Franchise Tying: Gauging the Economic Power of a Trademark

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A trademark is a merchandising shortcut which induces a purchaser to select what he wants, or what he has been led to believe he wants. . . . Whatever the means employed, the aim is the same—to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trademark owner has something of value.[1]

Introduction

As Justice Frankfurter has indicated, a trademark may be an effective competitive tool. Trademarks can be successful for two reasons. First, there may be a strong consumer preference for products or services sold under the mark.[2] Second, trademarks are government-sanctioned monopolies.[3] Unfortunately, this success creates the potential to use a trademark as an anticompetitive weapon. For example, if investors are anxious to enter the franchise business,[4] a trademark owner may be able to tie the

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[1] Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942)(Frankfurter, J.).

[2] A trademark may appeal to a consumer because it provides a recognized name, representing a reasonable expectation of uniform quality in merchandise or service. *See* Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 375 (5th Cir. 1977).

[3] Under the trademark laws, a trademark owner may obtain an injunction prohibiting all unauthorized use of a mark, 15 U.S.C. § 1116 (1976), and may also receive damages for unauthorized use under appropriate circumstances. *Id.* § 1114.

[4] An investor may desire a franchise because it offers entrance into an entreprenurial enterprise aided by the support of an experienced business part-

license of the mark to the purchase of a product. This type of "tying" arrangement arises most frequently in "package" or "business format" franchises, like fast food restaurants, where the franchise sells its own goods or services under the franchisor's trademark.[5]

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ner. *See The Role of Small Business in Franchising: Hearings on Minority Small Business Enterprises and Franchising Before the Subcommittee of the House Permanent Select Committee on Small Business*, 93d Cong., 1st Sess. 44 (1973) (remarks of Norman Axelrod, Vice President of Public Affairs, McDonald's Corporation). *See also* Comment, *Franchise Tie-ins and Antitrust: A Critical Analysis*, 1973 WIS. L. REV. 847, 848.

[5] The Federal Trade Commission (FTC) recognizes "package" or "business format" franchises as one of three major types of franchises. *See* 16 C.F.R. § 436.2(a)(1)(i)(A)(2) (1981). The package franchise typically allows the franchisee to operate under the franchisor's trademark and to sell goods or services that meet the franchisor's quality standards. The franchisor has a significant degree of control or provides significant assistance in the franchisee's method of operation, *id.* § 436.2(a)(1)(i)(B)(1)-(2), and the franchisee is required to pay the franchisor or an affiliated person to obtain the franchise. *Id.* § 436.2(a)(2). The "package" franchise is also labeled the "rent-a-name" business, since the franchisee is literally paying for use of the franchisor's trade name. *See* McCarthy, *Trademark Franchising and Antitrust: The Trouble With Tie-ins*, 58 CALIF. L. REV. 1085, 1089 (1970).

The second category of franchises is the "product" franchise. "Product" franchises contain the same basic elements as the "package" format, where the franchisor exercises significant control over the franchised distributor's or dealer's "method of operation." Unlike the first type, however, the franchisee actually sells goods or services identified by the franchisor's trademark. 16 C.F.R. § 436.2(a)(1)(i)(A)(1) (1981). The franchisor typically forbids the franchisee from selling competing products, from selling to certain types of customers, and from selling outside of certain restricted territories. Courts have frequently passed on the propriety of this type of franchise. *See, e.g.*, Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977); Perma-Life Mufflers, Inc., v. International Parts Corp., 392 U.S. 134 (1968); United States v. Arnold, Schwinn & Co., 388 U.S. 365 (1967); United States v. Serta Assocs., 296 F. Supp. 1121 (N.D. Ill. 1968), *aff'd mem.*, 393 U.S. 534 (1969).

The third type of distribution relationship is the "business opportunity" venture. These distributorships involve a franchisor who represents that he will put the franchisee into the business of distributing goods or services produced under a third party trademark. Three primary elements exist in "business opportunity" ventures. Under current FTC promulgations, they are: (1) the franchisee sell goods or services supplied by the franchisor, by suppliers required by the franchisor, or by suppliers who are affiliated with the franchisor, 16 C.F.R. § 436.2(a)(1)(ii)(A) (1981); (2) the franchisor secures retail outlets, or accounts for the goods, or secures locations for vending devices or rack displays, *see id.* § 436.2(a)(1)(ii)(B) (1981); and (3) the franchisee is required to pay the franchisor or an affiliated person to obtain the franchise.

Arrangements that tie products to trademarks have been subject to scrutiny under the antitrust laws, particularly section 1 of the Sherman Act.[6] Under section 1, a tying arrangement is illegal per se[7] when three conditions exist: (1) the arrangement in-

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See id. § 436.2(a)(2). *See also* Comment, *Franchise Tie-Ins and Antitrust: A Critical Analysis*, *supra* this note, at 848-49 (discussing three similar types).

[6] 15 U.S.C. § 1 (1976) provides: "Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. . . ." Tying arrangements have also been attacked under § 3 of the Clayton Act, 15 U.S.C. § 14 (1976). It provides:

> It shall be unlawful for any person engaged in commerce. . ., to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States. . ., or fix a price charged therefor, or discount from or rebate upon, such price, 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 or the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Id. Section 1 is wider in scope, since it encompasses services. Section 3, on the other hand, applies to "goods, wares or merchandise." *Id.* For example, the granting of a franchise or licensing of a trademark does not fall within the contours of the Clayton Act. *See* Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 661 n.1 (2d Cir. 1974); Advance Business Sys. & Supply Co. v. SCM Corp., 415 F.2d 55, 64 (4th Cir. 1969), *cert. denied,* 397 U.S. 920 (1970); *In re* 7-Eleven Franchise Antitrust Lit., [1974] 2 Trade Cas. ¶ 75,429, at 98,427 (N.D. Cal. 1974). Thus franchise tying arrangements must be attacked under § 1 of the Sherman Act.

Although § 1 may encompass more transactions, greater proof is required to demonstrate a restraint of trade than is required to show a substantial lessening of competition under § 3 of the Clayton Act. *See* L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 432 (1977).

Tying arrangements also may be challenged under § 5 of the Federal Trade Commission Act as an "unfair method of competition." *See* 15 U.S.C. § 45(a)(1),(2) (1976). *See also* FTC v. Brown Shoe Co., 384 U.S. 316, 320 (1966).

[7] The New Jersey Supreme Court departed from the per se rule of illegality for tying arrangements in New Jersey v. Lawn King, Inc. [1980] 2 Trade Cas. ¶ 63,488, at 76,573, 76,587-89 (N.J. Sup. Ct. 1979). The court applied the rule of reason, a form of analysis under which conduct of a significant and unreasonable nature is condemned, because of "the lack of judicial experience with its resolution" and because the case before it was "a criminal prosecution under the State Antitrust Act." *Id.* at ¶ 76,587-88.

volves two distinct items;[8] (2) one party has sufficient economic

[8] Tying arrangements can either be formal, in express written contracts, or informal, through the commercial relationships of the bargaining parties. Courts presently are divided on the question of whether "individual coercion," forcing a buyer to submit to a seller's tie-in during the course of business dealings, is a necessary element in establishing a tie-in. The majority of courts have ruled that, in the absence of a contractual tie-in, aggrieved parties must prove individual coercion to recover. *See* Bogosian v. Gulf Oil Corp., 561 F.2d 434, 450-51 (3d Cir. 1977) (coercion not a separate legal element of proof), *cert. denied,* 434 U.S. 1086 (1978); Ungar v. Dunkin' Donuts of Am., Inc., 531 F.2d 1211, 1225 (3d Cir.) (no express agreement; tying claim predicated on oppressive sales condition coupled with dominance of seller over buyer), *cert. denied,* 429 U.S. 823 (1976); American Mfrs. Mut. Ins. Co. v. American Broadcasting-Paramount Theaters, Inc., 446 F.2d 1131 (2d Cir. 1971); Halverson v. Convenient Food Mart, Inc., 69 F.R.D. 331 (N.D. Ill. 1974); *In re* 7-Eleven Franchise Antitrust Lit., 358 F. Supp. 286 (N.D. Cal. 1973); Abercrombie v. Lum's, Inc., 345 F. Supp. 387 (S.D. Fla. 1972). The Second Circuit has found that individual coercion is required to establish economic power in the tying product market. *See* Hill v. A-T-O, Inc., 535 F.2d 1349, 1355 (2d Cir. 1974). The Fifth Circuit has also made proof of coercion mandatory by ruling that "it is not enough to show that the seller has sufficient economic power and that two products were purchased together." Response of Carolina, Inc. v. Leasco Response, Inc., 537 F.2d 1307, 1327 (5th Cir. 1976). Other cases, however, have held that coercion may be inferred from the existence of express contractual provisions. *See, e.g.,* Milonas v. Amerada Hess Corp., [1976] 2 Trade Cas. ¶ 61,069 (S.D.N.Y. 1976). In addition, some courts have indicated that coercion is not a separate element of proof, notwithstanding the absence of an express contract. *See* AAMCO Automatic Transmissions, Inc. v. Tayloe, 407 F. Supp. 430, 434-35 (E.D. Pa. 1976). Recently, the Sixth Circuit held that coercion is not an element of a tying case, although it may be relevant in proving that a seller did in fact condition the purchase of one product on the purchase or lease of another. *See* Bell v. Cherokee Aviation Corp., [1981] Antitrust & Trade Reg. Rep. (No. 1035), at G-1 (6th Cir. Oct. 7, 1981). The preferable resolution of this morass is the adoption of the view that coercion may be implied from a showing that an appreciable number of buyers have accepted the tie-in and that there exists sufficient economic power in the tying product market. *See* Moore v. Jas. H. Matthews & Co., 550 F.2d 1207, 1216-17 (9th Cir. 1977). *But see* Esposito v. Mister Softee, Inc., [1976] 2 Trade Cas. ¶ 61,202, at 70,477 (E.D.N.Y. 1976) (rejecting the view that the success of a tying arrangement in a particular franchise sector is proof of a franchisor's economic power).

The prevalent judicial criteria to prove the existence of two distinct products are a finding that the items are normally separable, and a determination that there are legitimate business reasons for combining the products. *See* United States v. Jerrold Elec. Corp., 187 F. Supp. 545, 559-60 (E.D. Pa. 1960), *aff'd per curiam,* 365 U.S. 587 (1961); Dore, *The "Total Product" Approach to Analysis of Alleged Tying Arrangements,* 34 WASH. & LEE L. REV. 409, 413-14 (1977). Other courts have used subsidiary factors to determine whether more than a single product was involved. *See* Siegel v. Chicken Delight, Inc., 448 power over the tying product to appreciably restrain competition in the tied product;[9] and (3) the tie-in affects a "substantial" amount of interstate commerce.[10] Of these three requirements, the most problematic is that of proof of "sufficient economic power." On occasion, by analogy to economic power in patents and copyrights, courts have presumed that economic power accompanies the trademark.

This article examines economic power in cases in which a franchise is tied to a trademark. It first considers the growth of the tying doctrine and the development of the presumption of sufficient economic power in patent and copyright cases. Next, the article traces the development of this presumption in trademark franchise tying cases. It then discusses the validity of presuming economic power in trademark, patent, and copyright cases, suggesting that in trademark tying cases the presumption is inappropriate. Finally, this article concludes that courts should treat economic power as an element that an antitrust plaintiff must prove without benefit of a presumption. In so doing, courts should examine several market factors, including market share, public appeal, and advertising value, to determine whether the plaintiff has established economic power in a

F.2d 43, 48 (9th Cir. 1971) ("function of the aggregation" test), *cert. denied,* 405 U.S. 955 (1972); Washington Gas Light Co. v. Virginia Elec. & Power Co., 438 F.2d 248, 252-54 (4th Cir. 1971) (dual market analysis).

[9] Northern Pac. Ry. v. United States, 356 U.S. 1, 6 (1958).

[10] *Id. See also* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 499 (1969) (*Fortner I*); Redd v. Shell Oil Co., 524 F.2d 1054, 1056 (10th Cir. 1975), *cert. denied,* 425 U.S. 192 (1976); United States v. Jerrold Elec. Corp., 187 F. Supp. 545, 555 (E.D. Pa. 1960), *aff'd per curiam,* 365 U.S. 567 (1961). In *Fortner I,* the Supreme Court held that, if the dollar amount of business foreclosed by the tie is not *de minimis,* then a "not insubstantial amount of commerce" is affected. In that case, the Court deemed a $200,000 foreclosure not "insubstantial". 394 U.S. at 501-02. *See* notes 28-35 and accompanying text *infra. See also* International Salt Co. v. United States, 332 U.S. 392, 395-96 (1947) ($500,000 of sales); Falls Church Bratwursthaus v. Bratwursthaus Mgmt. Corp., 354 F. Supp. 1237, 1240 (E.D. Va. 1973) ($400,000 of sales; "[u]nder most of the post-*Fortner* [*I*] decisions, any amount of commerce restrained by an illegal tie-in agreement constitutes a not insubstantial amount of interstate commerce"). In United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610 (1977) *(Fortner II),* the Court did not disturb its *Fortner I* formulation of the foreclosure requirement. *Id.* at 611-12. Thus, plaintiff may easily prove this condition, and defendant's counsel often stipulates that plaintiff has satisfied this requirement. *See, e.g.,* Siegel v. Chicken Delight, Inc., 448 F.2d 43, 47 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972).

franchise tying case.

I. Patent-Copyright Presumption and Proof of Economic Power in Tying Arrangements

The Supreme Court first found a tie-in unlawful under section 1 of the Sherman Act[11] in *International Salt Co. v. United States.*[12] In that case, the Court inferentially considered patent grants to be presumptive evidence of economic power. International Salt had conditioned the lease of its patented salt-using machines on the lessee's agreement to buy unpatented salt from the company.[13] The Court held that it was unreasonable per se for International Salt to use the monopoly power created by its patents to impose the tie-in and foreclose its competitors from the tied product's market.[14] Thus, the arrangement was unlawful as a matter of law under section 1 of the Sherman Act and section 3 of the Clayton Act.[15] Mentioning only the patents, the Court gave scant attention to the question of economic power in

[11] Previously, the Court had held that a tying arrangement was a misuse of a patent, precluding assertion of the plaintiff's infringement claim. In Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917), the Court reasoned that tying the use of plaintiff's film to the use of his patented film transport device was an unlawful extension of the patent monopoly into unpatented markets. *Id.* at 510-18. Courts have consistently declared patent tie-ins to be patent misuse, which is an affirmative defense in an infringement suit. *See, e.g.,* Morton Salt Co. v. G.S. Suppiger Co., 314 U.S. 488 (1942); Carbice Corp. of Am. v. American Patents Dev. Corp., 283 U.S. 27 (1931); Berlenbach v. Anderson & Thompson Ski Co., 329 F.2d 782, 783-84 (9th Cir.), *cert. denied,* 379 U.S. 830 (1964); Key Pharmaceuticals, Inc. v. Lowey, 373 F. Supp. 1190, 1193 (S.D.N.Y. 1974). Before International Salt Co. v. United States, 332 U.S. 392 (1947), tie-ins of patented machines to unpatented supplies were held to violate § 3 of the Clayton Act. International Business Machs. Corp. v. United States, 298 U.S. 131 (1936); United Shoe Mach. Corp. v. United States, 258 U.S. 451, 455-58 (1922).

[12] 332 U.S. 392 (1947).

[13] *Id.* at 394-95. International Salt was then the largest domestic producer of salt for industrial uses. *Id.* at 394.

[14] *Id.* at 395-96. The Court cited Fashion Originators' Guild of Am., Inc., v. FTC, 114 F.2d 80 (2d Cir. 1940), *aff'd,* 312 U.S. 457 (1941) to support its imposition of the per se standard. International Salt Co. v. United States, 332 U.S. 392, 396 (1947). In *Fashion Originators',* the Court condemned a manufacturers' boycott aimed at depriving potential competitors of retail outlets. 312 U.S. at 467-68.

[15] International Salt Co. v. United States, 332 U.S. 392, 396 (1947). *See also* note 6 *supra.*

the tying product market. By inference, patent grants were presumptive evidence of such economic power.

In *United States v. Loew's, Inc.*[16] the Supreme Court made explicit *International Salt*'s implied presumption of economic power in one form of intellectual property, movies. The defendant had licensed copyrighted movies to television stations by tying unpopular films to such classics as "Treasure of the Sierra Madre" and "Casablanca."[17] This type of block booking violated section 1 of the Sherman Act.[18] The Supreme Court created an explicit presumption of economic power in the tying product's market when the tying product is patented or copyrighted.[19] It reasoned that copyright protection, like patent protection, imported sufficient distinctiveness to the tying goods to infer that any tying arrangement involving the protected product would have anticompetitive consequences.[20]

In 1953, the Supreme Court established a "market dominance" test for proving economic power in the absence of a patent.[21] Under that test, a tying arrangement was illegal per se if the seller enjoyed a "monopolistic position" in the market for the tying product and restrained a substantial volume of commerce in the tied product.[22] For an arrangement to have met this standard, where neither "patents or copyrights supplied the requisite market control, any equivalent market 'dominance'" must have been established by appropriate data.[23]

The Court relaxed the rigid "market dominance" test in

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[16] 371 U.S. 38 (1962).

[17] *Id.* at 41-42.

[18] United States v. Loew's, Inc., 189 F. Supp. 373, 378 (S.D.N.Y. 1960).

[19] United States v. Loew's, Inc., 371 U.S. 38, 45 (1962).

[20] *Id.* at 48. Relying on United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948), the Court reasoned that the defendant was using the copyright monopoly of the desired feature film to "equalize rather than differentiate the reward for the individual copyrights," because "[e]ach [movie] stands not on its own footing but in whole or in part on the appeal which another film may have." United States v. Loew's, Inc., 371 U.S. 38, 47 (1962). *Paramount* condemned block booking of copyrighted feature films to movie theater exhibitors. 334 U.S. at 157-58. Even though *Loew's* involved block booked sales to television stations, the Court did not regard this as a fact that prevented application of *Paramount*. 371 U.S. at 48.

[21] *See* Times-Picayune Pub. Co. v. United States, 345 U.S. 594, 610 (1953).

[22] *Id.* at 608-09.

[23] *Id.* at 611.

Northern Pacific Railway v. United States,[24] where the defendant had appreciably restrained a large number of buyers.[25] It held that tying arrangements are illegal whenever a party has sufficient economic power over the tying product to appreciably restrain free competition in the tied market and the arrangement affects a "not insubstantial" amount of interstate commerce.[26] According to the Court, *Loew's* satisfied the *Northern Pacific* test of economic power because the copyrighted feature films were "unique" and "not fungible."[27]

In *Fortner Enterprises, Inc. v. United States Steel Corp. (Fortner I),*[28] the Court reiterated this "uniqueness" test. Seeking treble damages[29] for violations of section 1 of the Sherman Act, Fortner alleged that United States Steel and a wholly-owned subsidiary had conditionally tied the purchase of prefabricated houses to real estate loans extended by the subsidiary.[30] Rejecting a "market dominance" test, the Court declared the proper focus to be "whether the seller has the power to raise prices, or impose other burdensome terms like a tie-in, with respect to any appreciable number of buyers within the market."[31] Under the facts, economic power could be inferred from the unique terms of United States Steel's credit[32] or from the fact

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[24] 356 U.S. 1 (1958).

[25] *Id.* at 7-8.

[26] *Id.* at 6, 10-11. Justice Harlan, in a dissent joined by Justices Whittaker and Frankfurter, vigorously condemned the majority for abandoning the "dominance" test. *Id.* at 13-20.

[27] United States v. Loew's, Inc., 371 U.S. 38, 48 (1962). Although *Loew's* held that a copyright was presumptively unique, *id.*, the decision can be criticized for its broad ruling. The lower court found sufficient other evidence of uniqueness to "confirm the presumption of uniqueness" resulting from the copyright. *Id.* at 48.

[28] 394 U.S. 495 (1969). The district court had granted summary judgment for United States Steel on the ground that Fortner failed to establish the existence of economic power and substantial restraint on competition in its tied product market. Fortner Enterprises, Inc. v. United States Steel Corp., 293 F. Supp. 762, 763-69 (W.D. Ky. 1966), *aff'd mem.*, 404 F.2d 936 (6th Cir. 1968). The Supreme Court stated that erroneous per se standards had been applied to Fortner's tie-in claim. 394 U.S. at 499-500.

[29] Section 4 of the Clayton Act, 15 U.S.C. § 15 (1976), allows treble damages to successful private litigants in antitrust cases.

[30] Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 497 (1969).

[31] *Id.* at 504.

[32] Fortner claimed that United States Steel offered to provide 100% financ-

that many buyers had purchased the defendant's higher-priced houses.[33] Even so, the Court cautioned that "uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves."[34]

On remand, the Sixth Circuit held that United States Steel had sufficient economic power in the credit market to impose an unlawful tie-in.[35] The court partially predicated its finding on evidence that buyers had paid noncompetitive prices for the defendant's houses and that the credit extended to Fortner was unique. The Supreme Court reversed in *United States Steel Corp. v. Fortner Enterprises, Inc. (Fortner II)*,[36] holding that the record did not demonstrate the defendant's economic power in the credit market.[37] In clarifying the *Fortner I* test, the Court stressed that the proper inquiry is "whether the seller has some advantage not shared by his competitors in the market for the tying product. Without any such advantage differentiating his product from that of his competitors, the seller's product does not have the kind of uniqueness considered relevant in prior tying-clause cases."[38] Thus, to prove an illegal tie-in, a buyer must now affirmatively prove that the seller enjoyed a position of economic power in the market that enabled that seller to force noncompetitive sales.[39]

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ing, which was uniquely advantageous to most real estate developers. *Id.*.

[33] Evidence apparently indicated that competitors in the prefabricated housing market sold conventional homes for at least $400 less than United States Steel. *Id.*

[34] *Id.* at 505 n.2.

[35] Fortner Enterprises, Inc., v. United States Steel Corp., 532 F.2d 961 (6th Cir. 1975). The Sixth Circuit affirmed the trial judge's finding, after previously having reversed a lower court summary judgment in favor of Fortner. 452 F.2d 1095 (6th Cir.), *cert. denied,* 406 U.S. 919 (1971).

[36] 429 U.S. 610, 614-22 (1977).

[37] *Id.* at 622. The Court determined that buyers may have been willing to pay noncompetitive prices for houses because the entire loan-house package was competitively priced. *Id.* at 618. It ruled that the defendant's unusual terms did not constitute "unique" economic leverage. *Id.* at 621-22. The Court noted that the defendant's market position was not the primary factor that enabled it to offer a form of financing significantly different from that which other lenders could offer if they desired. *Id.* at 622.

[38] *Id.* at 620-21.

[39] *Id.* at 622. The Court also referred to the cautionary language at the end of *Fortner I,* which stated that only legal monopolies (patents and copyrights) and physical barriers (land) had been classified previously as presumptive economic power. *Id.* at 621 (quoting Fortner Enterprises, Inc. v. United States,

II. Extension of the Economic Power Presumption to Trademarks

Trademarks often serve as products in franchise contracts. Thus, their use is subject to challenge under section 1 of the Sherman Act.[40] Antitrust challenges to the tying of trademarks developed as courts abandoned the traditional notion that a trademark merely identifies the source of a product[41] and recognized the "guaranty" function of trademarks. As the national economy shifted to mass merchandising of goods, a trademark became a representation of a product's standard of quality. Purchasers would then associate the mark with positive experiences, developing brand loyalty.[42] Because the consumer preference as-

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394 U.S. 495, 505 n.2 (1969)). *Fortner II* thus suggested that certain judicially created categories presumptively satisfied the "uniqueness" test.

[40] *See* note 6 *supra.*

[41] This "source theory" has its antecedents in a regional economy where a consumer used the trademark to identify a reliable local distributor with certain goods. *See* Note, *Developments in the Law—Trademarks and Unfair Competition,* 68 Harv. L. Rev. 814, 816-17 (1955). In Springfield Fire & Marine Ins. Co. v. Founders' Fire & Marine Ins. Co., 115 F. Supp. 787 (N.D. Cal. 1953), Judge Goodman noted:

> Historically the function of indicating origin was the first to develop. The trademark came to mean that a certain manufacturer made the goods that bore the mark. Today, the trade-mark still serves to indicate origin, but the identity of the origin is often unknown to the consumer. The mark merely indicates to him that the goods bearing the mark come from the same origin, whatever that origin may be.

Id. at 792. *Cf.* Blisscraft v. United Plastics Co., 294 F.2d 694, 697 (2d Cir. 1961); G. & C. Merriam Co. v. Saalfield, 198 F. 369, 373 (6th Cir. 1912) (secondary meaning, under trademark law, exists when public identifies product and product's origin with a specific trademark), *cert. denied,* 243 U.S. 651 (1917).

[42] *See* Note, *Trademarks as Tying Products: The Presumption of Economic Power,* 50 St. John's L. Rev. 689, 704 (1976). In Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co., 316 U.S. 203, 208 (1942), the Supreme Court acknowledged the "advertising" or "guaranty" theory in trademark law. *See* note 1 and accompanying text *supra.* In Springfield Fire & Marine Ins. Co. v. Founders' Fire & Marine Ins. Co., 115 F. Supp. 787 (N.D. Cal. 1953), the court observed:

> Today, a trade-mark performs a threefold function: (1) to indicate origin; (2) to guarantee; and (3) to advertise and sell. . . . Later in their historical development, trademarks took on the function of guaranteeing to the consumer that the quality of goods bearing the mark was the same as previous goods which bore the same mark. . . . As modern advertising developed, trademarks assumed

sociated with the trademark had value to an owner, it arguably had a quantum of economic power. Several cases illustrate the development of the presumption of economic power in trademark tying.

The first antitrust examination of franchise tying and trademarks occurred in *Susser v. Carvel Corp.*[43] Carvel's chain of soft ice cream stores had grown from 180 franchised outlets in 1954 to 400 in 1962. Carvel required its franchises to conduct their business practices according to a standard manual, which governed practices like store operations, employees' uniforms, recipes, and the type of products offered for sale. Each Carvel outlet was identical, prominently displaying the Carvel crown and cone trademark, and the name "Carvel" in neon lights. A design patent protected this arrangement. Each franchise prepared the ice cream it sold from a mix according to a secret formula and dispensed it from a patented machine bearing the Carvel trademark. Nine franchises charged that their agreement with Carvel contravened antitrust laws by obligating each dealer to buy paper goods, cones, spoons, and other items from Carvel.[44]

The Second Circuit affirmed the district court's finding that it was not unlawful for Carvel to designate approved sources of supply because these accessory products were closely related to the ice cream mix.[45] The Carvel trademark had acquired value because of extensive advertising and consumer association.[46] However, the plaintiffs had failed to demonstrate either Carvel's market dominance as an ice cream franchisor or substantial foreclosure in the accessory product market.[47]

Carvel franchises did only one percent of the pervasively competitive ice cream business among the outlets in the New York,

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> their third function of creating and perpetuating a market for goods through use of the advertising. Consumers are now induced to try a product because of the inherent appeal of the trade-mark used in advertising the product.

Id. at 792.

[43] 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted,* 381 U.S. 125 (1965).

[44] Susser v. Carvel Corp., 332 F.2d 505, 509-11 (2d Cir. 1964), *cert. dismissed as improvidently granted,* 381 U.S. 125 (1965).

[45] *See* Susser v. Carvel Corp., 206 F. Supp. 636, 646 (S.D.N.Y. 1962), *aff'd* 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted,* 381 U.S. 125 (1965) [hereinafter cited as Susser v. Carvel Corp.].

[46] Susser v. Carvel Corp., *supra* note 45, 206 F. Supp. at 645.

[47] Susser v. Carvel Corp., *supra* note 45, 206 F. Supp. at 646.

Massachussetts, and Connecticut region.[48] This led the majority to find that the franchises had shown neither sufficient economic power nor substantial foreclosure.[49]

Judge Lumbard partially dissented, stating that Carvel's tying arrangement was illegal.[50] The judge noted that the value of a statutory monopoly is "directly proportionate to the consumer desirability of the protected product,"[51] so that Carvel's trademark, the tying product, possessed economic power similar to that generated by patents and copyrights.[52] Judge Lumbard thus argued in favor of extending the presumption of economic power to trademarks.[53]

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[48] Susser v. Carvel Corp., *supra* note 45, 206 F. Supp. at 646. In a subsequent action brought under § 5 of the Federal Trade Commission Act, the FTC held that Carvel did not have sufficient market dominance to use its trademark as a leverage device. *In re* Carvel Corp., 68 F.T.C. 128, 182 (1965). The Commission found that 37% of the sales in the relevant market did not satisfy the economic power requirement. *Id.* at 184.

[49] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 518-19. The majority acknowledged that in some cases a trademark might reach a degree of prominence condemnable under the per se approach. Nonetheless, that trademark would also have to satisfy the "market dominance" test of Times-Picayune Pub. Co. v. United States, 345 U.S. 594 (1953), *see* notes 21-23 *supra*, and of Northern Pac. Ry. v. United States, 356. U.S. 1 (1958), *see* notes 25-27 *supra*. 332 F.2d at 519. Because its small market share showed that Carvel's market did not meet the standard, the majority refused to apply Judge Lumbard's formulation. *See* notes 53-58 *infra*. This analysis ignores both the erosion of the market dominance standard in *Northern Pacific*, *see* notes 25-27 *supra*, and the presumption of economic power explicitly extended to copyright holders in United States v. Loew's, Inc., 371 U.S. 38 (1962). *See* notes 17-21 *supra*.

The majority also rebutted the theory that the design patents conclusively established economic power, noting *oblique dicta* in Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 307 (1949), which suggested that a patent is merely prima facie evidence of market control and subject to rebuttal. 332 F.2d at 521.

[50] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 512. Judge Lumbard would have remanded the case for a determination of whether the tie-in was justified for quality control purposes. *Id.* at 514-15. For a discussion of the quality control defense, see Standard Oil Co. of Cal. v. United States, 337 U.S. 293, 306 (1949); 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).

[51] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 513 (2d Cir. 1964).

[52] Susser v. Carvel Corp., *supra* note 45, 332 F.2d 505 at 513.

[53] Susser v. Carvel Corp., *supra* note 45, 332 F.2d 505 at 513. In fact, Judge Lumbard suggested that trademarks were accorded more protection than patents and copyrights. He showed how a trademark's duration could be extended

Two particular factors supported his presumption of economic power in Carvel's trademark. First, the rapid growth of Carvel's franchises was persuasive evidence of trademark salience.[54] Second, Carvel possessed an array of design patents and subsidiary trademarks that buttressed the trademark's power.[55]

Although Judge Lumbard's dissent did not prevail in *Susser*, seven years later the Ninth Circuit adopted his analysis. In *Siegel v. Chicken Delight, Inc.*,[56] franchise owners brought a class action against their franchisor, seeking treble damages for antitrust violations resulting from the imposition of particular provisions in Chicken Delight's standard franchise contract.[57] The plaintiffs claimed that the requirement that franchises purchase cooking equipment and dry-mix food products from Chicken Delight to use its trademark was an illegal tie-in under section 1 of the Sherman Act.[58]

The majority held that Chicken Delight's "unique registered" trademark, coupled with its ability to impose a tie-in on an appreciable number of buyers, estabished proof of economic power as a matter of law.[59] The court referred to the *Fortner I* and *Loew's* tests for inferring economic power to bolster its conclusions.[60] Acknowledging the presumption of power accorded to

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over a longer time frame than that afforded to patents and copyrights. *Id.* at 513 n.6. *Compare* 15 U.S.C. §§ 1058-59 (1976) (20 year duration for certificate of trademark registration with unlimited renewal periods of 20 years) *with* 35 U.S.C. § 154 (1976) (17-year duration for patent) *and* 17 U.S.C. § 24 (1976) (56-year maximum registration for copyrights). The recent revisions to the copyright law have extended the duration of a copyright to 50 years after the last surviving author's death for works created on or after, or works created but not published or copyrighted before January 1, 1978. *Id.* §§ 302-303. Thus, even under present patent and copyright provisions, Judge Lumbard was correct in discerning that trademarks technically have a longer duration than the other forms of intellectual property.

[54] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 513.

[55] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 513.

[56] 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

[57] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 46 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

[58] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 46 (9th Cir. 1971), *cert. denied* 405 U.S. 955 (1972). *See* note 6 *supra*.

[59] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 49 (9th Cir. 1971), *cert. denied* 405 U.S. 955 (1972). Adopting a "guaranty" theory, the court determined that a trademark was a separate product, capable of being used as a tying product. 448 F.2d at 48-49.

[60] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 49-50 (9th Cir. 1971), *cert.*

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 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.[61]

The *Chicken Delight* court found that three strands of evidence indicated economic power. First, the court stressed that the "Chicken Delight tradmark is distinctive; that it possessed goodwill and public acceptance unique to it and not enjoyed by other fast food chains."[62] Second, the court inferred control in the tying market from the fact that several hundred franchises had opened up outlets under the restrictive tie-in.[63] Finally, the opinion attached some weight to evidence that franchises had been required to purchase varying types of supplies during Chicken Delight's growth as a franchise.[64] Thus, the Ninth Circuit ultimately adopted Judge Lumbard's position in *Susser* by extending the economic power presumption to trademarks.[65]

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denied, 405 U.S. 455 (1972). *See* notes 16-39 and accompanying text *supra.*

[61] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972). In a footnote, the court noted that the view conflicted with the majority view in Susser v. Carvel Corp., 332 F.2d 505 (2d Cir. 1964). *See* notes 45-49 and accompanying text *supra.* The Court suggested, however, that *Susser's* "market dominance" test was erroneous in light of Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 (1969), *see* notes 28-34 and accompanying text *supra.* 448 F.2d at 50 n.7.

[62] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972). In reaching this conclusion, the court did not cite any statistical proof. In addition, Chicken Delight's claim that it was in competition with new entrants into the fast food chain market was not persuasive. 448 F.2d at 49-50.

[63] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 46, 50 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972).

[64] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 46-47 n.1, (9th Cir 1971), *cert. denied,* 405 U.S. 955 (1972).

[65] Other courts have accepted the *Chicken Delight* rationale. *See, e.g.,* Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463 F.2d 1002, 1015 (5th Cir.), *cert. denied,* 409 U.S. 1086 (1972); Falls Church Bratwursthaus, Inc. v. Bratwursthaus Mgmt. Corp., 354 F. Supp. 1237, 1240 (E.D. Va. 1973); *In re* Chock Full O'Nuts Corp., 83 F.T.C. 575, 638-39 (1973).

Some courts, however, have rejected the *Chicken Delight* rationale. *See, e.g.,* Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 664 (2d Cir. 1974);

III. THE VALIDITY OF PRESUMING ECONOMIC POWER IN TRADEMARKS

A presumption imposes the burden of introducing evidence about the nonexistence of the presumed fact on the party against whom the presumption is directed.[66] Many legal scholars agree that, upon the introduction of a presumption, the adverse party must rebut by presenting proof of the nonexistence of the presumed fact, or risk a directed verdict.[67] Presumptions are largely based on a judicial estimate of probabilities.[68] Thus, the utility of the patent-copyright-trademark presumptions depends on the frequency with which they evidence economic power.

Generally, after *International Salt*,[69] courts have applied the patent-copyright presumption without examining the product's desirability or the availability of substitute products. Similarly, courts following *Chicken Delight* premise their analyses upon the fact that a trademark is a type of legal barrier resembling a patent or a copyright. However, the presumption may no longer be warranted in patent and copyright cases. If the patent-copyright presumption is no longer valid, trademarks may also no longer indicate economic power with such certainty that they deserve presumptive treatment.

A. *Patents*

The presumption that patentees possess sufficient economic

Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976).

Still others have narrowly interpreted the holding in *Chicken Delight*. *See, e.g.*, Cash v. Arctic Circle, Inc., 85 F.R.D. 618, 620-22 (E.D. Wash. 1979). Two recent decisions have refused to recognize a trademark as distinct from the product it represented or from the business method being franchised. *See* EPRAD, Inc. v. Dolby Labs., Inc., 49 U.S.L.W. 2285 (N.D. Ohio 1980) (sound equipment maker's trademark represented origin rather than signifying a certain standard of quality); Principe v. McDonald's Corp., 631 F.2d 303 (4th Cir. 1980), *cert. denied*, 101 S. Ct. 2047 (1981) (McDonald's trademark and tied products are a single product and integral components of the franchise package).

[66] *See* FED. R. EVID. 301.

[67] *See* Keene v. United States, 266 F.2d 378, 380-81 (10th Cir. 1959); 9 WIGMORE ON EVIDENCE §§ 2490, 2491 (Chadbourn rev. 1981).

[68] *See* MCCORMICK'S HANDBOOK OF THE LAW OF EVIDENCE 803 (2d ed. E. Cleary 1972) [hereinafter cited as MCCORMICK'S HANDBOOK].

[69] International Salt Co. v. United States, 332 U.S. 392 (1947); *see* notes 12-15 and accompanying text *supra*.

power in the tying product derives from the patentee's ability to bring infringement suits to prevent unauthorized uses or duplication of the product.[70] Two considerations, however, indicate that the presumption accorded to patents should be re-evaluated. First, rival legal arrangements other than patents can adequately protect an invention. Second, the monopolist possessing a potential tying article faces no competition only to the extent that substitutes are unavailable.

Two Supreme Court decisions have eroded the theory that a patent is an exclusive statutory monopoly. In *Kewanee Oil Co. v. Bicron Corp.*,[71] the Court held that patent law did not preempt the protection provided by state trade secret statutes.[72] This ruling effectively acknowledged that formats besides patents can insulate inventions.[73] Furthermore, in *Aronson v. Quick Point Pencil Co.*,[74] the Court held that patent law does not preempt state contract law so as to interfere with the ability to enforce a royalty contract involving a putative invention.[75] *Kewanee* and *Aronson* thus demonstrate that federal patent law does not pre-

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[70] *See, e.g.*, Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976); Flinn, *Basic Antitrust Problem Areas and Their Significance for Trademark Owners and Practitioners*, 67 TRADEMARK REP. 255, 269-70 (1977). An infringer is an individual who, without authorization, "makes, uses or sells any patented invention, within the United States during the term of the patent therefor. . . ." 35 U.S.C. § 271 (1976).

A patent is a legally enforceable monopoly for 17 years from the date of its issuance, protecting an inventor or his company from theft of the invention by an employee or by commercial espionage agents. Costas & Harris, *Patents, Trademarks and Copyrights—The Legal Monopolies*, 36 CONN. B.J. 569, 572 (1962); *see, e.g.*, 35 U.S.C. § 154 (1976); United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933). In addition, patentees have civil remedies for infringement. *See* 35 U.S.C. § 281 (1976). Furthermore, patents provide defensive protection by impeding a competitor from obtaining a patent that could produce dispute as to the right to use the minor but commercially valuable improvements thereon. Costas & Harris, *supra*.

[71] 416 U.S. 470 (1974).

[72] *Id.* at 492-93. Specifically, the Court ruled that Ohio's trade secret law, OHIO REV. CODE ANN. § 1333 (Page Supp. 1980), was not preempted.

[73] *Id.* at 475-76.

[74] 440 U.S. 257 (1979).

[75] *Id.* at 264-66. The respondent contracted to pay the petitioner royalties based on sales of a keyholder design for which a patent application had been filed. *Id.* at 259. Although the petitioner's subsequent patent application was denied, and thus the respondents' competitors could use the unpatented design without paying royalties, the Court enforced the parties' agreement. *Id.* at 262-63.

clude differing forms of protection for intellectual property. The existence of other forms of protection calls into question the premise behind singling out patentees as presumptive holders of economic power. If indeed patents are but one of many ways of protecting intellectual property, there is little justification for imposing differing legal standards on those who choose a patent over other alternatives as the method of protection.

A second factor undercuts the rationale for the traditional presumption accorded to patents. The monopolist who possesses a patented tying article faces no competition to the extent that product substitutes are unavailable. However, the introduction of competing product variants tends to reduce the demand for a monopolistic tying item.[76] As one commentator has noted, the barrier to entry into the monopolist's market is not the prohibition against unauthorized use or duplication, but the inability of competitors to introduce viable product substitutes for the patented article.[77] A recent National Science Foundation study[78] found that most patents do not have the intrinsic ability to confer monopoly power in the relevant product market, since they frequently play a diminished role in safeguarding technology.[79] Moreover, the dominance of most patents is undercut by the ex-

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[76] Note, *The Presumption of Market Power in Sales of Legally Differentiated Tying Products*, 56 TEX. L. REV. 1305, 1311 (1978) [hereinafter cited as *Presumption of Market Power*].

[77] *Id.* at 1313.

[78] The study was directed by personnel associated with Harbridge House, Inc., a consulting firm. Its results are summarized and reprinted in R. MILLER LEGAL ASPECTS OF TECHNOLOGY UTILIZATION (1974) [hereinafter cited as R. MILLER].

[79] The study initially revealed that some firms showed a relative lack of interest in legal protection either because they were not innovative (e.g., electric utilities) or because legal protection inadequately insulated the inventions in their volatile markets (e.g., data processing). Another group of firms surveyed by the study placed more importance on maintaining their position in commercial makets through management competence, preferring to emphasize industrial know-how over patent protection. A third group of firms actively pursued legal protection in new technologies, although corporate investment requirements rather than availability of intellectual property protection primarily determined which products were developed. Finally, the study found that certain smaller firms (such as those in the scientific instrumentation market) accorded a high regard to both trade secret and patent protection. *Id.* at 8-9. These results offer empirical proof for the thesis that many patents do not confer economic power in certain product markets.

istence of commercially available substitutes.[80]

Although most courts have presumed that patents confer economic power as a matter of law,[81] some decisions, including the *Susser* majority, have recognized that the power of a patent may be narrow.[82] For example, the court in *Colorado Pump & Supply Co. v. Febco, Inc.*[83] considered evidence of the availability and suitability of alternative products in judging the uniqueness of a patented sprinkler system.[84] Finding satisfactory substitutes, the court declined to impute economic power to the alleged tying product.[85]

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[80] This point has been illustrated by Irving Kayton of George Washington University's Patent Law Program. Kayton stated:

> [N]ot one patent out of 10,000 either controls a relevant market by the nature of the invention, or if it is inherently capable of doing so, is not licensed to others, thereby destroying the monopoly effect. I have said publicly on several occasions that I will give anybody $1,000 for every patent since 1790 which he can produce which in fact has constituted a monopoly if he will give me one dollar for every United States patent which is not a monopoly. With some four million issued patents I would be instantaneously independently wealthy if anyone should accept the challenge.

Kayton, *United States Patent System: Fraud on the Inventor and the Public (And What Can Be Done About It)*, in THE PUBLIC NEED AND THE ROLE OF THE INVENTOR 125 (F. Essers & J. Rabinow eds. 1974).

[81] *See* note 67 and accompanying text *supra*.

[82] Susser v. Carvel Corp., 332 F.2d 505, 520-21 (2d Cir 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965). The court, quoting from a government study, stated:

> [T]he patent may be narrow and unimportant, in which event it may confer virtually no real market power. Accordingly, where the tying product is patented, the patentee should be permitted to show that in the entire factual setting, including the scope of the patent in relation to other patented or unpatented products, the patent does not create the market power requisite to illegality of the tying clause.

332 F.2d at 521 (quoting ATTORNEY GENERAL'S COMM. TO STUDY THE ANTITRUST LAWS REPORT 238 (1955)). *Accord, Presumption of Market Power, supra* note 76, at 1313 (factual study, not a conclusion of law, required in dealing with the impact of legally differentiated products).

[83] 472 F.2d 637 (10th Cir.), *cert. denied*, 411 U.S. 987 (1973).

[84] Colorado Pump & Supply Co. v. Febco, Inc., 472 F.2d 637, 640 (10th Cir.), *cert. denied*, 411 U.S. 987 (1973).

[85] Colorado Pump & Supply Co. v. Febco, Inc., 472 F.2d 637, 640 (10th Cir.), *cert. denied*, 411 U.S. 987 (1973). A district court reached a similar result in Refrigeration Eng'r Corp. v. Frick Co., 370 F. Supp. 702, 712 (W.D. Tex. 1974). *See also* Jack Winter, Inc. v. Koratron Co., 375 F. Supp. 1, 60-61 (N.D. Cal.

This analytical approach allows for a thorough examination of the actual economic power of a tying product within the confines of the patent presumption doctrine. Nonetheless, many courts presume that patents possess coercive economic power, notwithstanding the general availability of fungible product substitutes in the marketplace.[86] Given the presence of competing protection mechanisms for inventions and suitable product substitutes, presuming dominant power in many patents carries the potential of imposing unwarranted liability upon patentees. This presumption is not viable when a substantial number of patents possess no dominance in many relevant product markets.[87]

B. *Copyrights*

Loew's extended the presumption of economic power to copyrights on the rationale that copyrights, like patents, confer uniqueness to a protected item.[88] Since *Loew's*, courts have tended to mechanically apply the copyright presumption without requiring the plaintiff to prove initially the uniqueness of the copyrighted article.[89] The shortcomings of this approach become clear upon recognition of the limited scope of copyright protection. Two considerations require a reassessment of the presump-

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1974) (the court concluded as a matter of law that patent conferred leverage, having demonstrated how substitute products ineffectively matched patented article's desirability); Preformed Line Prods. Co. v. Fanner Mfg. Co., 225 F. Supp. 762, 792-93 (N.D. Ohio 1962), *aff'd*, 328 F.2d 265, 274-77 (6th Cir.) (the court found patent gained wide acceptance in electrical industry, and held that tie-in was a misuse of patent), *cert. denied*, 379 U.S. 846 (1964).

[86] *See* notes 12-15 and accompanying text *supra*. Lower courts have similarly followed the presumption when tying has been used as a defense in infringement actions. *See, e.g.*, Rex Chainbelt, Inc. v. Harco Prods., Inc., 512 F.2d 993, 1002-03 (9th Cir.) (presumption followed), *cert. denied*, 423 U.S. 831 (1975); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 673 (D.S.C. 1977) (presumption extended to unpatented item enjoying commercial success).

[87] The diminishing role of the patent can also be seen from the following projection. Based upon the results of the NSF study, Miller predicted, "[I]f the life of a patent (currently 17 years) were reduced to 13 years from the grant or extended to 20 years from the filing date, the period of prosecution would be affected, but the influence on utilization would still be negligible." R. MILLER, *supra* note 79, at 10.

[88] *See* notes 17-21 and accompanying text *supra*.

[89] *See, e.g.*, Waldbaum v. Worldvision Enterprises, Inc., 84 F.R.D. 95 (S.D.N.Y. 1979).

tive leverage given to copyrights in tying cases.

First, recent changes in statutory law seriously erode the distinctiveness presumed to attach to some forms of copyright protection. To appreciate the impact of these changes, it is necessary to recognize that the leverage of the tying product is minimized as soon as viable artistic or literary substitutes exist for the copyrighted item.[90] The critical issue in this regard is determining whether the original author can deter the development of substitute works by initiating copyright infringement suits. If copyright law offers no protection and substitute works are potentially available, the copyright owner has no effective economic power in the tying product. Hence, a presumption of this sort of power would be unjustified.

Although a copyright may have been a stringent barrier to competitors when *Loew's* was decided, current copyright law, including the 1976 General Revision of Copyright Law,[91] often protects persons who create artistic substitutes for a copyrighted work. Various provisions of the General Revision confer liberal treatment to substitute works,[92] fair use of a copyrighted work,[93] license of secondary transmissions over cable systems,[94] and du-

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[90] *See* Jones, *The Two Faces of* Fortner: *Comment on a Recent Antitrust Opinion,* 78 COLUM. L. REV. 39, 41 (1978).

[91] 17 U.S.C. §§ 101-810 (Supp. III 1979).

[92] Section 102(b) of the General Revision (although not a change in previous law; *see* Katz, *The General Revision of the Copyright Law—From Bare Bones to Corpulence—A Partial Overview,* 4 PEPPERDINE L. REV. 213, 223 (1977)), declares that copyright protection for an original work of authorship does not extend to "any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work." 17 U.S.C. § 102(b) (Supp. III 1979). *See also* Katz, *Copyright Protection of Architectural Plans, Drawings, and Designs,* 19 LAW & CONTEMP. PROB. 224, 240 (1954). For a criticism of the provision's current wording, see Katz, *The 1976 Copyright Revision Act and Authors' Rights: A Negative Overview,* 4 PEPPERDINE L. REV. 171, 180 (1977). This provision indicates a legislative intent to allow individuals to freely formulate substitute works for an author's ideas without fearing infringement suits.

[93] Section 107 codifies the judicially created doctrine of fair use, which permits a limited right to invade a copyright without being subject to an action for infringement. *See* 17 U.S.C. § 107 (Supp. III 1979). The legislative codification of this doctrine attempts to broaden the rights of individuals to use affirmatively particular works. H.R. REP. No. 1476, 94th Cong., 2d Sess. 74 (1976) [hereinafter cited as HOUSE REPORT].

[94] Section 111 requires the licensing of secondary transmissions of copy-

plication of sound recordings.[95] This encouragement of the development and use of substitute works should prompt a re-examination of the copyright presumption.

Other considerations also raise doubt about the continued validity of the presumption accorded to copyrights in tying cases. Copyright protection merely prevents another from duplicating or directly copying an author's work.[96] In comparison, patent law confers absolute ownership of the patented domain to the patentee.[97] Besides this difference in protection, the subject matter appropriate to each form of intellectual property is also divergent. Copyright protects the author's expressions, although it does not restrict the use of ideas and facts embodied therein.[98] On the other hand, patent protection precludes others from using the patentee's ideas, even though someone else may independently discover the same combination of ideas or the same process.[99] Copyrights thus confer less protection than patents.[100]

The courts have recognized these differences by requiring that patents and copyrights meet different requirements to obtain

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righted works over cable systems. 17 U.S.C. § 111(c)-(d) (Supp. III 1979). Although Congress could have classified a secondary transmission as an infringement of the copyrighted item, it preferred to establish a licensing system with license fees dependent solely upon the gross receipts paid by cable system subscribers. 17 U.S.C. § 111(d)(2)(B)-(D) (Supp. III 1979). This arrangement gives impetus to the cable television industry, *see* HOUSE REPORT, *supra* note 93, at 88-89, undermining the thesis that copyrights exclude use by potential competitors.

[95] Section 114 provides only limited protection for sound recordings; it does not ban others from "making or duplicating another sound recording that consists entirely of an independent fixation of other sounds, even though such sounds imitate or simulate those in the copyrighted sound recording." 17 U.S.C. § 114(b) (Supp. III 1979). The sound recording exemption allows circumvention by an artist who can successfully simulate a copyrighted performance, negating an assertion of infringement by the initial performer. *See* HOUSE REPORT, *supra* note 93 at 106.

[96] *See* 17 U.S.C. § 102(a) (Supp. III 1979).

[97] *See* Reeves Bros., Inc. v. U.S. Laminating Corp., 282 F. Supp. 118, 134 (E.D.N.Y. 1968), *aff'd,* 417 F.2d 869 (2d Cir. 1969).

[98] 17 U.S.C. § 102(b) (Supp. III 1979). *See also* Franklin Mint Corp. v. National Wildlife Art Exch., 575 F.2d 62, 64 (3d Cir.), *cert. denied,* 439 U.S. 880 (1978).

[99] *See* Karp, *The Author's View of the New Copyright Act,* in THE COPYRIGHT DILEMMA 64 (H. White ed. 1978).

[100] *See* Note, *Copyright—Originality—Confusing the Standards For Granting Copyrights and Patents,* 79 W. VA. L. REV. 410, 411 (1977).

protection. A patent must possess novelty to be valid,[101] whereas a copyright gets protection once it is shown to have originality.[102] Although novelty is harder to prove, this element of patent letters offers more protection than the copyright requirement of originality. As long as a work is not slavishly copied, many courts have found originality in substitute expressions, even if they substantially duplicate the copyrighted work.[103] Since copies of original works will obtain a copyright unless their variations are only trivial,[104] the potential for development of copyright substitutes is much greater than that for patented articles, which are governed by the more stringent standard of novelty.

Copyrights only protect expression; therefore, they possess even less protection over ideas than patents. Since the patent presumption is suspect as an index of economic power,[105] the weaker protection available for copyrights indicates a need to reconsider presumptive treatment for them. Rather than resort to the presumption, then, courts should consider the facts and circumstances surrounding a particular copyright before finding that the copyright owner has sufficient economic power in the tying market to violate section 1 of the Sherman Act.

C. Trademarks

The presumption that patent and copyrights confer economic power is subject to criticism in light of the limited protection that each provides in the marketplace of inventions and artistic expression. These limitations call into question the rule of *Chicken Delight,* which extended the presumption to trademarks by analogy to the rule for patents and copyrights.[106] Futhermore, even if the patent and copyright presumptions retain a measure of validity, trademark protection is more limited

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[101] *See* 35 U.S.C. § 101 (1976).

[102] *See* 17 U.S.C. § 102(a) (Supp. III 1979), which reads in relevant part: "Copyright protection subsists, in accordance with this title, in original works of authorship. . . ." *See also* Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp., 562 F.2d 1157, 1163 n.5 (9th Cir. 1977). For a discussion criticizing courts for confusing originality with novelty, see Note, *supra* note 100, at 416-22.

[103] Note, *supra* note 100, at 413.

[104] *Id.* at 415.

[105] *See* § III(A), *Patents, supra.*

[106] *See notes* 56-65 and accompanying text *supra.*

than that of either patents or copyrights. An initial comparison of the protection afforded by the patent and trademark laws shows that courts should discard the presumption of economic power in trademark cases in favor of a more detailed analysis.

Under the Lanham Act,[107] a trademark "by which the goods of the applicant may be distinguished from the goods of others"[108] can be registered, subject to certain exceptions. Once an owner registers his trademark, he has the right to exclude others from using the mark or any mark "likely to cause confusion, or to cause mistake, or to deceive."[109] In comparison, patents protect the uniqueness of the product or process, and copyrights provide legal protection for the expression of ideas.[110] Thus, trademarks merely preclude competitors from infringing on the registered name or symbol, but do not prevent duplication of a tying product's distinctive features.[111]

In trademark tying cases, which predominately involve franchise operations, franchisors who possess registered trademarks are protected if another entrepreneur uses a mark that is confusingly similar to the protected name or symbol.[112] Although an infringement action can provide protection from competitors who select a mark similar to the registered name or symbol, trademark law cannot impede copying of the underlying merchandising concept. Nonetheless, the "package"—the combination of product, building design, and aesthetic arrangement that

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[107] 15 U.S.C. §§ 1051-1127 (1976). The Lanham Act governs registration of trademarks used in interstate commerce. *See id.* § 1051.

[108] *Id.* § 1052.

[109] *Id.* § 1114(1).

[110] *See* notes 98-100 and accompanying text *supra*.

[111] *See* Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39, 48 (5th Cir. 1976); Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 664 n.4 (2d Cir. 1974).

[112] The standard for trademark infringement was summarized in Fotomat Corp. v. Cochran, 437 F. Supp. 1231 (D. Kan. 1977). The court stated that the test of likelihood of confusion is four-pronged, involving a consideration of the degree of similarity between the protected trademark and the allegedly infringing mark; the intent of the defendant in adopting the allegedly infringing mark; the relation in use and manner of marketing the goods or services of the defendant and those of the plaintiff; and the degree of care likely to be exercised by purchasers. *Id.* at 1242.

Trademark infringement was found in Kentucky Fried Chicken Corp. v. Old Kentucky Home Fried Chicken, Inc., 313 F. Supp. 1096 (W.D. Ky. 1970). There, the court found that "Old Kentucky Fried Chicken" too closely resembled the registered "Kentucky Fried Chicken" mark and would be likely to confuse the ordinary purchaser. *Id.* at 1099.

gives peculiarity to a franchise outlet[113]—is frequently of prime concern to franchisors. In contrast to the more encompassing protection provided by patents and copyrights,[114] trademark law cannot prevent franchise entrants from adapting the distinctive features of a successful "package" under a noninfringing mark. Since a trademark only shields a name or symbol, supplementary protection by design patents[115] or service marks[116] is necessary to the total franchise concept.

The *Chicken Delight* court, in finding that both patents and trademarks constitute a "legal barrier against competition,"[117] did not consider the differences between the protection offered by the patent and trademark laws. Moreover, had patents and subsidiary trademarks not existed in *Susser* to bolster the power of the mark in question, Judge Lumbard's dissent would not have been so forceful.[118] Thus, the more limited nature of trademark protection does not justify extension of the presumption of economic power that has often attached to patents and copyrights.

The aims of trademark protection and of patent and copyright law also differ. This difference is a second basis for rejecting the *Chicken Delight* presumption. A federal district court recognized this basis in *Cash v. Arctic Circle, Inc.*[119] Rather than interpret *Chicken Delight* as an extension of the patent-copyright presumption to trademarks, the *Cash* court adopted a narrow reading.[120] It held that the matter of a tying trademark's eco-

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[113] C. ROSENFIELD, THE LAW OF FRANCHISING 54 (1970).

[114] *See* § I, PATENT-COPYRIGHT PRESUMPTION AND PROOF OF ECONOMIC POWER IN TYING ARRANGEMENTS, *supra*.

[115] *See* Susser v. Carvel Corp., 332 F.2d 505, 513 (2d Cir. 1964) (Lumbard, J., dissenting in part), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965).

[116] *See* Fotomat Corp. v. Cochran, 437 F. Supp. 1231, 1236-46 (D. Kan. 1977). In that case, the court found that Fotomat's building configuration constituted a valid service mark, *id.* at 1236, and that a defendant photo processor should be enjoined from adopting distinctive features of Fotomat's building. *Id.* at 1246.

[117] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

[118] *See* notes 50-55 and accompanying text *supra*.

[119] 85 F.R.D. 618 (E.D. Wash. 1979).

[120] Specifically, the district court stated,

> Instead of interpreting *Siegel* as erecting a presumption of economic power upon a finding that the tying product is a protected

nomic power is a question of fact in the absence of evidence warranting a directed verdict.[121]

The *Cash* court justified its rejection of the trademark presumption by comparing the purposes of the trademark laws to the aims of copyright and patent provisions. While finding that patents and copyrights were designed to confer market power upon the creators of unique products, the court noted that the purpose of trademark law is neither to induce creative work nor to impart market power upon the trade name. Instead, the court reasoned that the original purpose of a trademark was to impede the piracy of trade names, thereby safeguarding goodwill and preventing consumer confusion.[122] This purpose is different from the governmental grants of monopoly to patents and copyrights, which were designed to encourage disclosure of innovations and expressions.[123] It is thus anomalous to extend the patent-copyright presumption to a form of intellectual property whose purpose is not to further the governmentally sanctioned policy of encouraging inventiveness and artistic disclosures.

A third aspect of trademark law further establishes the untenability of extending presumptions of economic power to trademarks. Under section 1115(b)(5) of the Lanham Act,[124] a limited defense is available to an infringer who has adopted and continually used the same mark before the owner's registration. The prior use is noninfringing, and the mark can still be used by the prior user, as long as use is confined to "the area in which such continuous prior use is proved."[125] The continuous use de-

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> trademark, the narrower view is that *Siegel* actually turned on the fact that the evidence in that case had established that Chicken Delight's particular trademark 'is distinctive; that it possesses good will and public acceptance unique to it and not enjoyed by other fast food chains.' . . . In this court's opinion, *Siegel* should not be read to declare a *per se* rule; the better view is that evidence of uniqueness and desirability, not a legal presumption, justified the directed verdict in that case.

Id. at 621.

[121] *Id.*

[122] *Id.*

[123] *See* note 41 *supra* (discussing "source" theory). *See also* Saf-Gard Prods., Inc. v. Service Parts, Inc., 532 F.2d 1266, 1270 n.8 (9th Cir.), *cert denied,* 429 U.S. 896 (1976).

[124] 15 U.S.C. § 1115(b)(5) (1976).

[125] *Id. See also* Fotomat Corp. v. Cochran, 437 F. Supp. 1231, 1245 (D. Kan. 1977); Southland Corp. v. 7-Eleven Super Markets, Inc., [1981] 527 PAT., T.M.

fense thus provides prior users of a trademark with protection from subsequent federal registrants in a limited geographical market.

Unlike the broader protection embodied in patent and copyright law,[126] section 1115(b) of the Lanham Act allows a qualified user to establish a right to concurrent use in a geographical market, precluding a registered user's assertion of priority under federal law.[127] Given the regional expansion of franchises with identical or similar trade names, this defense offers another reason for questioning the *Chicken Delight* presumption.

IV. Abandonment of the *Chicken Delight* Presumption: Proof of Power as Part of a Franchisee's Prima Facie Case

The utility of a presumption primarily depends upon its ability to successfully serve as a judicial estimate of probabilities.[128] If proof of a fact like the existence of a trademark does not make it probable to infer the existence of another fact like economic power, a presumption involving these facts does not serve this purpose.[129] Given the existence of competitive substitutes in the relevant market, ascribing a presumption of economic power to a particular patent or copyright is unwise. This is particularly

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& Copyright J. A-7 to -9 (7th Cir.).

An interesting illustration of the "continuous use" defense is Burger King of Florida, Inc. v. Hoots, 403 F.2d 904 (7th Cir. 1968). Corporate plaintiffs had opened several "Burger King" restaurants in southern states, opening their first Illinois restaurant in 1961, in Skokie. In 1957, the defendants had opened a "Burger King" restaurant in Mattoon, Illinois, and had registered their name as a trademark under state law in 1959. With notice of the defendant's prior registration, the plaintiffs obtained federal registration of the mark. In 1962, the defendants opened a second restaurant in Charleston, Illinois, having constructive knowledge of the plaintiffs' federal registration. *Id.* at 906. The plaintiffs initiated a federal suit, and the district court held that their federal registration provided exclusive right to use the mark throughout Illinois, except in the Mattoon area. The Seventh Circuit affirmed this determination. *Id.* at 907. It found that the defendants established their innocent and continual use of the "Burger King" mark within a 20-mile radius of Mattoon before the plaintiffs' federal registration. *Id.* at 908.

[126] There is no provision in either the patent or copyright statutes suggesting that an infringer can *concurrently* use a protected item along with the patentee or copyright owner.

[127] Comment, *The Scope of Territorial Protection of Trademarks*, 65 Nw. U. L. Rev. 781, 811-12 (1970).

[128] *See* note 68 and accompanying text *supra*.

[129] McCormick's Handbook, *supra* note 68, at 807.

true for trademarks. They provide even less protection than patents and copyrights. Furthermore, an infringer who successfully establishes a continuous use defense can use a trademark concurrently with its registered owner.

A. *Disadvantages of Continued Adherence to* Chicken Delight

Continued adherence to the *Chicken Delight* presumption in trademark tying cases may frequently lead to circuitous and inefficient results. Under the "bursting bubble" theory,[130] once the trial judge determines that sufficient rebutting evidence sustains a finding contrary to the presumed fact, the presumption is extinguished from the case.[131]

Seligson v. Plum Tree, Inc.[132] illustrates this theory. The court denied a motion to dismiss the tying allegation for failure to state a claim, where a defendant-franchisor had only 46 franchises operating throughout the country under the "Plum Tree" name.[133] At the complaint stage, the court applied *Chicken Delight* and presumed economic power.[134] During the trial, however, the presumption probably would have been rebutted by evidence demonstrating the rather limited nature of the "Plum Tree" franchise network. This exemplifies the inefficient manner of proving economic power under *Chicken Delight.* Rather than make the plaintiff initially prove trademark distinctiveness as part of his prima facie case, a defendant must laboriously present rebuttal evidence to avoid application of the presumption, even when a relatively unknown trademark is involved. Many nondistinctive trademarks are capable of being rebutted by extraneous market evidence. Thus, the *Chicken Delight* presumption frequently may not be an efficient tool for proving economic power.

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[130] This theory is derived from Thayer and apparently sanctioned by Wigmore. *See* McCormick's Handbook, *supra* note 68, at 821; 9 Wigmore on Evidence § 2491(2) (Chadbourne rev. 1981). It is also the view of the federal rules of evidence. *See* Fed. R. Evid. 301.

[131] Fed. R. Evid. 301.

[132] 361 F. Supp. 748 (E.D. Pa. 1973).

[133] *Id.* at 750.

[134] *Id.* at 752-53.

B. Economic Power: Burden of Proof Upon the Plaintiff-Franchisee

The *Chicken Delight* presumption currently does not reflect an accurate estimate of probabilities in light of the limited nature of trademark protection. Moreover, the *Chicken Delight* approach frequently does not result in a net saving of court time, since the purported power of a trademark may be rebutted and the burden of producing evidence returned to the plaintiff. To avoid the disadvantages accompanying adherence to the trademark presumption, a plaintiff-franchisee should have to present proof of economic power as part of his prima facie case in a tying lawsuit.

Placing the burden of proof upon the plaintiff franchisee from the outset would be a great improvement over the *Chicken Delight* approach. It would allow a plaintiff to introduce the trademark as evidence of power, but the jurors need not regard it as conclusive proof against the defendant.[135] Abolition of the trademark presumption would also speed the trial of tie-in cases, since a plaintiff would likely present all evidence of market power in his principal case. This would allow the trier of fact to fairly evaluate the evidence of economic power without being prejudiced by the operation of a tenuous presumption. Finally, proof of power as an element of a plaintiff's case would terminate a presumption that is outmoded in a marketplace where

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[135] Due to the practical application of the "bursting bubble" theory, there is the danger that juries will place undue weight upon the presumption of economic power ascribed to trademarks. Under this theory, a presumption technically disappears from the case once sufficient rebutting evidence is introduced. *See* notes 130-131 and accompanying text *supra*. Although there is no reason for the trial judge to instruct the jury about a presumption that has been rebutted, many courts feel that the policies underlying some presumptions call for an instruction that highlights their existence and operation to jurors. McCormick's Handbook, *supra* note 68, at 824. This tendency on the part of trial courts has a potential of producing prejudicial results. For example, the judge's admonition that "the law presumes" may be treated by the jury as a conclusive presumption rather than a mere procedural tool subject to rebuttal. *Id.* at 825. Moreover, in instances where the court instructs that a presumption is "evidence" to be considered against other testimony in a lawsuit, jurors may be tempted to credit it as evidence even though it was extinguished by rebutting proof. *See* McBaine, *Presumptions: Are They Evidence?*, 26 Calif. L. Rev. 519, 545-46 (1938). Since many trademarks may be rebutted, the false impressions that a "presumption" may convey through instructions invite arbitrary action by jurors.

competitors can avoid trademark infringement by copying a franchisor's "package" or by establishing the continuous use defense.

C. *Proving Economic Power: Evidence Indicative of a Trademark's Desirability and Value*

Once the *Chicken Delight* presumption is discarded and replaced with an approach that places the burden of proving economic power upon the plaintiff-franchisee, it becomes necessary to determine what evidence indicates trademark desirability in the franchise sector. In the past, several types of evidence have established trademark distinctiveness. Some types of evidence are no longer relevant to franchise tying cases; however, some factors should demonstrate economic power in the plaintiff's case.

1. Market Share

Northern Pacific[136] diluted the impact of market dominance as a factor in judging economic power. Accordingly, most courts have been wary of examining the tying franchisor's position in the relevant franchising market.

Similarly, the Supreme Court recently suggested that market shares do not conclusively establish illegality in merger cases brought under section 7 of the Clayton Act.[137] Although not conclusive of economic power in other situations, market share evidence does tend to indicate a successful degree of trademark leverage in the franchise context.[138] A predominant franchisor will thus be one who has successfully distinguished his trademark in a franchising sector with high entry barriers.[139]

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[136] Northern Pac. Ry v. United States, 356 U.S. 1 (1958); *see* notes 24-27 and accompanying text *supra*.

[137] *See* United States v. General Dynamics, 415 U.S. 486, 502-04 (1974) (coal production statistics were not the best index for judging anticompetitive effects).

[138] The court in Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463 F.2d 1002, 1015 (5th Cir.), *cert. denied*, 409 U.S. 1086 (1972) stressed market dominance in determining the strength of the tying trademark, noting that the seller was a leading manufacturer of compressors.

[139] Market shares may not be very reflective of power if entry barriers are low and new entrants have no difficulty entering the franchise market. Scherer suggests that many dominant firms have had their market shares eroded because they did not attempt to deter entry by new producers, e.g., create huge

Indeed, Judge Lumbard's dissent in *Susser* suggested that evidence of growth in the Carvel chain indicated a linear increase in the value of its trademark.[140] Application of this linear theory to other tying arrangements suggests that franchisors with significant market shares hold a more valuable trademark.

In *Osborn v. Sinclair Refining Co.*,[141] the Fourth Circuit used market statistics to establish economic power. The case involved the tie-in of Goodyear tires, batteries, and other automobile accessories to Sinclair's leases and sales of gasoline. The court noted that Sinclair had supplied more than ten percent of gasoline sold in Maryland and was the gasoline supplier to more than ten percent of the state's stations. Thus, Sinclair possessed economic power in the tying market[142] under the *Northern Pacific* test. Even under the relaxed *Northern Pacific* standard, then, market share data can establish a trademark's desirability and value.

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capital investments, which act as a deterrent to entry. *See* F. SHERER, INDUSTRIAL PRICING: THEORY AND EVIDENCE 104 (1979). In the franchising context, entry barriers are high in products like automobiles, *see* M. GREEN, THE CLOSED ENTERPRISE SYSTEM 244-45 (1972), and low for such items as ice cream. Thus, using the market shares as evidence of economic power must be tempered by consideration of the viability of new entrants into the relevant franchising sector.

[140] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 513; *see* note 50 and accompanying text *supra*. This reasoning would cast doubt on the validity of particular decisions like the FTC's ruling in *In re* Carvel Corp., 68 F.T.C. 128 (1965). There the Commission ruled that Carvel, which was imposing a tie-in, did not possess market dominance, although it had a 37% share in the relevant market. *Id.* at 182. Because a market share of this size would appear to indicate unlawful leveraging, the derivative power of Carvel's trademark, through its market dominance, might have been properly challenged.

[141] 280 F.2d 832 (4th Cir. 1960) *cert. denied,* 366 U.S. 963 (1961).

[142] Osborn v. Sinclair Refining Co., 280 F.2d 832, 841 (4th Cir. 1960), *cert. denied,* 366 U.S. 963 (1961). *See also* Phillips v. Crown Cent. Petroleum Corp., 602 F.2d 616 (4th Cir. 1979) (4% market share did not demonstrate economic power in the tying market; "the Osborn case probably represents a showing very close to the minimum permissible. . . ."), *cert. denied,* 444 U.S. 941 (1980); Americap, Inc. v. AJD Corp. [1980] 2 Trade Cas. ¶ 63,532, at 76,854 (S.D.N.Y. 1980) (AJD held one of only three licenses to manufacture, distribute, and sell coach's caps bearing NFL franchise emblems; Americap did not adequately allege sufficient economic power because, *inter alia,* it made "no allegation with respect to the share of the market for NFL coaches' caps controlled by AJD.").

2. Advertising

Commentators and the courts increasingly have acknowledged the "guaranty" function of trademarks: the mark represents a standard of quality that the consumer has learned to associate with the product.[143] Advertising is one mechanism that can successfully create his response. Although the major purpose of advertising is to relay information about products or services, another is to encourage consumer loyalty to a brand name.[144] In the franchising context, advertising generally depicts the services of the franchise in tandem with the trademark name.

Once the trademark assumes its guaranty function, the symbol itself becomes an advertisement of the franchise operation. The franchisor will advertise extensively to differentiate properly his franchise trademark from others in the public eye.[145] Therefore, a high level of advertising would tend to increase the impact of a trademark because consumers would identify the name with franchising services. In *Detroit City Dairy, Inc. v. Kowalski Sausage Co.*,[146] the court found economic power in a trademark based partially on evidence that "substantial Kowalski advertising featured the Kowalski name."[147] Thus, a large advertising campaign by the franchisor may indicate a trademark's economic power.[148]

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[143] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48 (9th Cir. 1971), *cert. denied,* 405 U.S. 955 (1972). *See* note 42 and accompanying text *supra.*

[144] L. SULLIVAN, HANDBOOK OF THE LAW OF ANTITRUST 307 (1977). Sullivan notes that extensive advertising "aims to hammer home a brand name, or to create a consumer need where none existed; it often seeks to manipulate taste and desire, sometimes subtly, more often by linking a product with a gross appeal to sexual appetite, the need for love and security, the need to feel successful, or fears of various kinds." *Id.* For a discussion of the economic effects of advertising on competition, see *id.* at 307-08 n.1.

[145] *Cf.* FTC v. Proctor & Gamble Co., 386 U.S. 568, 603-04 (1967) (Harlan, J., concurring) (an extensive advertising program may solidify consumer brand loyalty and increase entry barriers for potential entrants).

[146] 393 F. Supp. 453 (E.D. Mich. 1975).

[147] *Id.* at 470.

[148] The trademark becomes more valuable through advertising because franchisees may feel that the public readily associates the trademark with the franchise's quality of services.

3. Uniquely Attractive Provisions

In *Fortner II,*[149] the Supreme Court rejected the contention that a credit financing program covering 100% of realty acquisition and development costs was sufficiently "unique" to evidence trademark leverage. There was no showing that the program provided a cost advantage over competitors or that other lenders could not offer the same credit terms.[150] One lower court has elucidated the manner in which a plaintiff might show "unique" credit terms. In *Costner v. Blount National Bank,*[151] the Sixth Circuit found that the plaintiff had satisfied the uniqueness test upon showing unduly burdensome terms in the agreement, coupled with an inability to obtain additional credit from nearby commercial sources.[152] By applying *Costner*'s uniqueness standard to franchising situations, franchisees might demonstrate trademark leverage by proving the existence of uniquely attractive terms in the franchise agreement.[153]

In spite of *Fortner II,* proof of unique credit or franchise terms may be possible. Singularly attractive provisions of a franchise agreement that are unavailable from competing franchisors accent the value of a trademark. Courts should consider this factor as proof of some economic power in cases where

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[149] United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610 (1972); *see* notes 36-39 and accompanying text *supra.*

[150] United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610, 614, 622 (1972).

[151] 578 F.2d 1192 (6th Cir. 1978).

[152] *Id.* at 1196. In *Costner,* the plaintiff was an automobile dealer who obtained a loan from the defendant bank. The loan agreement required that the dealership sell a large portion of its retail commercial automobile installment paper to the bank. *Id.* at 1194. Plaintiff alleged, among other claims, that the transaction was an illegal tie-in. On appeal, the defendant bank argued that there was insufficient evidence to submit the tie-in issue to the jury. *Id.* at 1195-96. The Sixth Circuit characterized the tying product as credit and the tied product as plaintiff's commercial paper and declined to set aside the jury verdict. *Id.* The court also found that unique credit terms were implied in the credit agreement because competing institutions left the plaintiff captive to the defendant bank's credit system. *Id.*

[153] Similarly, the court in Warriner Hermetics, Inc. v. Copeland Refrig. Corp., 463 F.2d 1002 (5th Cir.), *cert. denied,* 409 U.S. 1086 (1972) stressed the existence of a peculiarly advantageous warranty arrangement, available to Copeland's franchises only through specific wholesalers. 463 F.2d at 1015. *See also* Capital Temporaries, Inc. v. Olsten Corp., 506 F.2d 658, 664 (2d Cir. 1974) (white collar business was no more attractive than similar enterprises because there was no evidence that similar services could not be obtained elsewhere).

a plaintiff can show that the beneficial aspects of a franchise are unique.

4. Desirability to Franchisees

In *Chicken Delight*,[154] the Ninth Circuit suggested that trademark leverage could be inferred where a substantial number of franchisees signed a contract containing a tie-in clause.[155] The court based its conclusions on *Fortner I*,[156] where the Supreme Court stated that the imposition of a "tie-in with respect to any appreciable number of buyers within the market could imply economic power."[157] Nonetheless, in *Fortner II*,[158] the Supreme Court recognized that testimony of widespread acceptance of a tying arrangement may only represent a buyer's willingness to purchase an attractive package rather than indicate economic leverage. However, *Chicken Delight*'s numerical desirability test in the franchise context may be inappropriate, since "a multitude of inquiries would be necessary to determine if the tie-in agreement was disadvantageous to franchisees throughout the United States."[159] Notwithstanding this recent criticism, evidence of franchisees' acquiescence to a tie-in or testimony of

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[154] Siegel v. Chicken Delight Corp., 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 555 (1972).

[155] Siegel v. Chicken Delight Corp., 448 F.2d 43, 46, 50 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). The court noted that several hundred franchisees executed agreements with Chicken Delight containing the tie-in, 448 F.2d at 46, and referred to *Fortner I*'s condemnation of arrangements restraining an appreciable number of buyers. *Id.* at 50.

[156] Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495 (1969); *see* notes 29-34 and accompanying text *supra*.

[157] Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 504 (1969); *see* note 31 and accompanying text *supra*. The Fourth Circuit has adopted the *Fortner I* inquiry in assessing economic power in the tying product market. *See* Advance Business Sys. & Supply Co. v. SCM Corp., 415 F.2d 55, 68 (4th Cir. 1969), *cert. denied*, 397 U.S. 920 (1970).

[158] United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610, 614 (1977); *see* notes 36-39 and accompanying text *supra*.

[159] Esposito v. Mister Softee, Inc., [1976] 2 Trade Cas. ¶ 61,202, at 70,479 (E.D.N.Y. 1976). In Aamco Automatic Transmission, Inc. v. Tayloe, 407 F. Supp. 430 (E.D. Pa. 1976), the court recognized that the imposition of a tying arrangement on many of Aamco's five hundred franchises as one indication of economic power. *Id.* at 437. A court deemed proof of desirability among a smaller franchise target population to be a sufficient showing of uniqueness in Seligson v. Plum Tree, Inc., 361 F. Supp. 748 (E.D. Pa. 1973), which involved the use of a tie-in with over 46 "Plum Tree" franchises. *Id.* at 750.

franchisee personnel concerning an outlet's desirability can be probative of a trademark's economic power. In fact, courts have found such evidence to be indicative of a trademark's uniqueness.

Most courts examining tie-ins recognize that evidence of a franchise's desirability among two target classes, franchisees and consumers, may indicate trademark leverage. Where personnel in the franchise market testify, courts have had little difficulty finding trademark power.[160] If the defendant-franchisor argues that numerical desirability indicates mere preference for the franchising package, he should bear the burden of proving this contention.[161] Consequently, courts should use proof of desirability by franchise dealers and evidence of a host of tying arrangements to gauge the power of a franchise trademark.

5. Appeal to the Public

The franchise dealer's perception of what constitutes a desirable trademark is shaped to a significant degree by the response of the consuming public. Successful consumer acceptance of a franchise will increase its chances of profitability. To the extent that it connotes a level of quality, a trademark functions as a

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[160] *See* cases cited note 65 *supra.* Detroit City Dairy, Inc. v. Kowalski Sausage Co., 393 F. Supp. 453 (E.D. Mich 1975) typifies the reliance that courts have placed on testimonial evidence in establishing trademark uniqueness. Testimony showed that many retailers considered receipt of the Kowalski neon sign to be important. *Id.* at 470-71 (testimony of Edward Gulick, sales manager for Kowalski, and two franchise dealers). Testimonial evidence also influenced the court's finding in Martino v. McDonald's Sys. Inc., 81 F.R.D. 81 (N.D. Ill. 1979), *aff'd in part, rev'd in part upon reconsideration,* 86 F.R.D. 145 (N.D. Ill. 1980). Noting that many prospective franchisees sought out McDonald's and willingly signed franchise agreements that contained onerous provisions, 81 F.R.D. at 89, the court summarily ruled that McDonald's trademark was sufficiently unique to invoke the presumption that proof of its dominance could be demonstrated among all franchise members of a class action suit. *Id.* at 90.

[161] The Supreme Court, in Northern Pacific Ry. v. United States, 356 U.S. 1 (1958), stated, "The very existence of [the] host of tying arrangements is itself compelling evidence of the defendant's great power, at least where, as here, no other explanation has been offered for the existence of these restraints." *Id.* at 7-8. In United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610 (1977), defendant apparently presented another reason for the purchase of the "homes and financing" package. *Id.* at 618 n.10 (1977).

purchasing short-cut for consumers.[162] When a trademark reaches that stage, consumers recognize the mark as distinctive. Thus, a well-known trademark is a further indication of a franchisor's leverage power.

One of the more effective exhibitions of consumer appeal occurred in *In re Chock Full O'Nuts Corp.*[163] A franchise owner testified that sales increased dramatically when he put Chock Full O'Nuts signs in two restaurants operating under other names.[164] The Federal Trade Commission found that this conclusively demonstrated that the Chock trademark was a valuable asset.[165] The Commission thus appropriately considered that consumer acceptance indicated economic power in the tying market.

6. Sheltering a Trademark with Design Patents

Antitrust law has generally condemned arrangements that utilize patents to unfairly advance a firm's monopolistic power.[166] Since patents can be joined to blockade market competition,[167] undue use of a statutory monopoly is suspect.

In the franchise context, the trademark may be accompanied by design patents encompassing building structures, advertising, displays, and other appurtenances to the operation. Judge Lumbard recognized this in his *Susser* dissent.[168] He suggested that courts infer economic leverage when a franchisor shelters a desirable trademark with accompanying patents.[169] A trademark coupled with supporting design patents would thus be additional

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[162] *See* notes 1 & 42 and accompanying text *supra.*

[163] 83 F.T.C. 575 (1973).

[164] *Id.* at 640 n.11.

[165] *Id.*

[166] *See, e.g.,* United States v. United Shoe Mach. Corp., 110 F. Supp. 295, 332, 344 (D. Mass. 1953), *aff'd per curiam,* 347 U.S. 521 (1954) (excessive accumulation of patents can be used to demonstrate a violation of § 2 of the Sherman Act, 15 U.S.C. § 2 (1976)).

[167] *Cf.* United States v. Hartford-Empire Co., 46 F. Supp. 541, 562 (N.D. Ohio 1942) (patent accumulation and pooling used to dominate an entire industry violates §§ 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2 (1976)), *modified,* 323 U.S. 386 (1945).

[168] Susser v. Carvel Corp., *supra* note 45, 332 F.2d 505. The license of Carvel's trademark was buttressed by an "array of [design and machinery] patents and subsidiary trademarks. . . ." 332 F.2d at 513.

[169] Susser v. Carvel Corp., *supra* note 45, 332 F.2d at 513 (Lumbard, J., dissenting); *see* note 55 and accompanying text *supra.*

evidence of economic power in the franchise sector.

7. Evidence That is Not Probative of a Trademark's Power

a. *Mark-up in Price for the Tied Product*

In *Chicken Delight*, the franchisor attempted to justify a tying arrangement as a method of extracting a suitable franchise royalty where the defendant's trademark license was tied to the sale of supplies to franchisees at excessive prices.[170] The Ninth Circuit rejected this argument, stating that "there exist feasible alternative methods of compensation for the franchise licenses, including royalties based on sales volume or fees computed per unit of time. . . ."[171] Several courts quickly seized upon the ability of franchisors to sell tied products at abnormally high prices as probative evidence of a trademark's economic power.[172]

Although some courts have relied on this price mark-up factor, there is a fundamental fallacy in this approach. In *Fortner II*,[173] the Court aptly observed that "proof that Fortner (the buyer) paid a higher price for the tied product is consistent with the possibility that the financing (tying item) was unusually inexpensive and that the price for the entire package was equal to, or below, a competitive price."[174] Since franchisees may have regarded the tie-in as a substitute for the franchise fee, the acceptance of an agreement providing for purchase of supplies at high

[170] *See* notes 56-65 and accompanying text *supra*.

[171] Siegel v. Chicken Delight, Inc., 448 F.2d 43, 50 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). The court had earlier indicated that "[t]he prices fixed for these [tied items] purchases were higher than, and included a percentage markup which exceeded that of, comparable products sold by competing suppliers." 448 F.2d at 47.

[172] The approach of the court in Detroit City Dairy, Inc. v. Kowalski Sausage Co., 393 F. Supp. 453 (E.D. Mich 1975) typifies the consideration given to a franchise dealer's franchising habits. After deciding that price was an important concern of retailers, the court noted that Kowalski dealers continued to buy Polish hams from the franchisor even though a substantial price differential existed, and expressly used this factor in determining that the Kowalski trademark possessed the requisite economic power. *Id.* at 480. *See also* Ohio-Sealy Mattress Mfg. Co. v. Sealy, Inc., 585 F.2d 821 (7th Cir. 1978), *cert. denied*, 440 U.S. 930 (1979); Carpa, Inc. v. Ward Foods, Inc., 536 F.2d 39 (5th Cir. 1976).

[173] United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610 (1977).

[174] *Id.* at 618.

prices does not necessarily indicate leverage.

Furthermore, judicial examination of the high mark-up factor punishes the franchisor for the manner of collecting a franchise royalty. Alternative fee arrangements, like those suggested by the *Chicken Delight* court, are less cost efficient than tying arrangements. The franchisor must study sales data before establishing an initial royalty charge.[175] A rule condemning these tie-ins thus impedes the franchisor's efforts to eliminate the lag in recovering a proper royalty. An analysis of the price differential of tied items is therefore inappropriate in assessing the leverage of a franchisor's trademark.

b. *Franchisee's Investment*

A reliance upon the nature of the franchise investment in establishing trademark power is also unpersuasive. For example, most small investors have to make substantial financial outlays before obtaining a brand-name automobile dealership.[176] At the initial stages, however, investors have latitude in choosing among the preeminent automotive trademarks. The fact that subsequent investment tends to lock a franchise into identifying with a particular brand does not indicate *primary* leverage. Consequently, courts should not place weight on the nature of the franchise investment when determining a trademark's initial leverage.

CONCLUSION

With the growth of the franchise as an investment format, oppressive franchisor practices have become subject to antitrust regulation. The Sherman Act is increasingly being applied to combat tying arrangements that link the sale of independent supplies to the use of the franchisor's trademark. One of the re-

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[175] *See* Note, *The Presumption of Market Power in Sales of Legally Differentiated Tying Products,* 56 TEX. L. REV. 1305, 1315 n.33 (1978).

[176] In Joe Westbrook, Inc. v. Chrysler Corp., 419 F. Supp. 824 (N.D. Ga. 1976), the plaintiff suggested that an extensive monetary investment, coupled with name recognition as a Chrysler car dealer, made use of Chrysler Motor's trademark valuable to Chrysler-Plymouth franchises. *Id.* at 835. The plaintiff further contended that these considerations rendered the cars and their affixed trademark "not interchangeable with other brands of automobiles. . . ." *Id.* The court ruled that the allegations were insufficient to avoid a motion for partial summary judgment.

quirements that must be proven in an illegal tying arrangement is that the franchise trademark exhibits economic power over prospective franchisees. In *Siegel v. Chicken Delight, Inc.*,[177] the Ninth Circuit declared that trademarks, like patents and copyrights, carry a presumption of economic power.

This article has suggested the abolition of the presumption accorded to trademarks for a number of reasons. Since *Chicken Delight* relied heavily upon the presumption previously adopted for patents and copyrights, its viability should be reconsidered in light of indications that patents and copyrights do not possess economic power in a contemporary marketplace containing substitute products and artistic expression that can be used or copied without fear of an infringement suit. In addition, trademarks provide even less protection to their owners than do patents or copyrights. Further, the trademark presumption itself may not be a probable indicator of economic power, since many marks may prove to be nondistinctive or might be limited by a prior competitor's continuous use in an established geographical area. Finally, the *Chicken Delight* presumption may not efficiently prove economic power. Since the economic power of many trademarks can be rebutted by evidence that undercuts the presumption of leverage, it is doubtful that the presumption saves court time. Upon rebuttal of the presumption, a plaintiff-franchisee must expend court time to produce proof of economic power.

Rather than adhere to a presumption that may be unrealistic and time-consuming, courts should require that the plaintiff bear the initial burden of proving economic power in a trademark tying lawsuit. From a practical standpoint, this approach avoids the circuity accompanying a presumption subject to frequent rebuttal by countervailing evidence. Given the questionable worth of the *Chicken Delight* presumption in many franchise tying cases, the time has come to abolish the presumption and replace it with a procedure that initially allocates the burden of proof on the plaintiff seeking to demonstrate an oppressive tying arrangement.[178]

Since many trademarks can possess the "uniqueness" described in *Fortner II*,[179] this article has also posited certain

[177] 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972).

[178] *See also* Comment, *A New Approach to the Legality of Franchising Tie-ins*, 129 U. PA. L. REV. 1267, 1300 (1981).

[179] United States Steel Corp. v. Fortner Enterprises, Inc., 429 U.S. 610

types of evidence that can help a plaintiff demonstrate economic power. Although several considerations are probative, a trademark's economic power can best be demonstrated by evidence of its desirability among two target populations: prospective franchisees and the consuming public. Consequently, courts should assess the uniqueness of a trademark through a factual inquiry into the market factors rather than through reliance upon a presumption of questionable validity and utility.†

(1977).

† In Krehl v. Baskin-Robbins Ice Cream Co., No. 80-5068 (9th Cir. Jan. 4, 1982), the Ninth Circuit limited *Chicken Delight* to its facts in determining that the Baskin-Robbins trademark and ice cream did not constitute separate products. This suggests that the Ninth Circuit may be willing to re-evaluate other aspects of the *Chicken Delight* decision.