) ("The critical question in determining whether a licensing program is controlled sufficiently by the licensor to protect his mark is whether the licensees' operations are policed adequately to guarantee the quality of the products sold under the mark."). Properly exercised quality control will produce consistent quality – not necessarily high quality: a "trademark's function is to tell shoppers what to expect – and whom to blame if a given outlet falls short." Eva's Bridal Ltd. v. Halanick

Enterprises, Inc., 98 U.S.P.Q.2d. 1662 (7th Cir. 2011). Except in rare instances, merely being an absentee landlord and failing to have any involvement in maintaining quality control over the licensee's product is grounds for trademark abandonment. See Barcamerica International USA Trust v. Tyfield Imports, Inc., 289 F.3d 589-598 (9th Cir. 2002).

### **Best Practices Against Naked Licensing**

1) Choose a Licensee Wisely, Due Diligence is Key: In order to maintain consistent quality, a licensor should choose licensees that possess financial stability, management infrastructure, and distribution channels that are commensurate with the licensor's brand. Once an appropriate licensee is found, the licensing agreement should specify the standards the licensee will be required to meet when using the trademark. Tip: The inclusion of appropriate notice symbols (TM, SM, or ®) should always be required whenever the trademark is used.

2) Maintain Consistency in How the Mark is Deployed: Keeping the trademark itself consistent is also important. The licensor should provide the licensee with an electronic version of the trademark, along with any other materials the licensee may need to accurately replicate it, and stipulate the use of those specific materials as opposed to derivatives. If providing an electronic version is not possible, the licensor should provide detailed instructions on how to recreate the trademark. Altering or using only a portion of the trademark should be forbidden without explicit written permission.

3) Lay Out Rules and Guidelines on Proper Use: Guidelines on how and where the trademark may be used on the product, packaging, and marketing materials need to be specified. Stipulating that the trademark not be placed near another trademark will avoid the appearance or creation of a joint trademark, keeping the licensor's brand separate and strong. If the trademark must be placed near another trademark, the licensor's trademark should be required to be at least as large and prominent. Any marketing materials the licensee creates should be consistent with the licensor's image and written approval should be obtained from the licensor beforehand to ensure consistency with the brand. Marketing samples that are not approved should be destroyed.

4) Be Prepared to Enforce Against Licensee Non-Compliance: Enforcement is more critical than merely stipulating use requirements. The licensor should have the right and be prepared to inspect products, packaging, manufacturing facilities, and advertising for compliance with licensing agreement specifications and any applicable federal, state, or local laws. If the licensor determines that something is not up to its standards, the licensee should be required to defer to the licensor's judgment and make corrections where reasonably practicable. Moreover, at any juncture where licensor approval is required, such as for product packaging and marketing, lack of approval should be the default, in the absence of explicit written consent to avoid possible inconsistencies. A time frame for approval should be put in place so that the licensee is not burdened by any licensor delays. Additionally, the licensor might want to reserve the right to review any comments or complaints from consumers.

## **Summary**

Trademark licensing can be a smart business move, but it also requires an ongoing duty to keep careful watch over the quality of the products that carry the trademark. If the licensor does not have and actually exercise the right to maintain quality control, it may find that it has inadvertently abandoned its trademark.