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WARNING! Trademark Licenses Must Have Quality Standards Associated With Them

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One of the most valuable assets a business has is its good name and/or the logo it uses to identify itself. Slogans used for advertising or promotion are generally deemed key assets as well. These items, customarily known as trademarks, may be protected under the federal trademark law and may also enjoy protection under state trademark statutes.

The fundamental purpose of the trademark laws is to protect a consumer’s expectations when acquiring a product or service; that is, consumers are assured of obtaining the quality attributed to the mark when merchandise or services identified by the mark are purchased. Thus, if an unauthorized business uses a mark on products or services that are not those of the legitimate trademark owner, then consumers may be misled into acquiring those products or services, which may be of a lesser quality. Certainly the consumer will be upset if the quality of the purchased item or service is poor, and may refrain from purchasing goods or services identified by that mark in the future. In addition, the trademark owner’s reputation will be affected when consumers talk about the poor quality of products or services bearing the uncontrolled trademark.

This theme of consumer protection is important to understanding the law’s requirements that trademark owners who license the use of their marks must establish standards of quality for the license, and that those quality requirements must be enforced. A license that does not contain quality standards is referred to as a *naked license*, and trademark owners who agree to *naked licenses* risk a great deal.

In the case of *Barcamerica Int’l USA Trust v. Tyfield Importers, Inc.*, Barcamerica filed suit against Tyfield for trademark infringement. The infringer did not deny that it had used the plaintiff’s
Leonardo De Vinci trademark on a competing wine without permission, but, as a defense, alleged that Barcamerica no longer had a valid trademark because the plaintiff had licensed the mark at issue to a third party without imposing any quality standards. The defendant argued that, despite the fact that the trademark was registered and that the registration had become incontestable, the naked license caused the mark to be vulnerable to a court-ordered cancellation of its registration, as well as loss of protection.

A trademark can become incontestable if it has been registered for at least five years and there has been no challenge to the registrant’s ownership of the mark or its validity. Once the five-year window has elapsed, the trademark law allows the owner of that mark to file an affidavit stating that the validity of the registration has not been questioned at any time during the period of registration. The mark will then become incontestable as against any other party’s challenge, including a validity challenge by the Trademark Office, though it may still be vulnerable to a judicial attack when the registered mark is improperly used or licensed.

The district court agreed with the defendant’s position regarding trademark invalidity in the Barcamerica case, and on appeal, the U.S. Court of Appeals for the Ninth Circuit agreed, holding that a trademark – even a registered mark that has become incontestable – that is licensed without the imposition of quality standards is subject to being cancelled and declared unprotectable as having been abandoned by the registered trademark owner. This is true even if the licensee actually markets products or services comparable to the quality of the trademark owner’s products or services.

The message of the Barcamerica v. Tyfield case is clear: Businesses should take care to protect their most valuable assets, namely, their trademarks. First, business owners should evaluate their rights and, where appropriate, register their marks at either the federal or state level.

Second, any arrangements by which the trademark owners permit others to use their marks must be carefully fashioned. A skilled intellectual property attorney should be consulted when preparing a trademark license in order to ensure that the agreement is correctly drafted. Licenses should be in writing and contain quality standards. These quality standards must be enforced by trademark owners, and the license should include a provision stating that any failure of the licensee to adhere to the standards established by the trademark owner will subject the licensee to cancellation of the license.

Names, symbols, logos, and slogans are valuable business assets. Prudent business people will recognize this fact and take the steps necessary to protect these assets both through the registration process and by establishing proper guidelines for their use. Carelessness when dealing with one’s trademark can expose a business to the risk of loss of its valuable intellectual property.

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