Trademarks as Tying Products: The Presumption of Economic Power

Stephen J. Smirti Jr.
NOTES AND COMMENTS

TRADEMARKS AS TYING PRODUCTS: THE PRESUMPTION OF ECONOMIC POWER

It is by constitutional mandate\(^1\) that Congress possesses the power to legislate in the area of inventions\(^2\) and literary works.\(^3\) Via this power, the framers of the Constitution sought to foster congressional encouragement of the arts and sciences. It was hoped that society would benefit by the introduction of new products into the economy with the resultant increase in employment and development of a better life for all.\(^4\) In exercising this power, Congress resolved to grant authors and inventors a limited monopoly with respect to their contributions.\(^5\) Consequently, when Congress enacted the first body of antitrust legislation, patents and copyrights were excluded from its ambit, and have since been viewed as well-recognized exceptions to the congressional policy favoring unrestrained trade in interstate commerce.\(^6\) It should be noted, how-

---

\(^1\) U.S. Const. art. 1, § 8 gives Congress the power "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors And Inventors the exclusive Right to their respective Writings and Discoveries . . . ."

\(^2\) A patent has been defined as "a grant of some right or privilege by a government or sovereign to one or more individuals." 8 J. Von Kalinowski, Antitrust Laws and Trade Regulation § 59.02[1][a] (1975). A patent is a legal grant securing to the inventor or discoverer the exclusive right to "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof . . . ." 35 U.S.C. § 101 (1970). The term for which the patent is granted is 17 years. Id. § 154. A patent is personal property; it may be transferred by assignment or may be the subject of a licensing agreement. 8 J. Von Kalinowski, Antitrust Laws and Trade Regulation § 59.02[1][a] (1975). A patent is limited in scope to the invention as it is described in the patent application. Id. The effect of a patent is to legally restrain others from manufacturing, using, or selling the product covered by the patent. Id.

\(^3\) A copyright is a legal grant which secures to an author the exclusive right "[t]o print, reprint, publish, copy, and vend the copyrighted work." 17 U.S.C. § 1(a) (1970). The period for which a copyright is granted is 28 years from the date of first publication, although in certain instances it is subject to a renewal and extension for a further 28-year period. Id. § 24. Copyrights may be procured for all works not in the public domain. Id. § 8.


\(^5\) Goldstein v. California, 412 U.S. 546, 555 (1973). The constitutional mandate "to promote" has been equated with such expressions as "to encourage," "to stimulate," or "to induce." Id. Because public policy favors the disclosure of ideas, the patent monopoly is designed not only to encourage invention, but more importantly to encourage the inventor to make his invention available to the public. Troxel Mfg. Co. v. Schwinn Bicycle Co., 465 F.2d 1253, 1258 (6th Cir. 1972), cert. denied, 416 U.S. 939 (1974). Consequently, it has been held that a patent grant must add to the body of public knowledge rather than remove knowledge from the public domain. Graham v. John Deere Co., 383 U.S. 1, 6 (1966); Commissioner of Patents v. Deutsche Gold-Und-Silber-Scheideanstalt Vormals Roessler, 397 F.2d 656, 665 (D.C. Cir. 1968).

\(^6\) J. Von Kalinowski, Antitrust Laws and Trade Regulation § 59.02 [2][a] (1975). The objective of both the antitrust laws and patent and copyright statutes is the promotion of competition. Id.
ever, that the grant of a limited patent or copyright monopoly was never intended to be a license for violating the antitrust laws.\(^7\) Attempts by a patent or copyright owner to extend his limited statutory monopoly to areas not protected by the grant have been summarily halted by the courts.\(^8\) In preventing a patent or copyright owner from extending his monopoly by effectuating an antitrust tying violation, the courts have presumed the existence of sufficient economic power necessary to constitute a per se violation.\(^9\) The patent and copyright owner must thus walk a thin line between his valid personal interest in protecting the object of his patent or copyright and the overwhelming policy of free competition.\(^10\)

The trademark, unlike the patent and the copyright, does not have a constitutional origin; its genesis has deeper roots in the common law.\(^11\) In a sense, a trademark provides an even greater monopoly than does a patent or copyright.\(^12\) The development of its coexistence with the antitrust laws has differed from that of patents and copyrights. Although attempted extensions of the trademark monopoly have in some instances been upheld, courts, on occasion, have invoked the presumption that sufficient economic power necessary for a tying violation exists where the trademark owner attempts to extend his monopoly to areas not covered by the mark. Whether such a presumption should be invoked has recently been the subject of conflict among the circuits.\(^13\)

\(^7\) Id.
\(^10\) See text accompanying notes 163-166 infra.
\(^12\) Susser v. Carvel Corp., 332 F.2d 505, 513 n.6 (2d Cir. 1964), cert. dismissed, 381 U.S. 125 (1965) (Lumbard, C.J., dissenting in part). While the patent monopoly is granted for a period of 17 years only, 35 U.S.C. § 154 (1970), and the copyright for a period of 28 years, in certain instances subject to renewal for that same period, 17 U.S.C. § 24 (1970), the trademark registration may be renewed for 20-year periods indefinitely. 15 U.S.C. §§ 1058(a), 1059(a) (1970).
\(^13\) Compare Siegel v. Chicken Delight, Inc., 448 F.2d 43 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972) (use of trademark as tying product warrants presumption of sufficient economic power), and Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., 463 F.2d 1002 (5th Cir.), cert. denied, 409 U.S. 1086 (1972), with Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658 (2d Cir. 1974).
THE ANTITRUST VIOLATIONS

Section 1 of the Sherman Act provides that "[e]very 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 . . . ." 14 One example of a contract in restraint of trade is a tying arrangement. A tying arrangement is an agreement whereby a party sells one product, the tying product, only on condition that the buyer also purchase a different product, the tied product. 15 A tying arrangement is per se violative of the Sherman Act when two conditions are present: (1) wherever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the tied product, and (2) a not insubstantial amount of interstate commerce is affected. 16 The sufficient economic power criterion has

15 Northern Pac. Ry. v. United States, 356 U.S. 1, 5-6 (1958). They seldom serve any purpose other than suppression of competition, id. at 6, and have been singled out by Congress because of the oppressive nature of the arrangement. Advance Business Sys. & Supply Co. v. SCM Corp., 415 F.2d 55, 62 (4th Cir. 1969), cert. denied, 397 U.S. 920 (1970). The fundamental economic evil inherent in a tie-in "is that it denies competitors free access to the tied product market, not because the party imposing the [tie] has a superior product in that market, but because of the power or leverage" he is able to exert with the tying product over the buyer. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 47 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972). Accord, United States v. Loew's Inc., 371 U.S. 38, 44-45 (1962); Northern Pac. Ry. v. United States, 356 U.S. 1, 6 (1958); Susser v. Carvel Corp., 332 F.2d 505, 511 (2d Cir. 1964), cert. dismissed, 381 U.S. 125 (1965) (Lumbard, C.J., dissenting in part).

Proof of a per se violation offers the plaintiff an advantage, since "no specific showing of [an] unreasonable competitive effect is required." Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 498 (1969). The ability to prove a per se violation of the Sherman Act avoids the need for "an incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries, in an effort to determine at large whether a particular restraint has been unreasonable — an inquiry so often wholly fruitless when undertaken." Northern Pac. Ry. v. United States, 356 U.S. 1, 5 (1958). Where a per se violation is involved, the necessity for an in depth judicial investigation has been mitigated since Congress has determined its own criteria of public harm; thus, it is not for the courts to decide whether any injury has occurred in an individual case. Donlan v. Carvel, 209 F. Supp. 829, 831 (D. Md. 1962). While it has been said that proof of a tying arrangement warrants a conclusive presumption of illegality, Northern Pac Ry. v. United States, 356 U.S. 1, 5 (1958), citing International Salt Co. v. United States, 332 U.S. 399 (1947), the courts have held that the per se doctrine is not to be indiscriminately invoked. United States v. Jerrod Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961). A tie-in will be justified where it can be shown that the tying product is a novel and complex device used in conjunction with other intricate mechanisms. In such a case, the tied product is forced upon the buyer not to extend the monopoly of the seller, but rather to protect the tying product from possibly fatal
heretofore been presumed by the courts when the tying product was patented or copyrighted. The second requirement, that a not insubstantial amount of interstate commerce be affected, is almost always easily proved. Thus, unwilling purchasers subjected to tying arrangements have normally been able to prove per se antitrust violations where a patent or copyright is involved.

The use of a trademark as a tying product frequently occurs in franchise contracts. Typically, a franchisor will require that the franchisee purchase his total supply requirements from the franchisor or sources designated, as a condition to the franchisee's obtaining the franchise and a license of the franchisor's trademark. This may be achieved through either explicit contractual provisions or a pervasive marketing scheme designed to effectuate the same end. The usual justification for this practice is that the trademark owner is charged by law with a duty to protect the integrity and good will of his mark, and his failure to do so might damages to its reputation should it malfunction as a result of being used with other component products. 187 F. Supp. at 560. This presupposes the fact that the seller is unable to provide reasonable specifications for the tied product. Once specifications can be given, the justification for the tie-in ceases, and per se liability will be imposed. Id.; see Note, Newcomer Defenses: Reasonable Use of Tie-ins, Franchises, Territorials, and Exclusives, 18 STAN. L. REV. 457, 458-65 (1966).


In Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 (1969), the Supreme Court held that if the dollar amount of business foreclosed by the tie is substantial enough so as not to be de minimis, it can be said that a not insubstantial amount of commerce is affected. Id. at 501. In Fortner, the Court ruled that an annual foreclosure of $200,000 by a tie-in is not de minimis. Id. at 502. See also Falls Church Bratwursthaus, Inc. v. Bratwursthaus Management Corp., 354 F. Supp. 1297, 1240 (E.D. Va. 1973) ("[u]nder most of the post-Fortner decisions, any amount of interstate commerce restrained by an illegal tie-in agreement constitutes a not insubstantial amount of interstate commerce.")

An all encompassing definition of the term franchise is found in a Washington statute providing that a "franchise" is an oral or written contract or agreement, either expressed or implied, in which a person grants to another person, a license to use a trade name, service mark, trade mark, logotype or related characteristic in which there is a community interest in the business of offering, selling, distributing goods or services at wholesale or retail, leasing, or otherwise and in which the franchisee is required to pay, directly or indirectly, a franchise fee . . . . WASH. REV. CODE ANN. § 19.100.010(4) (Supp. 1975). For another definition, see N.J. STAT. ANN. § 56:10-3(a) (Supp. 1975). The Small Business Administration has projected that in 1976, there will be 655,000 franchise outlets. SELECT COMMITTEE ON SMALL BUSINESS, IMPACT OF FRANCHISING ON SMALL BUSINESS, S. REP. NO. 1344, 91st Cong., 2d Sess., app. A (1970).

See, e.g., Complaint ¶ 6, at 2, Esposito v. Mister Softee, Inc. 5 TRADE REG. REP. (1976-1 Trade Cas.) ¶ 60,786 (E.D.N.Y. Feb. 25, 1976).


As a result of this duty, the defense of quality control has developed. It has been argued that since trademark owners must protect the integrity and goodwill of their mark, they should have the right to control the quality of products used in conjunction with the
be grounds for cancellation of the mark. At any rate, the trademark owner must join the patent and copyright owner in straddling the thin line between bona fide protection of his monopoly and exposure to antitrust liability.

A trademark may be defined as a representation of future performance established through past performance. Any attempt to expand upon this definition leads to the heart of the conflict among the federal courts concerning the use of trademarks as tying products presumptively having sufficient economic power to drive a tying arrangement.

Development of the Presumption of Economic Power in Trademark Cases

The contention that sufficient economic power should be presumed where the tying product is a trademark met stiff resistance when first introduced to the courts. In *Susser v. Carvel Corp.*, the Court of Appeals for the Second Circuit was presented with a challenge to the practices of the Carvel franchise system. Carvel dealer-franchisees were obligated to conduct their business in accordance with the *Carvel* trademark. Courts, however, have consistently held that when reasonable specifications for a standard of quality for the tied product can be made available, the quality control defense must fail. Specification of the type and quality of the tied product is considered sufficient protection of the goodwill of the trademark. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 51 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972); Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653, 657 (1st Cir.), cert. denied, 368 U.S. 931 (1961). Furthermore, where a trademark owner is able to articulate to his "designated suppliers" or "approved sources" the necessary specifications for products used together with his trademark, an estoppel arises barring him from raising the defense of quality control. In re Chock Full O'Nuts Corp., 3 TRADE REG. REP. 20,441 (FTC 1973). See generally *Susser v. Carvel Corp.*, 332 F.2d 505, 515 (2d Cir. 1964), cert. dismissed, 381 U.S. 125 (1965) (Lumbard, C.J., dissenting in part), wherein it is argued that Carvel has surmounted the difficulty of verbalizing something so insusceptible of definition "as the desired texture and taste of an ice cream cone or sundae." See also Note, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963) [hereinafter cited as *Quality Control*].

15 U.S.C. §§ 1055, 1064(e)(1), 1127 (1970). These sections provide for the maintenance of a quality control program in connection with the licensing of trademarks. For example, the mark cannot be used to deceive the public. *Id.* § 1055. Moreover, the owner must be able to exercise control over the use of the mark. Should he engage in conduct that causes the mark to lose its significance as an indication of origin, the mark is deemed abandoned. *Id.* § 1127(b). See Morse-Starrett Prods. Co. v. Steccone, 86 F. Supp. 796 (N.D. Cal. 1949), *appeal dismissed*, 191 F.2d 197 (9th Cir. 1951), wherein the court stated:

If the owner of a trademark wants to license the use thereof to another and still retain as his own the enjoyment of the rights stemming therefrom, he must do so in such a way that he maintains sufficient control over the nature and quality of the finished products, over the activities of the licensee, as will enable the licensor to sustain his original position of guarantor to the public that the goods ... are of the same nature and quality as . . . before the licensing . . . .

86 F. Supp. at 805. See also *E.I. DuPont De Nemours & Co. v. Celanese Corp. of America*, 167 F.2d 484, 490 (C.C.P.A. 1948).

332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965).
cordance with a Standard Operating Procedure Manual which governed the overall operation of each Carvel store by regulating the types of products which could be offered, recipes, employees' uniform standards, etc. Each Carvel store was identical in design, featuring the Carvel crown and cone trademark on the roof and the name "Carvel" in neon lights. This design was protected by a design patent. The ice cream sold by each store was processed from a mix prepared according to a secret formula and dispensed from a patented machine bearing the Carvel trademark. The franchisees argued that the franchise agreements under which they operated violated the antitrust laws in that they obligated each dealer-franchisee to purchase directly from Carvel, or from a Carvel-approved source, his supply of ice cream mix together with certain other products used either in the preparation or sale of the end product. Examples of these latter products, the tied products, included items such as paper goods, napkins, cones, and spoons.

Chief Judge Lumbard, writing for the majority in part and dissenting in part, was in the minority in his conclusion regarding the defendant's liability for imposing the tying arrangement. Finding that the Supreme Court's decision in *Northern Pacific Ry. v. United States* provided the criteria for a determination of whether a tying arrangement is a per se violation of the antitrust laws,

---

25 332 F.2d at 509.
27 See note 16 supra. Prior to *Northern Pacific*, in *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953), relied upon by the *Carrel* majority, the Supreme Court made continued reference to the requirement that the tying product occupy a "monopolistic position" in the market as the standard of economic power necessary to constitute a per se violation of the antitrust laws. At issue was *Times-Picayune's* practice of requiring its advertisers to purchase combined insertions in its advertising columns in both the morning and evening newspapers it owned. The Government challenged this practice as violative of the Sherman Act. The Court held that a tying arrangement had not been established insomuch as the advertisers regarded the morning and evening advertising space as "the selfsame product." *Id.* at 613. Since a tying arrangement, by its very definition, requires the presence of two distinct products, see text accompanying note 15 supra, an illegal tie-in could not be proved.

In *Northern Pacific*, the Supreme Court was again faced with a governmental challenge to an alleged tie-in. Northern Pacific had vast land holdings in several northwestern states. By 1949, it had sold approximately 37 million acres of its holdings, most of the remainder having been leased for one purpose or another. In many of its sales contracts and most of its leases, the defendant inserted a "preferential routing" clause which compelled the grantee or lessee to ship over Northern Pacific's railroad lines all commodities produced or manufactured on the land provided that its rates were equal to those of competing carriers. The Supreme Court affirmed the district court's grant of summary judgment against defendant. Noting that it is the "pernicious effect on competition and lack of any redeeming virtue" which make tie-ins a per se violation of law, the Court stated that "[t]hey are unreasonable in and of themselves whenever a party has sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product and a 'not insubstantial' amount of interstate commerce is affected." 356 U.S. at 5-6. Thus, the "monopoly power" standard of *Times-Picayune* was clearly relaxed. *Trademark Franchising*, supra note 16, at 1097.
Judge Lumbard applied the standard of "sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product."\(^{28}\) Noting that the Supreme Court has invoked a presumption of sufficient economic power where the tying product was patented or copyrighted,\(^{29}\) Judge Lumbard, at this point dissenting, argued in favor of extending the presumption to the case where the tying product is trademarked since a trademark provides a similar statutory monopoly.\(^{30}\) It is significant that the tying product in *Carvel* was the trademark license, the essential element of the franchise, which permitted the dealer to display, label, and sell his products as those of Carvel.\(^{31}\) To dispel any misconception that Carvel's machine and design patents were the tying products, the dissent characterized these as mere reinforcements of the true tying product, the trademark license.\(^{32}\) Convinced of the existence of the requisite elements of a tying arrangement, Judge Lumbard found the rec-

---

\(^{28}\) 332 F.2d at 512, quoting Northern Pac. Ry. v. United States, 356 U.S. 1, 6 (1958).

\(^{29}\) 332 F.2d at 513; see cases cited in note 17 supra.

\(^{30}\) 332 F.2d at 513. Based on United States v. Loew's Inc., 371 U.S. 38 (1962), Judge Lumbard believed that despite the absence of sufficient economic data in the record, the presumption should be invoked because the trademark was the principal feature of the Carvel system and was recognized by the majority to be the tying product. 332 F.2d at 519. See generally Collision, *Trademarks — The Cornerstone of a Franchise System*, 24 Sw. L.J. 247 (1970). It has been said that the very existence of tying arrangements imposed by a seller is of "itself compelling evidence of the defendant's great power." Northern Pac. Ry. v. United States, 356 U.S. 1, 7-8 (1958).

\(^{31}\) 332 F.2d at 513. The trademark license in conjunction with the granting of a franchise has been described as "a feudal enfeoffment of the franchisee, the franchisee pledging service and commitment and the franchisor pledging aid and protection." *Franchise Misuse*, supra note 11, at 1146. As one commentator has stated: "[A] trademark cannot be assigned without a concurrent transfer of the entire goodwill of the business. The rule against assignments without goodwill was based upon the assumption that the purchaser of the trademarked product was entitled to associate the trademark with a favored source." Krayer, *Domestic Trademark Licensing*, 43 J. Pat. Off. Soc'y 574 (1961) (footnote omitted).

The licensing of a trademark is excluded from the provisions of § 3 of the Clayton Act, which also condemns tying arrangements. In pertinent part, the statute provides:

> It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substan-

15 U.S.C. § 14 (1970). It is well settled that the granting of a franchise and/or licensing of a trademark does not come within the "goods, wares or merchandise" provision of the Clayton Act. Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 661 n.1 (2d Cir. 1974); *In re 7-Eleven Franchise Antitrust Litigation*, 1974-2 Trade Cas. 77542, at 98,427 (N.D. Cal. 1974). See also Advance Business Sys. & Supply Co. v. SCM Corp., 415 F.2d 55 (4th Cir. 1969), cert. denied, 397 U.S. 920 (1970). Thus, any attack on the franchise system as a vehicle for effecting tie-ins must come under § 1 of the Sherman Act. This presupposes that the tying product in the franchise situation will be the trademark license. Where the tying product is a trademarked commodity, a § 3 Clayton Act violation may exist.

\(^{32}\) 332 F.2d at 513.
ord insufficient to sustain the quality control defense alleged by Carvel.  

Judges Friendly and Medina, constituting the majority of the panel, agreed that the desirable item in the franchise system, the true tying item, was the Carvel trademark "whose growing repute was intended to help the little band of Carvel dealers swim a bit faster than their numerous rivals up the highly competitive stream." Immediately following this observation, the majority acknowledged that a trademark could in some cases attain such a degree of prominence that its use as a tying product would constitute a per se violation. Declaring that such a trademark would have to satisfy the market dominance test established by Times-Picayune Publishing Co. v. United States and Northern Pacific Ry. v. United States, the court held that the Carvel trademark was not

---

33 Id. at 515. For a discussion of the quality control defense, see note 22 supra.
34 332 F.2d at 519.
35 Id. The Second Circuit has since viewed Carvel as holding that a "trademark qua trademark" does not possess the requisite economic power to qualify for per se treatment. Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 663 (2d Cir. 1974). At least one other court has examined the authorities in the area and concluded that the degree of prominence achieved by the mark is irrelevant in determining whether its use as a tying product would constitute a per se violation. See Ungar v. Dunkin' Donuts of America, Inc., 68 F.R.D. 65, 93 (E.D. Pa. 1975), rev'd on other grounds, 531 F.2d 1211 (3d Cir. 1976), petition for cert. filed, 44 U.S.L.W. 3645 (U.S. Apr. 10, 1976) (No. 75-1636).
36 345 U.S. 594 (1953). For a discussion of the Times-Picayune holding, see note 27 supra.
37 356 U.S. 1 (1958). For a discussion of Northern Pacific, see note 27 supra. Although the majority correctly read Times-Picayune as requiring proof of market dominance with respect to the tying product, that standard was eroded by Northern Pacific, a pre-Carvel case. In Northern Pacific, the Supreme Court stated that notwithstanding the language in Times-Picayune, the reference therein to "monopoly power" or "dominance" requires nothing more than a showing of "sufficient economic power to impose an appreciable restraint on free competition in the tied product . . . ." Northern Pac. Ry. v. United States, 356 U.S. 1, 11 (1958). Any other interpretation, stated the Court, would be wholly incompatible with the policies underlying the Sherman Act. Id; accord, United States v. Loew's Inc., 371 U.S. 38, 45 (1962).


Based on the foregoing analysis, it seems clear that the standard of economic power applied by the Carvel majority was rejected by Fortner, thus nullifying the Carvel rationale. See Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50 n.7 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972); Capital Temporaries, Inc. v. Olsten Corp., 365 F. Supp. 888, 892 (D. Conn. 1973), aff'd on other grounds, 506 F.2d 658 (2d Cir. 1974). See also Detroit City Dairy, Inc. v. Kowalski Sausage Co., 393 F. Supp. 453, 469-70 (E.D. Mich. 1975).

In Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658 (2d Cir. 1974), the Second Circuit, again faced with the question of the correct standard to apply in determining
such a mark.\textsuperscript{38} It would appear, however, that the Second Circuit implicitly ignored the less stringent standard of \textit{Northern Pacific} in giving heed to the prior \textit{Times-Picayune} test, which required that the seller have a \textit{monopolistic} position in the market for the tying product.\textsuperscript{39}

The majority's conclusion must be read in conjunction with its holding concerning the second requirement for a tying arrangement to be deemed per se violative of the antitrust laws, \textit{i.e.}, that a not insubstantial amount of commerce be affected. The court, following the test indicated in \textit{Brown Shoe Co. v. United States},\textsuperscript{40} found that an insubstantial amount of commerce was affected where sales of "ingredients" other than mix amounted to over $1 million in the year 1960. Since the \textit{Carvel} decision, the Supreme Court has stated that a not insubstantial amount of commerce is involved if the total amount of business foreclosed is substantial enough in terms of a dollar volume inquiry so as not to be classified as de minimis.\textsuperscript{41}

Judge Lombard's analysis of the presumption in the case of trademark tying was not tested again on the federal appellate level until \textit{Siegel v. Chicken Delight, Inc.}.\textsuperscript{42} In \textit{Chicken Delight}, franchisees brought a class action\textsuperscript{43} against their franchisor, Chicken Delight,
Inc., seeking treble damages for antitrust violations resulting from the use of Chicken Delight's standard form franchise contract. As a condition to obtaining the license to use the Chicken Delight trademark, the franchise contract required that the franchisees purchase certain essential cooking equipment and dry-mix food items from Chicken Delight. The district court entered a directed verdict in favor of the franchisees, holding that the contractual requirements constituted a tying arrangement which was per se violative of section 1 of the Sherman Act.

On appeal to the Court of Appeals for the Ninth Circuit, Chicken Delight argued that plaintiffs had failed to show that the arrangement in question involved two distinct products, the essential prerequisite to the existence of a tie-in. Arguing that the franchise, trademark license, packaging, mixes, and equipment were all essential components of the franchise system, the defendant contended that only one product was involved. To determine this issue, the court looked to whether the items were normally sold

---

44 Treble damages, together with reasonable attorney's fees, are recoverable by any person injured as a result of a violation of the antitrust laws. 15 U.S.C. § 15 (1970). The district courts are vested with jurisdiction regardless of the amount in controversy. Id. The purpose of an award of treble damages is that it serves "as an incentive to encourage the high purpose of enforcement of the antitrust laws." E.J. Delaney Corp. v. Bonne Bell, Inc., 525 F.2d 296, 301 (10th Cir. 1975), cert. denied, 96 S. Ct. 1501 (1976).


46 See Northern Pac. Ry. v. United States, 356 U.S. 1, 5-6 (1958). Compare Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403 (5th Cir. 1962), with Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir.), cert. denied, 368 U.S. 931 (1961). In Dehydrating Process, the defendant, influenced by customer complaints, adopted a policy of not selling an unloader device, used in a silo, separate from the silo. The court recognized that these two devices were two separate products, but held that articles, though physically distinct, may be related through circumstances. "The sound business interests of the seller or... a substantial hardship apart from the loss of the tie-in sale may be a circumstance." 292 F.2d at 655. In Denison Mattress, the court refused to find an illegal tie-in where a manufacturer was required to purchase supplies from sources designated by the defendant. It was the opinion of the court that this agreement was necessary to allow the trademark owner to control the nature and quality of the product.
or used as a unit\textsuperscript{47} and whether a trademark license and tied products could rightfully be regarded as distinct items, capable of being traded in distinct markets.\textsuperscript{48}

Historically, the trademark designated the source of the product to which the mark was attached.\textsuperscript{49} Recent developments, however, have resulted in the adoption of the theory that trademarks are merely representations of product quality.\textsuperscript{50} This theory owes

\textsuperscript{47}"[A]s a general rule, a manufacturer cannot be forced to deal in the minimum product that could be sold or is usually sold. On the other hand, it is equally clear that one cannot circumvent the anti-trust laws simply by claiming that he is selling a single product." United States v. Jerrold Electronics Corp., 187 F. Supp. 545, 559 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961). Used in this context, a minimum product is a product stripped to its bare minimum. For example, an automobile purchase involves the purchase of many items, such as tires, batteries, seats, etc. It would, however, be absurd to compel an automobile dealer to deal in a bare minimum, since such a requirement could result in sales of automobiles without seats, tires, etc. Thus, the \textit{Chicken Delight} court correctly looked for normal business practices to determine the two-product requirement. See \textit{In re 7-Eleven Franchise Antitrust Litigation}, 1974-2 Trade Cas. ¶ 75,429 (N.D. Cal. 1974); Beefy Trail, Inc. v. Beefy King Int'l, Inc., 348 F. Supp. 799, 806 (M.D. Fla. 1972). In \textit{Beefy Trail}, the court held that the sale of a restaurant with restaurant equipment therein did not meet the two-product test. Such a sale was considered analogous to the sale by an auto dealer of an automobile stripped to its bare essentials. The court stated, however, that if it were shown that the franchisor engaged in a course of conduct intended to circumvent the antitrust laws by this arrangement, its decision might have been to the contrary. \textit{Id.} at 807.

The seller's view of the arrangement may be of assistance to the courts in determining whether a tie-in has occurred. For example, the seller's billing method, United States v. Jerrold Electronics Corp., 187 F. Supp. 545, 559 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961), or his own purchase method, i.e., whether he purchases the products as distinct items, Susser v. Carvel Corp., 332 F.2d 505, 514 (2d Cir. 1964), \textit{cert. dismissed}, 381 U.S. 125 (1965) (Lumbard, C.J., dissenting in part), may tip the scale one way or the other.

\textsuperscript{48}The \textit{Chicken Delight} defendants, in maintaining that the trademark and the product it represented were not two distinct items, relied on United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918), wherein the Supreme Court stated that

\begin{quote}
[i]there is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed....
\end{quote}

\textsuperscript{49}Underlying this concept was the fundamental proposition that the trademark, by identifying product source, enables the consumer to distinguish between competing goods. "Since unmarked goods of varying quality frequently bear an exterior resemblance, the trademark [permitted] ... the consumer to purchase intelligently on the basis of prior satisfaction." \textit{Quality Control}, supra note 22, at 1174. See also \textit{Developments in the Law — Trade-marks and Unfair Competition}, 68 Harv. L. Rev. 814, 816 (1955) [hereinafter cited as \textit{Developments}].

\textsuperscript{50}See \textit{Developments}, supra note 49, at 816-17, where it is noted that the consumer, as a direct consequence of the impersonality of the marketing structure, thinks not of the producer or the name of the firm, but rather of the product itself. "By constant repetition, the mark is impressed on the consumer's mind," thus effecting an important advertising function. \textit{Id.} at 817. If the law were limited to protecting the trademarked goods on the
its origin, in part, to the "burgeoning business of franchising." The Chicken Delight franchise was not established to distribute the marked goods of the franchisor, but rather to assure the buying public a uniform standard of quality. Invoking the Supreme Court's reasoning in International Salt Co. v. United States, United

"source" theory, it would also incidentally enhance the symbolic force of the mark with respect to the advertising, appearance, appeal, and presumed quality of the goods in the eye of the consumer. See also Diggins, Trade-Marks and Restraints of Trade. 32 Geo. L.J. 113, 115 (1944).

The "product quality" theory of the function of trademarks has been termed the "guaranty theory." Quality Control, supra note 22, at 1177. The guaranty theory has had far reaching implications in the area of trademark licensing. Under the source theory, which attempts to protect consumer expectation of product origin, licensing is permissible only where the licensor actively participates in the preparation of the final product through the supplying of an essential ingredient or service. In contrast, the guaranty theory removes the need for such active participation, substituting a quality control requirement. Thus, the manufacturer of a brand-name product can license the trademark provided he has some degree of control over the quality of the end product. Id.

A good indication of the extent of the franchising business is found in Ungar v. Dunkin' Donuts of America, Inc., 68 F.R.D. 65, 109 n.38 (E.D. Pa. 1975), rev'd on other grounds, 531 F.2d 1211 (3d Cir. 1976), petition for cert. filed, 44 U.S.L.W. 3645 (U.S. Apr. 10, 1976) (No. 75-1636). The Ungar court, discussing figures released by the United States Department of Commerce for the year 1972, observed that "franchised businesses in the United States accounted for over $131 billion in annual sales in 1971, representing 35% of retail sales and 13% of the Gross National Product. Published figures show that 1972 sales in the fast-food franchising industry alone were $5.8 billion dollars." 68 F.R.D. at 109 n.38. The projected number of franchised operations for 1976 is over 600,000. See note 19 supra. See also Trademark Franchising, supra note 16, at 1086.

448 F.2d at 48-49. See note 50 supra. Compare Mid-America ICEE, Inc. v. John E. Mitchell Co., 1973-2 Trade Cas. ¶74,681 (D. Ore. 1973), and Refrigeration Eng'g Corp. v. Frick Co., 370 F. Supp. 702, 709-12 (W.D. Tex. 1974), with Detroit City Dairy, Inc. v. Kowalski Sausage Co., 393 F. Supp. 453 (E.D. Mich. 1975). In ICEE, the court stated that the public probably did associate the trademark with a particular standard of quality rather than with a particular source. 1973-2 Trade Cas. ¶74,681, at 94,986. Nonetheless, the court concluded that the trademark was a representation of product origin, not product quality. Id., at 94,987. This was prompted by the fact that the defendant viewed its trademark as representative of product origin rather than product quality, i.e., the defendant manufactured the machines producing the end product itself, and its business was not selling trademarks or franchises, but rather manufacturing machines. Id. The Frick court termed the sale of trademarks and/or franchises as the "rent-a-name" business, wherein the trademark clearly is not a representation of product origin. 370 F. Supp. at 711. The Kowalski court, in holding that the trademark in question was a representation of product quality, and thus, could be a separate product, found that an illegal tie existed where receipt of the trademark was conditioned on the purchase of products not manufactured by the defendant, products for which the trademark could not be considered a symbol of origin. When used for this purpose, a trademark can function as a tying product. Id. These three cases suggest that where a trademark is affixed by a franchisor to products manufactured by him, he is not in the "rent-a-name" business with respect to this use. It can be argued, therefore, that the trademark is not separate and distinct from the product to which it is affixed, and thus, cannot be a tying product. Absent an admission to the contrary, the franchisor views his trademark as a representation of product origin. If, however, he seeks to have a trademark affixed to products not manufactured by him, his trademark is merely for hire, separate and distinct from the products to which it is affixed and capable of functioning as a tying product. In this situation, his sole interest in the trademark with respect to the public is to assure product quality. See generally Redd v. Shell Oil Co., 524 F.2d 1054 (10th Cir. 1975), cert. denied, 96 S. Ct. 1508 (1976). See text accompanying notes 97-102 infra.

States v. Paramount Pictures, Inc.,\textsuperscript{54} and United States v. Loew's Inc.,\textsuperscript{55} which held that the limited monopoly granted the holder of a patent or copyright was not to be extended to tied products,\textsuperscript{56} the Chicken Delight court refused to extend the franchise trademark protection to the individual tied products. Deception of the public should not occur since it has no reason to connect "common articles," \textit{i.e.} tied items such as napkins, cups, and spoons, with the Chicken Delight trademark.\textsuperscript{57}

Regarding the presumption of sufficient economic power over the tying product, the Ninth Circuit agreed with the district court that "Chicken Delight's unique registered trade-mark, in combination with its demonstrated power to impose a tie-in, established as a matter of law the existence of sufficient market power to bring the case within the Sherman Act."\textsuperscript{58} Analogizing trademarks to patents and copyrights, the court stated:

Just as the patent or copyright forecloses competitors from offering the distinctive product on the market, so the registered trade-mark presents a legal barrier against competition. It is not the nature of the public interest that has caused the legal barrier to be erected that is the basis for the presumption, but the fact that such a barrier does exist. Accordingly we see no reason why the presumption that exists in the case of the patent and copyright does not equally apply to the trade-mark.\textsuperscript{59}

Presented with a similar situation some 3 years later, the Court of Appeals for the Fifth Circuit, in \textit{Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.},\textsuperscript{60} hastened to adopt the Ninth Circuit's rationale on the trademark presumption. More recently, various district courts also have followed the \textit{Chicken Delight} reasoning.\textsuperscript{61}

\textsuperscript{54}334 U.S. 131 (1948).
\textsuperscript{55}371 U.S. 38 (1962).
\textsuperscript{56}See text accompanying notes 103-08 infra.
\textsuperscript{57}448 F.2d at 49.
\textsuperscript{59}448 F.2d at 50 (footnote omitted).
\textsuperscript{60}463 F.2d 1002 (5th Cir.), cert. denied, 409 U.S. 1086 (1972).
When the Second Circuit was later given the opportunity to overrule Carvel, in Capital Temporaries, Inc. v. Olsten Corp., and thereby conform to the decisions of the Ninth and Fifth Circuits, it refused to do so. Olsten involved a suit by a franchisee under section 1 of the Sherman Act. Engaged in the business of supplying temporary personnel, Olsten supplied white-collar office personnel under the name and registered trademark of Olsten and blue-collar workers under the name and registered trademark of Handy Andy Labor. Plaintiffs alleged that in order to procure the license for the white-collar personnel service, a franchisee was required to establish and operate a blue-collar service under the Handy Andy Labor trademark. The tying product, plaintiffs claimed, was the white-collar franchise, while the tied product was the blue-collar franchise. On the issue of the presumption of economic power, the plaintiffs argued that the reasoning of the Ninth Circuit in Chicken Delight and of the Fifth Circuit in Warriner Hermetics should be adopted by the Second Circuit. In refusing to do so, the Olsten court viewed the essence of a trademark as merely a means of identifying the franchisor. Surely, said the court, there was nothing so unique in the techniques or method of operation of Olsten that the same services could not be offered by others. Quoting from the Supreme Court's 1918 decision in United Drug Co. v. Theodore Rectanus Co., the Second Circuit concluded that "there is no such thing as property in a trade-mark except as a right appur-


62 506 F.2d 658 (2d Cir. 1974).
63 Such business is a "service" and therefore is not subject to § 3 of the Clayton Act. Id. at 661 n.1. See note 31 supra.
64 506 F.2d at 660.
65 Id. at 663.
66 Id. Others could offer services identical to Olsten's provided they did not represent or pass them off to be "Olsten" services. Cf. United States v. Steffens (Trade-Mark Cases), 100 U.S. 90 (1879). The court misses this crucial distinction. Olsten services evoke from former clients the recollection of previous satisfactory experiences in hiring office personnel, and give them a basis for making an informed choice in the future. From the franchisee's point of view, this benefit will be reaped whether the client has used personnel from his particular franchise operation or from another's, as long as it was an Olsten franchisee. Thus, in his "sales pitch," the Olsten franchisee takes advantage of the good name of the Olsten system as well as the benefits flowing from its advertising. See generally Diggins, Trade-Marks and Restraints of Trade, 32 Geo. L.J. 113, 114-16 (1944). This point was recognized by the Carvel majority, though in a somewhat narrower form: "The true tying item was rather the Carvel trademark, whose growing repute was intended to help the little band of Carvel dealers swim a bit faster than their numerous rivals up the highly competitive stream." Susser v. Carvel Corp., 332 F.2d 505, 519 (2d Cir. 1964), cert. dismissed, 381 U.S. 125 (1965).
67 248 U.S. 90 (1918).
tenant to an established business or trade . . . .”\textsuperscript{68} Moreover, no Supreme Court decision has gone any further than to presume economic power of the defendant where the tying product was patented or copyrighted.\textsuperscript{69}

The conflict among the circuits on this issue is likely to encourage forum shopping, especially in the context of trademark franchising.\textsuperscript{70} By limiting the tying arrangement to the confines of the Second Circuit, a franchisor’s imposition of such requirements may well pass judicial scrutiny if that circuit continues to follow its reasoning as to the significance of a trademark in a tie-in situation.\textsuperscript{71}

\textbf{CONSIDERATIONS IN TRADEMARK TYING CASES}

\textit{The Source and Guaranty Theories of Trademarks – The Two Product Test}

The \textit{Chicken Delight} court set forth a far-reaching concept when it stated that the historical conception of a trademark as simply

\textsuperscript{68} 506 F.2d at 663, quoting United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918).

\textsuperscript{69} 506 F.2d at 663. The court also stated that \textit{Carvel}, \textit{Chicken Delight}, and \textit{Warriner Hermetics} involved questions of \textit{market dominance} in the tying product. These were traditional tying situations said the court, the only difference being that the \textit{Carvel} majority failed to find that the trademark “had the requisite [economic] leverage.” Id. Perhaps the reason why the court did not go on to say that Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 (1969) overruled \textit{Carvel} vis-à-vis the relevant standard of economic power in the tying product, see notes 35 & 37 supra, is that \textit{Olsten} is replete with references to “market dominance,” as was the \textit{Carvel} majority opinion. See, e.g., 506 F.2d at 664, 668. One district court has recognized that \textit{Olsten} misapplied \textit{Fortner}. Ungar v. Dunkin' Donuts of America, Inc., 68 F.R.D. 65, 94 n.24 (E.D. Pa. 1975), rev’d on other grounds, 531 F.2d 1211 (3d Cir. 1976), petition for cert. filed, 44 U.S.L.W. 3645 (U.S. Apr. 10, 1976) (No. 75-1636). The \textit{Olsten} view is difficult to reconcile with \textit{Fortner} since the \textit{Olsten} court itself acknowledged “that \textit{Fortner} further diluted the market dominance criterion for tying.” 506 F.2d at 664 n.4.


\textsuperscript{71} It is possible to distinguish \textit{Olsten} in two ways. First, if plaintiff's action challenges a “typical” franchisor-franchisee tying arrangement where the tied items are commodities for which the franchisor does not possess a trademark, the plaintiff can argue that the defendant franchisor is seeking to extend the protection of his trademark to items for which he has not been granted the use of the mark. Second, plaintiff might be able to prove, by the use of pretrial discovery, that defendant views his trademark as a “representation of product quality” rather than of “product origin.” Recent district court cases have discussed this latter approach, holding that where a franchisor opts for the former definition of his trademark, the mark is found to be a product separate and distinct from items tied to it. See note 52 supra. This was the first stumbling block faced by the \textit{Olsten} court. Since it did not find that the \textit{Olsten} trademark was a separate product, the two-product condition to finding a tying arrangement was not present. 506 F.2d at 665-66. See text accompanying notes 67-68 supra. However, if the defendant sells trademarks en masse symbolizing his business and method of operation, a court should have no hesitancy in finding the trademark capable of being a tying product. See note 52 supra. It might then be urged that the \textit{Olsten} court, in refusing to find the requisite economic power in the trademark, did not consider the case before it to be a “well-recognized and customary tying situation” of the franchisor-franchisee relationship. \textit{But see} Esposito v. Mister Softee, Inc., 5 \textit{TRADE REG. REP.} (1976-1 Trade Cas.) ¶ 60,786 (E.D.N.Y. Feb. 25, 1976), wherein the court, relying on \textit{Olsten}, refused to presume sufficient economic power with respect to the trademark even though the case presented a “well-recognized and customary tying situation” in the franchisor-franchisee relationship.
identifying the source of the product to which it is attached\textsuperscript{72} has largely been abandoned in favor of a new rationale,\textsuperscript{73} the guaranty theory,\textsuperscript{74} which views a trademark as a representation of product quality. The belief that a trademark represents the source or origin of the product to which it is affixed developed because of the confinement of distribution to local areas. In such a system, consumers were able to learn of, and rely upon, the identity of the producer of the goods.\textsuperscript{75} With the shift of the economy to a more complex system of distribution, due in no small part, as pointed out in \textit{Chicken Delight}, to the "burgeoning business of franchising,"\textsuperscript{76} trademarks can no longer realistically be used to identify the physical source from which the product originates.\textsuperscript{77} The average consumer, seeing a mark on certain products, thinks not of the identity of their maker, but of his previous experiences together with favorable or unfavorable recommendations about products sold under that mark. If the consumer's previous experience with the product has been favorable, the trademark will be an asset to its owner.\textsuperscript{78} The trademark represents to the consumer not what the product is, but what it is reputed to be. The mark conveys a generalized idea of a standard of quality which the product is expected to meet. Thus, the appeal of a familiar brand may prevail in a consumer's choice irrespective of the comparative merit of the product. Additionally, the trademark owner's advertisements of product quality influence the consumer in the selecting process.

From an antitrust perspective, where a trademark is used to effectuate a tie-in, the court's conclusion as to which theory of trademarks is applicable may be an extremely crucial factor. Two recent district court cases highlight this distinction.\textsuperscript{79} In \textit{Mid-America ICEE, Inc. v. John E. Mitchell Co.},\textsuperscript{80} a private antitrust action seeking treble damages and injunctive relief, plaintiffs alleged that defendants imposed illegal tie-ins in violation of section 3 of the Clayton Act. Defendant Mitchell was the sole manufacturer of machines which produced a certain carbonated beverage. Mitchell

\textsuperscript{72} \textit{Quality Control}, supra note 22, at 1174.
\textsuperscript{73} 448 F.2d at 48.
\textsuperscript{74} \textit{Quality Control}, supra note 22, at 1177.
\textsuperscript{75} \textit{Developments}, supra note 49, at 816-17.
\textsuperscript{76} 448 F.2d at 48.
\textsuperscript{77} \textit{Id. at} 48-49; \textit{cf. Developments}, supra note 49, at 817; \textit{Quality Control}, supra note 22, at 1174.
\textsuperscript{78} \textit{Cf. Developments}, supra note 49, at 817.
\textsuperscript{80} 1973-2 Trade Cas. \$74,681 (D. Ore. 1973).
also owned the ICEE trademark attached to both the carbonated beverage product and the machine which produced it. Plaintiffs were individuals and corporations who had purchased franchises from regional agents of Mitchell. These franchises gave plaintiffs the right to lease the ICEE machines and to place them in profitable locations in exclusive territories defined by each franchise. As the ICEE enterprise became more successful and well known, competitors of Mitchell began to make and market similar machines. The franchisees desired to buy competing machines and yet continue to use the ICEE trademark. Mitchell did not prevent the franchisees from using competing machines; it did, however, forbid plaintiffs from applying the ICEE trademark to anything other than its own machines and the drink dispensed by them.

By its very definition, the existence of a tying arrangement requires the involvement of two distinct products, both a tying and a tied product. Thus, although the practice of the defendants was couched in terms of a negative condition, i.e., if you buy products elsewhere, you may not operate under the trademark, the facts would seem to present a classic tying arrangement. Nonetheless, the ICEE court held that the two product requirement was not met. The issue presented to the court was: When does a trademark acquire sufficient substance in its own right to warrant treatment of it as an entity separate and apart from the object it identifies? While the court held that the ICEE trademark and machine were not separate products, it did acknowledge that the public most likely associated the ICEE name more with a particular kind of drink than with the machines produced by Mitchell. Even the defendant recognized a conceptual distinction between the machine and trademark, as evidenced by the fact that it licensed the trademark and the machines in separate clauses in the franchise contract. The court pointed out, however, that Mitchell manufactured the machines itself, and its business was the sale of machines,

---

81 See text accompanying notes 14-15 supra.
82 1973-2 Trade Cas. ¶74,681, at 94,986.
83 Id. In Redd v. Shell Oil Co., 524 F.2d 1054 (10th Cir. 1975), cert. denied, 96 S. Ct. 1508 (1976), plaintiff operated as a jobber for Shell gasoline, selling at wholesale prices products purchased from Shell. When plaintiff's jobber contract was terminated by Shell, suit was brought charging Shell with illegally tying the use of its trademark to the purchase of Shell products. The jobber contract stated that plaintiff had a right to sell products purchased from defendant Shell under the Shell trademark. In reversing a judgment for the plaintiff, the court held that the jobber contract did not create a franchise relationship, and that because of the fact that plaintiff had the right as opposed to the obligation to sell gasoline as Shell gasoline, "the trademark could be a representation, if plaintiff wanted to make it, that the gasoline was Shell gasoline and thus either made by or for Shell." Id. at 1056-57 (emphasis added).
84 1973-2 Trade Cas. ¶74,681 at 94,987.
not the sale of trademarks or franchises.\textsuperscript{85} Notwithstanding the fact that the public viewed the ICEE trademark as a representation of product quality, Mitchell treated its mark as a representation of product origin.\textsuperscript{86} Declaring that this position was reasonable and should not be disturbed, the court held that the two product test was not satisfied.

The franchise contract also contained, however, a clause requiring plaintiffs to purchase cups for the ICEE machines from sources designated by the defendant.\textsuperscript{87} The court found that this requirement established an illegal tie.\textsuperscript{88} In determining whether there existed sufficient economic power over the tying product to appreciably restrain free competition in the tied product, the court held that the trademark, together with patents covering the ICEE machine, indicated the existence of the requisite power.\textsuperscript{89}

In contrast to the ICEE holding is \textit{Detroit City Dairy, Inc. v. Kowalski Sausage Co.}\textsuperscript{90} The Kowalski plaintiff brought an action under section 1 of the Sherman Act and section 3 of the Clayton Act alleging that defendant engaged in an illegal tying arrangement with certain of its retailers. Plaintiff was a wholesale distributor of dairy, meat, and other food products. Defendant, a manufacturer of meat products, sold its own products and those of other manufacturers, known as "resale items," to retail customers and outlets. The franchised retail outlets were provided with a neon sign bearing the Kowalski name and trademark.\textsuperscript{91} Plaintiff contended that defendant tied the resale items to both the license to sell the Kowalski manufactured products and the retailer's right

\textsuperscript{85} \emph{Id.}; accord, Redd v. Shell Oil Co., 524 F.2d 1054, 1057 (10th Cir. 1975), cert. denied, 96 S. Ct. 1508 (1976).
\textsuperscript{86} 1973-2 Trade Cas. ¶74,681 at 94,987.
\textsuperscript{87} \emph{Id.}
\textsuperscript{88} \emph{Id.}
\textsuperscript{89} \emph{Id.} For this proposition, the court relied on Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 502-03 (1969). That portion of \textit{Fortner} referred to by the ICEE court stated that "the economic power over the tying product can be sufficient even though the power falls far short of dominance . . . ." \emph{Id.} Instead of relying on the traditional patent and copyright tying cases, see text accompanying notes 103-11 infra, the ICEE court felt comfortable in applying the \textit{Fortner} approach as to the unique attributes of a patent and trademark \textit{vis-à-vis} the standard of economic power. Similarly, in Esposito v. Mister Softee, Inc., 5 TRADE REG. REP. (1976-1 Trade Cas.) ¶60,786 (E.D.N.Y. Feb. 25, 1976), the court looked to \textit{Fortner} for the proposition that the requisite economic power over the tying product is presumed where the product is patented or copyrighted. \emph{Id.}, at 68,407, citing 394 U.S. 495, 505 n.2 (1969). See generally text accompanying notes 125-126 infra.
\textsuperscript{91} Although the neon sign which carried the Kowalski trademark and evidenced the franchise status was a valuable asset from an advertising standpoint, the court noted "that the tying product in this case is essentially a trademark," and that the sign bearing the Kowalski name represented a de facto license of the Kowalski trademark. \emph{Id.} at 470. As a trademark, the court found the tying product to be unique. \emph{Id.}
to keep his neon sign and franchise status. Following the same analytical procedure as did the ICEE court, the Kowalski court first applied the two product test. Clearly the Kowalski manufactured products were capable of being tying products. Theoretically, the neon sign, representing the Kowalski trademark, also could be considered a tying product, because "the sign is important, if at all, not because it is worth $75, but because it carries the Kowalski trademark and evidences the franchise status."\(^9\)

The court's examination of the ICEE decision provided guidance. In ICEE, the ICEE trademark was actually attached to the machine which had been manufactured and distributed by the defendant. Thus, notwithstanding public opinion as to the nature of the ICEE trademark, the product origin interpretation put forth by the defendant was reasonable.\(^9\) In Kowalski, plaintiff did not challenge the practice of conditioning receipt of the Kowalski trademark on the purchase of Kowalski manufactured products to which the trademark was affixed. Rather, the contention was that the receipt of the sign, in essence the trademark, was conditioned on the purchase of products not manufactured by Kowalski. These products, the resale items, were products for which the trademark could not be considered a symbol of origin. The conclusion reached by the court was that a trademark can be viewed as a tying product when it is used to tie products not manufactured by its owner.\(^9\) Turning to the issue of economic power, the Kowalski court stated that, based on the record before it,\(^9\) the goodwill and

\(^9\) Id. at 459.

\(^9\) See generally Refrigeration Eng'r Corp. v. Frick Co., 370 F. Supp. 702 (W.D. Tex. 1974). In Frich, plaintiff, who was in the business of servicing refrigeration systems, brought suit against defendant, a major domestic manufacturer of refrigeration equipment, for alleged illegal tie-ins. Plaintiff's contention that defendant's trademark was a tying product was rejected by the court because it was not separate from or sold separately from defendant's products. Id. at 711. The court made it clear that only certain specific trademarks, those trademarks which represent product quality, may be considered separate products.


\(^9\) Although appellate courts passing on the issue of a trademark presumption have examined the record before them to determine the economic power of the specific mark, their holdings are actually applicable to all trademarks. For example, in Carvel, Judge Lumbard, in his dissent, stated that sufficient economic power could be presumed from the Carvel trademark; he could "find no reason not to extend this presumption of economic power to trademarks." 332 F.2d at 513. A further examination of the record concerning the Carvel mark sustained his finding on the facts before him. Id. The majority of the Carvel panel, however, while conceding that there may be some instances where the trademark has attained such a degree of prominence that sufficiency of economic power should be presumed, stated that the Carvel mark, based on the record, was not such a mark. Id. at 519. See notes 35 & 37 supra. Thus, the majority accepted the proposition that in some cases a trademark could possess the requisite economic power. In Olsten, the court interpreted Carvel as precluding application of the presumption to a trademark, stating that "this circuit has already held that a trademark qua trademark is not a sufficient indication of dominance
public acceptance embodied in the trademark was sufficient to support a finding that the defendant possessed the economic power necessary to constitute a per se violation. 96

The rule which emerges from the ICEE and Kowalski cases would qualify the statement made by the Chicken Delight court that the trademark as a strict emblem of the source of a product to which it is attached has largely been replaced by the guaranty theory in the context of franchising. 97 If a seller himself manufactures a product to which his mark is affixed, and competitors in the field are in some manner prevented from producing such a product, the trademark will, over a period of time, attain the characteristic of a mark representative of product origin. Then, not withstanding the fact that the public may not view the seller's mark as such, the seller's theory of product origin will be sustained as reasonable. The two product test will not be satisfied because the mark and the product are indistinguishable. Hence, by definition, the arrangement cannot be a tie-in. 98 But if a seller affixes his mark to goods not in the first instance produced by him, with the attendant curtailment of competition, then his mark is merely one of

over the tying product to qualify for per se treatment under the Northern Pacific rubric." 506 F.2d at 663. Notwithstanding this statement, the Olsten court proceeded to examine the record concerning the Olsten mark, and with its finding that the franchise which the mark represented was no more attractive, unique, desirable, or effective than any other, the court reinforced its holding that a trademark could not warrant the presumption of the requisite economic power. Id.

In Chicken Delight, which involved a distinctly desirable and powerful mark, the court did not limit its holding, but broadly declared that the presumption which exists in the case of the patent and copyright should be equally applied to all trademarks. 448 F.2d at 50. Similarly, it was only after the Warriner Hermetics court concluded that the presumption should be extended to cases of trademarks in general that it examined the record and found that defendant was one of the most powerful members in the market. 463 F.2d at 1015.

A number of district courts, confronted with motions for summary judgment and faced with a bare record, have reached their decision on the basis of whether or not to invoke the presumption in the case of trademarks in general, not simply on the basis of the mark before them. See Esposito v. Mister Softee, Inc., 5 TRADE REG. REP. (1976-1 Trade Cas.) ¶ 60,786 (E.D.N.Y. Feb. 25, 1976); Ungar v. Dunkin' Donuts of America, Inc., 68 F.R.D. 65, 93 (E.D. Pa. 1975), rev'd on other grounds, 531 F.2d 1211 (3d Cir. 1976), petition for cert. filed, 44 U.S.L.W. 3645 (U.S. Apr. 10, 1976) (No. 75-1696). In Ungar, the court noted, however, that the Dunkin' Donuts trademark would, at a trial on the merits, emerge as far more distinctive than the Olsten trademark. 68 F.R.D. at 94 n. 24. In Hawkins v. Holiday Inns, Inc., 1975-1 Trade Cas. ¶ 60,153 (W.D. Tenn. 1975), and Falls Church Bratwursthaus, Inc. v. Bratwursthaus Management Corp., 368 F. Supp. 1237, 1240 (E.D. Va. 1973), the courts went so far as to state that in considering the applicability of the presumption, a trademark should be treated like a patent or copyright. Cf. In re Chock Full O'Nuts Corp., 3 TRADE REG. REP. ¶ 20,441, at 20,340-41 (FTC 1973) (the patent and copyright presumption should be extended to the case of a trademark); Aamco Automatic Transmissions, Inc. v. Tayloe, 368 F. Supp. 1283, 1289 (E.D. Pa. 1973).

96 393 F. Supp. at 471.
97 448 F.2d at 48. For a discussion of the source and guaranty theories, see text accompanying notes 72-78 supra.
98 See text accompanying notes 14-15 supra.
product quality, a guaranty to the public of a certain standard. Here the trademark is in fact separately marketable and defined apart from the goods to which it may be affixed. In this instance, a trademark may be a tying product. Logically, it should make no difference that the seller views his mark as one of product origin; such a view should be held unreasonable.

It is noteworthy that the franchise arrangement will almost always be placed in this second category. The typical franchisor licenses his trademarks en masse. In reality, the franchisor is in what one court has termed the "rent-a-name" business. It is only where the appurtenant products to the franchised trademark are not amenable to reasonable specification, or where a trade secret is involved, that the franchisor may be justified in requiring

---

99 Although the Olsten decision involved a franchise arrangement, the Second Circuit did not consider it a "customary" tying situation such as those in Carvel, Chicken Delight, and Warriner Hermetics. 506 F.2d at 664. Apparently, the Olsten court felt that the normal tying situation involves the forced purchase of commodities as tied products not sufficiently connected to the trademark. This is highlighted by the court's statement that "it has never been held that the sale of two trademarked, copyrighted, or even patented commodities, without more, constitutes a tying arrangement." Id. at 663. Thus, the court concluded, since the tied "product" was trademarked, as was the blue-collar franchise, the arrangement fell outside the realm of the customary tying situation because it did not involve the purchase of a commodity as a tied product to which the trademark could not reasonably be expected to relate. Id. at 663-64. But cf. United States v. Loew's Inc., 371 U.S. 38 (1962) (two copyright-ed products can be involved in a tie-in).


101 See note 22 supra.

102 "The 'trade secret' has been defined many times with varying degrees of precision." M. Finnegan & R. Goldscheider, CURRENT TRENDS IN DOMESTIC AND INTERNATIONAL LICENSING 181 (PLI 1976). The most widely recognized definition is that given by the Restatement of Torts:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

RESTATEMENT OF TORTS § 757, comment b (1939). To be protected by the obligation of secrecy, trade practices must be in fact secret. Although a trade secret is not subject to the rigorous preconditions required for patentability, viz., novelty, invention, and nonobviousness, it must at least amount to some type of discovery. Matters generally known or easily discernible cannot be trade secrets. Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250, 257-59 (S.D. Cal. 1958), aff'd per curiam, 283 F.2d 695 (9th Cir. 1960). The Supreme Court has praised protection of trade secrets because it "promotes the sharing of knowledge, and the efficient operation of industry ..." Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 493 (1974). It has been suggested, however, that despite the existence of a genuine trade secret, the courts should be extremely wary of tolerating abuses in the franchise situation. See Franchise Misuse, supra note 11, at 1156, wherein it is noted that while patents are subject to the scrutiny of the patent office and are limited in duration, trade secrets are not subject to review and are perpetual provided they remain confidential. The trade secret defense was recognized by the Chicken Delight court as a possible justification for refusing to provide specifications for tied products. 448 F.2d at 51 n.9. The Federal Trade Commission has suggested, however, that a balance must be struck between preventing the divulgence of trade secrets and the countervailing policies of the antitrust laws, i.e., the encouragement of unrestrained trade. Consequently, the better view is thought to be that sellers who own trade
that the appurtenant items be obtained from the franchisor or from suppliers designated by him.

THE PATENT AND COPYRIGHT PRESUMPTION — A COMPARISON TO THE DEVELOPMENT OF TRADEMARK CHARACTERISTICS

The presumption of sufficient economic power where the tying item is patented or copyrighted evolved from three Supreme Court decisions. The first, International Salt Co. v. United States, involved a civil action brought by the United States to enjoin International Salt from carrying out certain provisions of its equipment leases. International Salt owned patents on two machines that were designed to be used with salt products. One machine, the "Lixator," dissolved rock salt into a brine that was used in various industrial processes. The other machine, the "Saltomat," injected salt in tablet form into canned products during the canning process. International Salt's leases required that the lessees purchase from International Salt all unpatented salt products to be used in the patented machines. In affirming the granting of the Government's motion for summary judgment, the Supreme Court held this practice illegal. The Court acknowledged that the patents did confer a limited monopoly, but felt that the monopoly did not extend to the unpatented salt products.

As a result of this illegal

secrets should be compelled to provide specifications to manufacturers designated by the buyer even if the specifications are trade secrets. The seller, of course, is protected by "appropriate legal remedies in the event of disclosure of alleged secrets by such manufacturers." In re Chock Full O'Nuts Corp., 3 TRADE REG. REP. T 20,441, at 20,347 (FTC 1973); accord, Franchise Misuse, supra note 11, at 1156.

International Salt also provided a good example of a disguised tie-in. The leases provided that if any competitor offered salt products of an equal grade, the lessee was permitted to buy competing products in the open market unless the lessor could furnish the salt at an equivalent price. The Court rejected the contention that this provision transformed the lease into a reasonable restraint of trade. Id. at 396-97.

In addition, International Salt contended that, since it was under an obligation in each lease to repair and maintain the machines, precluding the use of competing salt products in its machines was reasonable. The lessor claimed that the high quality of its own salt products assured satisfactory machine operation and lower maintenance costs. In United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961), a similar defense was held viable in the limited circumstances where the tie-in is used in a new industry and competitors do not possess the requisite experience in the tied products to be able to ensure that they would function adequately. The court found that permitting outside concerns to provide the tied products was likely to result in nascent failures and the destruction of the new industry. 187 F. Supp. at 557. As the technology of
tying lease, the lessor tended to foreclose competition in the market for the salt products by an unwarranted extension of its limited patent monopoly.

In *United States v. Paramount Pictures, Inc.*, the Government brought suit alleging, in part, that the practice of block-booking by the defendants violated the antitrust laws. Block-booking is the practice of licensing or offering a desirable feature film or group thereof on the condition that the exhibitor also accept a licensing agreement for another, less desirable feature or group released by the distributors. For example, in order to show desirable films such as “Sergeant York” and “Treasure of Sierra Madre,” the exhibitor would have to agree to take undesirable films such as “Gorilla Man” and “Tugboat Annie Sails Again.” In the *Paramount* case, both the desirable and the undesirable films were copyrighted. The Court held the arrangement illegal, reasoning that were it to be condoned, the tie-in would allow the tied product, the inferior film, to draw on the quality of the tying product, the superior film, thus expanding the monopoly created by the copyright beyond the limited purpose intended by Congress.

The full import of *International Salt* and *Paramount* was demonstrated in *United States v. Loew’s Inc.*, another block-booking case. Relying on both *International Salt* and *Paramount*, the Court found the Loew’s block-booking practice to be illegal. Discussing the measure of power that the seller must have in the tying product, the Court acknowledged that the *Northern Pacific* standard of “‘sufficient economic power with respect to the tying product to appreciably restrain free competition in the market for the tied product . . . .’” was the correct point of focus. The Court held that this standard is to be presumed when the tying product is patented or copyrighted.

In addition to crystallizing the presumption doctrine with respect to patents and copyrights, the *Loew’s* Court introduced a new concept into the requisite standard for finding sufficient economic power by declaring that the power “may be inferred from the tying

---

the new industry matures and becomes more amenable to specification, however, the persuasiveness of this defense begins to ebb. *Id.* at 558. See generally Note, *Newcomer Defenses: Reasonable Use of Tie-ins, Franchises, Territorials, and Exclusives*, 18 STAN. L. REV. 457 (1966).

105 334 U.S. 131 (1948).

106 *Id.* at 156.


108 334 U.S. at 158.


110 *Id.* at 45, quoting *Northern Pac. Ry. v. United States*, 356 U.S. 1, 6 (1958), discussed in note 27 supra.

111 371 U.S. at 45.
product's desirability to consumers or from uniqueness in its attributes."\textsuperscript{112} The Court stated that since either uniqueness or consumer appeal can demonstrate the requisite market power, "it should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product and into the corollary problem of the seller's percentage share in that market,"\textsuperscript{113} particularly when the tying product is patented or copyrighted.\textsuperscript{114} The Court did acknowledge, however, that although it was difficult to conceive of such cases, there might be instances where the presumption is inapplicable in cases involving patents and/or copyrights.\textsuperscript{115}

A reading of \textit{Loew's} in light of the Supreme Court's most recent pronouncement in this area suggests that the presumption of sufficient economic power will exist not only where the tying product is a patented or copyrighted item, but also where it is unique and there is a legal or practical barrier to competition with respect to that product. In \textit{Fortner Enterprises, Inc. v. United States Steel Corp.},\textsuperscript{116} an action seeking treble damages for violations of section 1 of the Sherman Act, plaintiff Fortner charged that United States Steel and its wholly owned subsidiary, United States Steel Home Credit Corporation, had violated the Sherman Act in the sale of prefabricated housing. Plaintiff's complaint charged that in order to obtain loans for the purchase and development of certain land in Louisville, Kentucky, plaintiff had been required to agree to erect a prefabricated house manufactured by United States Steel on each lot purchased with the loan proceeds. The district court granted summary judgment for the defendants, holding that plaintiff failed to raise any question of fact as to a violation of the antitrust laws.\textsuperscript{117} Despite the district court's conclusion that the

\textsuperscript{112} Id.

\textsuperscript{113} Id. at 45 n.4. When the "statutorily dispensed" monopoly of the patent and copyright comes into conflict with the statutory principles of free competition, enlargement of the scope of the patent or copyright monopoly via tying arrangements must be strictly confined. \textit{Id.} at 49.

In \textit{Fortner Enterprises, Inc. v. United States Steel Corp.}, 394 U.S. 495 (1969), a credit offering was sufficiently unique to possess the requisite economic power necessary to constitute a per se violation. The court noted that uniqueness can confer economic power upon the party offering the distinctive product only when competitors are in some way prevented from offering it themselves. These barriers may be legal, as in the case of patents and copyrights, or economic, as where competitors simply cannot produce the distinctive product profitably. \textit{Id.} at 505 n.2. See text accompanying notes 121-23 infra.

\textsuperscript{114} 371 U.S. at 45 n.4; see \textit{Fortner Enterprises, Inc. v. United States Steel Corp.}, 394 U.S. 495, 505 n.2. (1969).

\textsuperscript{115} 371 U.S. at 49-50.


\textsuperscript{117} 293 F. Supp. at 769.
agreement in question was a tie-in, with the credit terms being the tying product and the prefabricated houses the tied product, it was the opinion of the court that Fortner had failed to establish the prerequisites of per se illegality, i.e., sufficient market power over the tying product and a foreclosure of the requisite amount of commerce in the tied product market.

The Supreme Court reversed. Finding that the district court had applied an erroneous standard in weighing the necessary amount of commerce to be foreclosed, the Court stated that the proper inquiry was whether more than a de minimis amount of commerce was foreclosed by the tie-in. Turning then to the question of sufficient economic power in the tying product, the Court looked with approval to the Loew's decision, wherein it was stated that the crucial economic power of the tying product may be inferred from its desirability to consumers or from the uniqueness of its attributes. The basis for this standard lies in the recognition that tying arrangements generally serve no legitimate purpose, and thus, the presence of any appreciable restraint on competition provides a sufficient reason for declaring the tie illegal. The Court declared that such an appreciable restraint is present "whenever the seller can exert some power over some of the buyers in the market, even if his power is not complete over them and over all other buyers in the market." The test set forth was "whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market."

Contending that the financing made available by defendant was unique in the credit market, the plaintiff argued that the requisite economic power could be inferred from the unique terms which set apart defendant's credit terms from those of its competitors. Elaborating on the Loew's decision, the Court stated that

---

118 Id. at 767-69; see note 27 supra.
119 394 U.S. at 501-02. The Court reaffirmed the principle, which had been misconstrued by the district court, that the Northern Pacific standards must be met only to prove a per se violation. Id. at 499-500. If plaintiff cannot meet the burden of proof on the per se theory, summary judgment for defendant is improper because plaintiff may still be able to establish a violation using the rule of reason test whereby "inquiry is made under the general standards of the Sherman Act with a thorough examination into the purposes and effects of the practices involved." Bogosian v. Gulf Oil Corp., 393 F. Supp. 1046, 1055 n.18 (E.D. Pa. 1975). To be successful in this regard, plaintiff must prove an unreasonable restraint of competition. Id; see note 16 supra.
120 394 U.S. at 501; see note 18 supra.
121 394 U.S. at 503.
123 394 U.S. at 504.
124 Id. at 504-05.
uniqueness gives rise to sufficient economic power over the tying product only when competitors are in some way foreclosed from offering the distinctive product themselves. In the case of patented or copyrighted tying products, the barrier is a legal one. The Court recognized, however, that despite the absence of a legal obstacle preventing competitors from offering a product, an economic barrier may exist if the product cannot be offered profitably.

Hence, the concepts of uniqueness and consumer appeal introduced in Loew's must be viewed in light of Fortner's elaboration of these ideas plus its own notion of a legal or practical barrier imposed upon competitors, foreclosing their ability to compete on an equal basis. Consequently, the definition of "market" must take into consideration both "buyers" and "competitors," within the market. Reading Loew's and Fortner together, one can derive the following test: an appreciate restraint on competition results when the seller can impose a tying arrangement with respect to any appreciable number of buyers in the market where the tying product is unique and competitors are foreclosed from offering the same product. This Loew's-Fortner test lends itself particularly well to the analysis of a trademark. A trademark is clearly unique since its owner can prevent any unauthorized person from using his mark. Moreover, a mark may not be filed on the principal

125 Id. at 505 n.2.
126 Id. On remand, the Court of Appeals for the Sixth Circuit held that the Supreme Court's decision in Fortner made it clear that evidence of the economic barrier coupled with a showing of uniqueness provided a less stringent standard for demonstrating that competitors are in some way prevented from offering the product. Thus, a plaintiff relying on these factors could introduce evidence of noncompetitive higher prices in the tied-product market, or evidence of the number of buyers accepting the tie-in as tending to prove the economic barrier. Fortner Enterprises, Inc. v. United States Steel Corp., 523 F.2d 961 (6th Cir. 1975), cert. granted, 96 S. Ct. 1100 (1976). By recognizing the economic barrier, the Court has reflected a clear trend, one of "a steady diminution in the strictness of proof required to establish the economic power requisite of an unlawful tie." Ungar v. Dunkin' Donuts of America, Inc., 68 F.R.D. 65, 93 (E.D. Pa. 1975), rev'd on other grounds, 531 F.2d 1211 (3d Cir. 1976), petition for cert. filed, 44 U.S.L.W. 3645 (U.S. Apr. 10, 1976) (No. 75-1636).

127 In further explaining the type of question to be asked in determining whether a seller has such power, the Fortner Court specifically noted that one of the inquiries is whether the seller has the power to impose unilaterally burdensome terms, "such as a tie-in," over any appreciable number of buyers. 394 U.S. at 504. Clearly, in the context of trademark franchising, the relevant buyers are the franchisees. See text accompanying note 131 infra.

128 The owner of the mark may secure an injunction in the following situations:

(a) Where an infringer is engaged solely in the business of printing the mark for others and establishes that he was an innocent infringer, the owner of the right infringed shall be entitled ... only to an injunction against future printing; (b) where the infringement complained of is contained in or is part of paid advertising matter ... the remedies of the owner of the right infringed ... shall be confined to an injunction against the presentation of such advertising matter in future issues ... .

15 U.S.C. § 1114(2) (1970). In all other situations, i.e., a knowing infringement, an injunction
register if it conflicts with a previously filed mark. A trademark owner would be the first to contend that his mark is one of a kind, thus satisfying the uniqueness test of *Loew's*. The barrier-foreclosure requirement of *Fortner* is also satisfied in that trademark infringement sanctions are intended to do just that; competitors are foreclosed from offering a trademarked product or the license of a trademark without the consent of the owner.

The next step in this analysis is to define the market and decide whether the seller has the power to impose tie-ins with respect to any appreciable number of buyers therein. In the usual franchise tie-in case, where a seller is on the wholesale rent-a-name level and does not sell directly to the public, the market is limited. The buyers are the present and prospective franchisees and the market is the market for those goods the franchise is established to distribute. The more narrowly the market is defined, the fewer will be the number of buyers therein. Thus, the “appreciable” number of buyers who must be found to be operating under the tie-in will decrease. In *Carvel*, the market was that for freshly made soft ice cream franchises, in *Chicken Delight* for “take-out” chicken franchises, and in *Olsten*, for white-collar temporary personnel franchises. Thus, proof of tie-ins, either through use of the franchisor’s form contract or though a company enforced policy, should meet the *Fortner* test with reference to any appreciable number of present or prospective franchisee-buyers within the market.

Two potential problems may arise in attempting to define the market: First, where the market is overwhelmingly large, proof of a
tie-in with respect to an appreciable number of buyers is a massive undertaking; and second, a court may construe the word "appreciable" to mean "the overwhelming majority." In such a case, the per se doctrine could well lose all its vitality. It is suggested, however, that a plaintiff faced with either or both of the above problems may look to Loew's for assistance. Although the Loew's Court focused on the concept of uniqueness or consumer appeal, it also stated that in a case concerning a unique tying product, "it should seldom be necessary . . . to embark upon a full-scale factual inquiry into the scope of the relevant market . . . and into the corollary problem of the seller's percentage share in that market." Since both Loew's and Fortner were tying cases, it might be argued that a successful Fortner demonstration, i.e. some buyers in the market were victimized by the tie-in, is of probative value to plaintiffs in meeting the Loew's burden of proving that the tying item is unique or desirable to buyers in that market.

The Loew's-Fortner approach could be applied equally well to franchising arrangements where the trademark represents the source of the goods produced by the franchisor rather than being a representation of the quality of the finished product, which is often prepared on the franchisee's premises. It cannot be denied that competitors of the franchisor are foreclosed from offering such a product bearing his distinctive trademark to the buyers in the market, i.e., present or potential franchisees.

If the franchisor's trademark is not separate and distinct from the product to which it is affixed, then that product cannot be distributed by his competitors through franchisees who have opted to bind themselves to the franchisor. Hence, in this situation, too, a showing that the franchisor has the ability to drive a tie-in of other products to such a trademarked "tying" commodity with respect to an appreciable number of present or prospective franchisees would be persuasive evidence of such a commodity's uniqueness and desirability, and thus, evidence of a possible section 3 Clayton Act violation. Indeed, if sufficient economic power in the tying trademarked commodity can be established under the Loew's-Fortner test of uniqueness and desirability, the plaintiff need not proceed to show that a requisite amount of commerce in the tied product was foreclosed.

---

132 371 U.S. at 45 n.4 (emphasis added).

133 When the tying product is a commodity, the plaintiff need not satisfy both conditions for a per se Sherman Act violation, since a showing of either condition is sufficient to prove a per se violation under the Clayton Act. Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 608-09 (1953); Advance Business Sys. & Supply Co. v. SCM Corp., 415 F.2d
As was noted earlier, a tying arrangement wherein the tying product is patented or copyrighted is an attempted extension of the limited monopoly already afforded a patent or copyright owner. The Loew's Court, which confirmed the existence of this presumption, stated that it had its roots in cases where the plaintiff was also the patentee. Historically, if a patentee sued for infringement of his patent, proof of the use of the patent to violate the antitrust laws was a complete defense.

As an outgrowth of these cases, the presumption was developed and applied when the patentee was a defendant in an antitrust suit. Thus, this historical approach by the courts — denying relief in patent infringement cases and the consequent invoking of the presumption in patent tie-in cases — is essentially a backlash response to the attempted extension of the patent monopoly. To test the suitability of this approach when dealing with trademarks, one might inquire whether courts have denied relief in trademark infringement suits where the mark has been used in violation of the antitrust laws, specifically, where the mark has been used in connection with a tying arrangement. The cases previously examined which have come to the conclusion that the presumption should be invoked in the case of a trademark have done so by either a comparison of the trademark with the patent and copyright, or an assessment of the trademark's dominance in its own right. It is suggested that the courts could also easily adopt the backlash logic previously invoked in the patent infringement cases as a reason for invoking the presumption in the case of a trademark.

One of the earliest cases involving a patent infringement suit


134 See text accompanying notes 103-08 supra.

135 The Court stated that:

This principle grew out of a long line of patent cases which had eventuated in the doctrine that a patentee who utilized tying arrangements would be denied all relief against infringements of his patent . . . . These cases reflect a hostility to use of the statutorily granted patent monopoly to extend the patentee's economic control to unpatented products. The patentee is protected as to his invention, but may not use his patent rights to exact tribute for other articles.

371 U.S. at 46 (citations omitted). The Court went on to state that this logic was extended to copyrights in United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948). 371 U.S. at 46.

136 An infringer is one who, without authority, "makes, uses or sells any patented invention, within the United States during the term of the patent therefor . . . ." 35 U.S.C. § 271 (1970).
in which an antitrust violation was asserted as a defense was Morton Salt Co. v. G.S. Suppiger Co. In Morton Salt, the district court granted defendant's motion for summary judgment, dismissing the complaint because the plaintiff was using its patent to effect an illegal tying arrangement. The Court of Appeals for the Seventh Circuit, unable to find any substantial lessening of competition or the creation of a monopoly, reversed. The Supreme Court, in reversing the Seventh Circuit, stated that the question was not whether plaintiff had in fact violated the Clayton Act, but rather whether a court of equity would lend its aid in protecting the patent monopoly where the owner used the patent as a means of restraining competition. The patent monopoly is granted pursuant to constitutional authorization, but the public policy which gives limited protection to inventions meriting a patent excludes all that is not embraced in the invention. Under these circumstances, equity may rightfully withhold assistance in an infringement suit and should do so at least until it appears that the improper practice has ceased. Stating that the suit should be dismissed for want of equity, the Court did not reach the question of whether there was a Clayton Act violation.

Under section 33(b)(7) of the Lanham Act, relief in a trademark infringement suit may similarly be denied. In pertinent

137 314 U.S. 488 (1942).
138 Id. at 490.
139 U.S. Const. art. I, § 8, quoted in note 1 supra.
140 314 U.S. at 492.
141 Id. at 493.
142 Id. at 494.
If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive rights to use the registered mark in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 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.

Id. § 1115(b).
144 Several courts have criticized any analogy between the patent and the trademark in this respect. In Waco-Porter Corp. v. Tubular Structures Corp. of America, 222 F. Supp. 332 (S.D. Cal. 1963), plaintiff instituted an action for patent and trademark infringement. The court commented that "there should not be a trademark misuse doctrine ... [analogous to] the patent misuse doctrine, and where there are no unclean hands, the claim of trademark misuse should not constitute a defense. This is because the foundations of the claims are different." Id. at 333. See also United States v. Steffens (Trade-Mark Cases), 100 U.S. 82, 93-95 (1879), stating that any attempt to identify the essential characteristics of a trademark with those of a patent or copyright will produce insurmountable difficulties. While the trademark is recognized as the product of a considerable period of use, the patent results from invention. The trademark is a result of accident rather than design. Id. at 94.
nent part, this section states that "[i]f the right to use the registered mark has become incontestable . . . the registration [of such mark] shall be conclusive evidence of the registrant's exclusive right to use the registered mark in commerce [except when the defense that] the mark has been or is being used to violate the antitrust laws" is established.\textsuperscript{145} Congressional policy thus evinced by section 33(b)(7) of the Lanham Act is persuasive evidence that a trademark which is permitted to "exact tribute for other articles"\textsuperscript{146} is as abrasive to the antitrust policy as any patent or copyright misuse might be. Indeed, in \textit{Timken Roller Bearing Co. v. United States}\textsuperscript{147} the Supreme Court reinforced this view. \textit{Timken} was a civil action brought by the United States to prevent and restrain violations of the Sherman Act. Pursuant to \textit{Timken}'s licensing of its trademark, the defendant and its licensees had allocated trade territories among themselves, fixed prices on products of one sold in the territory of the others, and cooperated to protect each other's markets and eliminate outside competition. The Supreme Court held that restraints of trade cannot be justified as reasonable steps taken to implement a trademark licensing scheme. Moreover, the Court appeared to give its approval to the completeness of the antitrust defense under the Lanham Act when it stated that "[a] trademark cannot be legally used as a device for Sherman Act violation. Indeed, the Trade Mark Act . . . itself penalizes use of a mark 'to violate the antitrust laws of the United States.' "\textsuperscript{148}

The extent to which the trademark owner is penalized when the mark is used to violate the antitrust laws was dealt with in a trademark infringement suit in \textit{Phi Delta Theta Fraternity v. J.A. Buchroeder \& Co.}\textsuperscript{149} Upon an agreed stipulation of the facts and controversies, one of the issues presented to the court was whether an assumed violation of the antitrust laws is a total defense to a trademark infringement action. The court held in the affirmative.\textsuperscript{150} Although noting that the origin and nature of patents and trademarks are in many respects totally dissimilar,\textsuperscript{151} the court

\begin{itemize}
\item \textsuperscript{146} United States v. Loew's Inc., 371 U.S. 38, 46 (1962).
\item \textsuperscript{147} 341 U.S. 593 (1951). Although \textit{Timken} was not the starting point for a trademark misuse defense, it has been applied to pierce the trademark shield in several antitrust cases. \textit{Franchise Misuse, supra} note 11, at 1152.
\item \textsuperscript{148} 341 U.S. at 599 (footnote omitted).
\item \textsuperscript{149} 251 F. Supp. 968 (W.D. Mo. 1966).
\item \textsuperscript{150} Id. at 974.
stated that the doctrines of patent and trademark misuse have experienced a somewhat parallel development.\textsuperscript{152} This is particularly true in the case where either has been extended beyond the limits of its protected area.\textsuperscript{153} Equity courts developed principles to protect trademarks long before statutes authorized registration.\textsuperscript{154} Indeed, with principles of equity in mind, Congress sought to make it clear that the holder of a trademark who seeks the protection afforded by registration must come into court with clean hands.\textsuperscript{155} Congressional debates also clearly indicate that one who violates the antitrust laws does not have clean hands.\textsuperscript{156} Having considered these factors, the \textit{Phi Delta Theta} court concluded that section 33(b)(7) of the Lanham Act provided an affirmative defense in a suit for trademark infringement.\textsuperscript{157}
The Phi Delta Theta holding was recently qualified in Coca-Cola Co. v. Howard Johnson Co.,\(^\text{158}\) wherein it was held that the trademark must be the competent producing element which serves to effectuate the antitrust violation in order to invoke the violation as a complete defense to a trademark infringement suit.\(^\text{159}\) The Coca-Cola court confirmed that such was the case in Phi Delta Theta,\(^\text{160}\) for in that case for "all intents and purposes, the grant of trademark registration . . . resulted in a monopoly of the product just as if it had been patented."\(^\text{161}\) Where a trademark is used to drive a tie-in, it is a competent producing element of the antitrust violation,\(^\text{162}\) and such misuse should be a complete defense to a trademark infringement action.

33(a), a plaintiff in an infringement suit would be subject to "any legal or equitable defense or defect which might have been asserted if such mark had not been registered." 15 U.S.C. § 1115(a) (1970).

The Stiftung court relied heavily on the legislative history of section 33(b)(7) in the House of Representatives and concluded that the purpose of the statute was not to limit the substantive law of trademarks, but to defeat the incontestability which results from registration of the mark when it is used to effect an antitrust violation. A review of the legislative history of § 33(b) led the court to conclude that these defenses were intended "to [neither] enlarge, restrict, amend, or modify the substantive law of trademarks . . . [nor] deprive the registrant of any rights he would possess or enjoy if this act were not enacted into law." 298 F. Supp. at 1312, quoting 92 Cong. Rec. 7524 (1946) (remarks of Rep. Lanham) (emphasis added by court). Proof of a violation of the antitrust laws by the registrant does not destroy the continued validity or right to continued use of the mark by the registrant, but merely would destroy its incontestability. 298 F. Supp. at 1312, quoting 92 Cong. Rec. 7523 (1946) (rem. of Rep. Lanham). Unlike the Phi Delta Theta court, the Stiftung court paid little attention to the contrary legislative history in the Senate, stating that it was "ambiguous and general." 298 F. Supp. at 1313-14.


\(^{159}\) Id. at 335-37. The Coca-Cola court noted that this essential element was not present in Stiftung. Id. at 335-36. The Stiftung court found that defendants had completely failed to prove that plaintiffs used the trademarks to violate the antitrust laws. 298 F. Supp. at 1315. More pointedly, the defendants had directed their efforts merely toward proof of a collateral violation involving the use of goods bearing the marks. Id. Collateral violations occur where the trademark itself is not used as a prime and competent producing cause to effectuate antitrust activity. Id. at 1315-16. Defenses based on trademark misuse have been rejected in almost every case where only collateral violations have been involved. Id. at 1314. See Franchise Misuse, supra note 11, at 1152-53, wherein the author notes that the 33(b)(7) defense has been given "grudging application by the courts which often find that . . . there may be an antitrust violation . . . [but not one] so intimately related to the trademark as to bar enforceability." Id.

\(^{160}\) 386 F. Supp. at 335-36. The marks in Phi Delta Theta were being used to effect an exclusive dealing arrangement by and between certain fraternities and the manufacturer of insignia goods. The registration by the fraternities of their trademarks with the grant of an exclusive license therefor to the manufacturer thus provided, under color of legal right, the exclusive privilege to the manufacturer in the insignia goods business. 251 F. Supp. at 971. The Coca-Cola court termed this arrangement a classic case of a trademark being used directly in restraint of trade. 386 F. Supp. at 336. Interestingly, the Second Circuit may not recognize the view of both Phi Delta Theta and Coca-Cola. Cf. Franchised Stores of New York, Inc. v. Winter, 394 F.2d 664, 668-70 (2d Cir. 1968) (section 33(b)(7) not raised in trademark infringement action against Carvel franchisee, but court implied it would not be available).


\(^{162}\) See, e.g., Susser v. Carvel Corp., 332 F.2d 505, 519 (2d Cir. 1964), cert. dismissed, 381
Thus, there is some indication of congressional and judicial intent to follow the reasoning invoked in patent infringement cases and to bar trademark infringement suits where the mark is used to effect antitrust violations. Although the patent presumption developed within the context of patent infringement cases, it might well have been established even if there had been no history of antitrust abuses in patent infringement actions. As previously indicated, the trademark presumption was conceived without reliance on or reference to trademark infringement defenses with corresponding antitrust violations. However, a comparison of the infringement suits where antitrust violations were raised as a defense with the antitrust actions seeking affirmative relief via the patent or trademark presumption suggests that the decisions are in conformity with strict enforcement of congressional policy in the antitrust field. If there exists a question of balancing interests between the statutory duty of a trademark owner to protect his mark and the policy of the antitrust laws, the scales should be tipped in favor of rigorous adherence to the statutory dictates of the antitrust laws.

CONCLUSION

Proving a per se violation of the Sherman Act in cases of tie-ins is by no means the only method of establishing a violation of law.}

U.S. 125 (1965). Notwithstanding its holding on the trademark presumption issue, the Carvel majority acknowledged that the true tying item was the trademark, and, in comparison, the patented items were virtually without motivating significance. Id.

See text accompanying notes 136-137 supra.

Cf. Franchise Misuse, supra note 11, at 1147 ("an antitrust violation is not condoned by trademark law. . . ."); Trademark Franchising, supra note 16, at 1115 (Congress subordinated the Lanham Act to the antitrust laws). See also note 152 supra.

This is not to say, of course, that the antitrust laws take precedence in all cases over every other policy of the law. There must be a balancing of interests, but where there are alternatives which may foster a valid competing policy, such as the right to protect the goodwill of a trademark, without violating antitrust policy, such avenues must be taken. Cf. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 51 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972); Switzer Bros., Inc. v. Locklin, 297 F.2d 39, 46 (7th Cir. 1961), cert. denied, 369 U.S. 851 (1962). In some cases, bare restraints of trade may be justified. See Kolene Corp. v. Motor City Metal Treating, Inc., 307 F. Supp. 1251 (E.D. Mich. 1969), aff'd, 440 F.2d 77 (6th Cir.), cert. denied, 404 U.S. 886 (1971); United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961). In Kolene, for example, a tie-in requirement was held not unreasonable because of the need for uniformity and quality, together with the difficulties encountered in supervising a nationwide operation. 307 F. Supp. at 1270. In the context of a franchise, however, the quality control policy of the trademark law rarely justifies the tying of supply sources to the trademark. Trademark Franchising, supra note 16, at 1117.

See note 16 supra. In Bogosian v. Gulf Oil Corp., 393 F. Supp. 1046 (E.D. Pa. 1975), the court noted that if a plaintiff cannot meet the requirements for the per se rule, he still can prove antitrust liability on the part of the defendant based on a rule of reason test. "To be successful under the rule of reason the plaintiff must prove that the complained of
Therefore, a court's failure to invoke the trademark presumption does not, in and of itself, warrant a granting of summary judgment against the party alleging the unlawful tie-in. The per se doctrine provides only a welcome shortcut.

Courts unwilling to adopt the trademark presumption might be persuaded to adhere to the following approach. It has been suggested that the patent presumption should not be blindly adhered to in all instances, but should be the subject of a rebuttable presumption of sufficient economic power over the tying product. The burden would then be on the patentee to go forward with evidence showing that his patent does not possess sufficient economic power. This is a heavy burden indeed, but the adoption of such an approach would reflect the congressional policy favoring free and full competition. It is suggested that the same rationale be followed in the case of trademarks. A presumption of sufficient economic power over the tying product to appreciably restrain free competition in the tied product would shift the burden of going forward to the trademark owner to prove that his mark did not possess sufficient economic power. The ultimate burden of proof on the issue of requisite economic power, of course, remains with the party challenging the tie-in.

Concededly weak trademarks, viz. marks of much less than national reputation and totally local marks, should be subject to the same rule as are concededly strong marks. In both situations, Congress has granted the owner of the mark a true monopoly. The trademark holder cannot be allowed to extend his monopoly unlawfully, and should not be permitted to deny its existence until practices are an unreasonable restraint on commerce and consequently have an anticompetitive effect." Id. at 1055 n. 18.


169 2 R. Callman, THE LAW OF UNFAIR COMPETITION TRADEMARKS AND MONOPOLIES § 38.2(b)(2), at 172-73 (3d ed. 1968). The author suggests that all patents do not confer a substantial or even a significant amount of market power. Thus, the patentee should be able to go forward and show that within the entire factual setting the patent does not possess the requisite economic power over the tying product. Id.

170 This is consistent with the policy that one who engages in restraint of trade on a per se level must bear the burden of proving that the act engaged in is an exception to the rule. Cf. Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50-51 (9th Cir. 1971), cert. denied, 405 U.S. 955 (1972) (defense that tie-ins were necessary to calculate royalties and to maintain quality control rejected); United States v. Jerrold Electronics Corp., 187 F. Supp. 545, 555-56 (E.D. Pa. 1960), aff'd per curiam, 365 U.S. 567 (1961) (new industry defense sustained).

171 Congress intended to cover the broadest range of activities it could through the enactment of the Sherman Act, and there is a heavy presumption against implicit exemption from it. Goldfarb v. Virginia State Bar, 421 U.S. 773, 787 (1975). See generally Connell Constr. Co. v. Plumbers Local 100, 421 U.S. 615 (1975). Since implied antitrust immunity is not favored, only where there is "a convincing showing of clear repugnancy between the antitrust laws and the regulatory system" will immunity be found. United States v. National Ass'n of Securities Dealers, Inc., 422 U.S. 694, 719 (1975).
satisfactory proof negating the monopolistic character of the trademark is introduced. Under the approach suggested above, however, the burden carried by the owner of a “weak” trademark would be substantially less than that of his stronger counterpart.*

Stephen J. Smirti, Jr.

*Editor’s Note: As this Note was being printed, two significant cases were reported on this topic. In Northern v. McGraw-Edison Co., 5 TRADE REG. REP. (1976-2 Trade Cas.) ¶ 61,091 (8th Cir. Sept. 29, 1976), the court, while noting that “[a] franchise license constitutes a separate and distinct marketable item,” id. at 69,949, refused to consider whether sufficiency of economic power should be automatically presumed in all cases where the tying product is a trademark, id. at 69,950. In Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976), the Fifth Circuit, in an apparent rebuff of the Warriner Hermetics court’s position on the trademark presumption, see text accompanying note 60 supra, held that the existence of economic power in a trademark is always a question of fact. 536 F.2d at 49.