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Don't Lose Your Trademark Through Careless Licensing

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Trademark practitioners are well familiar with the requirement under U.S. law that trademark licenses must contain quality control provisions, and trademark licensors must actually exercise quality control in fact, to ensure that the trademark owner is assuring to consumers the consistent quality of goods and services sold and rendered under a particular mark. Failure to exercise quality control – or so-called "naked licensing" – creates a serious risk that the trademark in question will be deemed abandoned and thus invalid.

One recent such case is *Movie Mania Metro, Inc. v. GZ DVD's Inc., Hazim Jarbo, and Sandra A. Zielke*, issued September 9, 2014 by the Michigan Court of Appeals. In that case, the plaintiff was the owner of the trademark MOVIE MANIA and since 1996 had "acted as a promiscuous licensor" and allowed various other parties in the Detroit area to use the mark in connection with video rentals. In 1996 plaintiff sold one of its video rental locations to a third party and licensed that party to use the MOVIE MANIA mark with no restrictions. The purchaser then sold the store to another third party, who was then granted permission by plaintiff to continue using the mark without any license in place. In 2010, that party then sold the store to the defendants, who asked plaintiff for continued permission to use the mark. At this point plaintiff asked for a fee and a signed license. Defendants refused plaintiff's request but used the mark anyway. Plaintiffs then filed suit in Michigan state court for infringement under both state and federal law (note that state and federal courts have concurrent jurisdiction over trademark claims brought under the Lanham Act).

The trial court granted the defendant's motion for summary judgment, finding, *inter alia*, that the plaintiff had engaged in naked licensing from 1999 – 2005 and thus abandoned the mark before defendants used it. The plaintiff appealed.

The Michigan Court of Appeals affirmed after going through its own analysis. The court explained the nature of trademark rights, noting the "two distinct but related interests" implicated by trademark law – "the private right of the trademark holder to prevent others from using his mark to pass off their goods or services as his own, and the public right to protection from such market-related deceptive practices." As a result of the public-perception component of trademark law, the court noted that trademark rights are "inherently mutable, because they are dependent on whether the consuming public is able to use the mark to distinguish a good or service as originating from a particular source." With regard to a trademark owner who engages in naked licensing, the court stated that he "thus destroys his mark – it is no longer able to serve as a meaningful source identifier to consumers and, accordingly, loses its significance as a mark."

The court detailed the plaintiff's licensing history, which included "uncontrolled licensing of the mark to two business owners over a period of six years." Plaintiff placed no standards for use of the mark on the third parties allowed to use it, and sometimes did not even require a license to be signed. By 2007 there were six stores operating in Detroit that used the mark, only two of which were owned by the plaintiff. Thus, "[i]t is not possible that the 'Movie Mania' mark served as an 'indication[] of consistent and predictable quality' to consumers at this point – multiple businesses used the 'Movie Mania' name, and had no uniform standard of control or quality between them."

The court concluded:

Plaintiff's lax attitude toward its mark underwent a radical shift in 2010 when defendant expressed an interest in using "Movie Mania." But plaintiff's sudden discovery of responsible-trademark-holder religion seems more like a conversion of convenience than a profession of genuine faith. And, in any event, plaintiff's actions by 2010—namely, its failure to control the activities and standards of the other businesses to which it had licensed the "Movie Mania" mark—had already destroyed any function of source identification that the "Movie Mania" mark possessed. The mark is thus abandoned under 15 USC §1127(2).

This case should serve as a lesson to trademark owners and their counsel about the potentially dire consequences of not exercising adequate control over its licensees.