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THE
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Patents. Trademarks. Copyrights.

NAKED LICENSING:

NO FUN FOR TRADEMARK OWNERS

A trademark owner can lose its trademark rights under trademark naked licensing law. A trademark owner can grant the right to use a trademark through a licensing agreement. However, a trademark owner's failure to adequately control the quality of goods or services offered by a licensee may be considered a "naked license". If a naked license is granted, then a trademark will be involuntarily abandoned.

A trademark owner has an obligation to control the quality of goods or services associated with its marks. *See Mini Maid Servs. Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516, 1519-20 (11th Cir. 1992) (citing *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir.1959) (if licensor is not compelled to take reasonable steps to prevent misuses of his trademark in the hands of others the public will be deprived of protection against misleading uses of a trademark)).

Under U.S. trademark law, a trademark license may be express or implied. A written agreement creates a rebuttable presumption of a valid license. The absence of a written agreement is not conclusive of naked licensing or that a mark has become abandoned. *Barcamerica Intern. USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002). Even if formal quality control is not present, where the particular circumstances of the arrangement indicate that the public will not be deceived, then an oral agreement may

constitute a valid license. *Id.*

In cases where no formal agreement between the license parties exists, courts have held that close working relationships can be adequate to establish a valid license. *Id.* at 598. Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated, then there may be no abandonment. *Taco Cabana Intern., Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1121 (5th Cir. 1991). For example, in *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001 (9th Cir. 1985), the court found that no abandonment existed where a licensor manufactured 90% of components sold by licensee and licensor had ten-year association with licensee and was familiar with his ability and expertise. Similarly, in *Taffy Original Designs, Inc. v. Taffy's Inc.*, 161 U.S.P.Q. 707, 713 (N.D. Ill.1966), the court found no abandonment existed where the licensor and licensee were sisters in business together for seventeen years, licensee's business was a continuation of the licensor's and licensee's prior business, licensor visited licensee's store from time to time and was satisfied with the quality of the merchandise offered. *See also Arner v. Sharper Image Corp.*, 39 U.S.P.Q.2d 1282 (licensor engaged in a close working relationship with licensee's employees and license agreement provided that license would terminate if certain employees ceased to be affiliated with licensee); *but see Eva's Bridal Ltd. v. Halanick Enterprises, Inc.*, 639 F.3d 788 (7th Cir. 2011) (concluding plaintiffs engaged in naked license where plaintiffs exercised no authority over the appearance and operations of defendants' business, or even over what inventory to carry or avoid).

Trademark owners are well advised to establish control over their licensees to ensure the level of quality of goods and services associated with a trademark or service mark. The patent and trademark attorneys at The Plus IP Firm can assist you with implementing procedures to establish adequate quality control over licensees.

"I had a great experience with The Plus IP Firm and specifically Derek Fahey. Very friendly staff and extremely easy to communicate with attorneys who make themselves readily available via phone or in person meetings. Anytime I called to discuss my case, Derek was on the phone within minutes and took the time to answer our questions and concerns in detail. I would recommend The Plus IP Firm's services for any business looking to protect their IP assets." - Joshua, a successful business owner and satisfied client.



Derek Fahey is a patent attorney at The Plus IP Firm. The Plus IP Firm helps businesses and inventors protect their ideas, concepts and creations with patents, trademarks and copyrights.