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CONTROL OF TRADEMARKS BY THE INTELLECTUAL PROPERTY HOLDING COMPANY

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SUMMARY:
... A business with a substantial amount of intellectual property may decide that an intellectual property ("IP") holding company will improve its ability to manage its intellectual property, while simultaneously reducing the tax burden on the business. In the IP holding company model, the parent company, the original owner of the intellectual property, establishes a wholly-owned subsidiary as a holding company and then transfers ownership of its intellectual property to the newly-created holding company. ... I. Structure of the Intellectual Property Holding Company and Its Parent ... An IP holding company is established by exchanging a parent company's intellectual property assets for stock in a newly-formed subsidiary corporation, which can be incorporated in certain states having favorable state tax laws. ... Moreover, by placing the intangible assets into an IP holding company and appointing officers and directors different from the operating company's officers and directors, the parent company can insulate itself from involvement in the prosecution of lawsuits involving the intellectual property. ... The prototypical IP holding company is a wholly-owned subsidiary of an operating parent company. ... One commentator suggests that Delaware's limitation on the holding company's activities is fatally inconsistent with a trademark owner's duty to exercise quality control. ...

TEXT:

INTRODUCTION

In a competitive business market, companies continually search for ways to operate more efficiently to maximize earnings. A business with a substantial amount of intellectual property may decide that an intellectual property ("IP") holding company will improve its ability to manage its intellectual property, while simultaneously reducing the tax burden on the business. n1 In the IP holding company model, the parent company, the original owner of the intellectual property, establishes a wholly-owned subsidiary as a holding company and then transfers ownership of its intellectual property to the newly-created holding company. n2 The right to use the intellectual property, i.e., to manufacture the patented device or to affix the trademark to goods, is then licensed back to the parent company. n3 Licensing of trademarks, n4 however, is riskier than licensing other intellectual property, because trademark law requires the trademark owner to control the quality of the goods or services with which the trademark is used. n5 A trademark owner's failure to adequately control use of its mark by others may result in a court finding that the trademark has been abandoned. n6

Proponents of IP holding companies suggest that there is only a small risk of abandonment of the trademark. n7 This article reviews the interaction of corporate law and trademark law and evaluates whether there is any substantial risk of loss of trademark ownership. Part I reviews the structure of an IP holding company, discusses the advantages of an IP holding company, and discusses the formal licensing arrangement between a parent company and its IP holding company. Part II discusses general trademark law as it relates to licensing and control of trademarks. Parts III, IV and V examine the parent-subsidiary relationship under various corporate law doctrines to determine whether a subsidiary has the authority to control a parent's use of a trademark so that there will be no abandonment of the trademark as a result of the corporate family structure.

I. Structure of the Intellectual Property Holding Company and Its Parent

Intellectual property is becoming an increasingly important business asset. Federal tax benefits given to research and development have resulted in large patent portfolios. n8 Manufacturers and service providers have extended their trademark use to exploit the money-making potential of popular trademarks. n9 Because intellectual property has become an important part of a modern business' assets, businesses may benefit from concentrating on IP management. Many corporations with substantial intellectual property holdings, such as Campbell Soup, n10 the Hunt Corporation, n11 and Congoleum Corporation, n12 have therefore established IP holding companies to manage their IP portfolios and accrue tax benefits from careful structuring of their corporate enterprise. n13

Part I.A below reviews the establishment and structure of the IP holding company. Part I.B then discusses the various advantages of the IP holding company, including benefits arising from favorable state taxation and enterprise efficiency realized through dedicated IP portfolio management.

A. The Corporate Structure

An IP holding company is established by exchanging a parent company's intellectual property assets for stock in a newly-formed subsidiary corporation, which can be incorporated in certain states having favorable state tax laws. n14 The exchange of the stock in the subsidiary corporation for the contribution of the intellectual property is a nonrecognition transfer under Internal Revenue Code section 351, and therefore, is not taxed. n15 At the same time the assets are transferred, the parties execute licensing agreements, with the parent agreeing to pay a royalty to the subsidiary for the right to use the intellectual property. n16 The royalty payments subsequently paid in compliance with the terms of the license by the parent are an expense to the parent, and therefore not included in the net taxable income of the parent. n17 By choosing a state that excludes royalty income from taxation as the state of incorporation for the IP holding company, n18 the IP holding company's income from the royalty payments is also untaxed. Thus, the net result is a reduction in the total tax obligation of the corporate enterprise. n19

The subsidiary's income is later funneled back to the parent, the sole stockholder of the subsidiary, in the form of dividends. n20 The parent corporation may also be allowed to deduct the dividends it receives from the subsidiary from its income. n21 In addition, the parent might borrow from the subsidiary and gain a tax deduction for the interest payment on the parent's state tax return, n22 without any effect on the federal tax obligation of the enterprise as a whole. n23

B. Advantages of an IP Holding Company

Of the various benefits arising from the establishment of an IP holding company, the greatest is the reduction in the enterprise's total obligation for state taxes. By producing what has been termed "nowhere income," n24 a corporation can reduce its overall tax obligations. n25

Several states exempt some or all of a corporation's income from state taxation. n26 Delaware, for example, does not tax corporations engaged exclusively in the maintenance and management of intangible investments located outside of the state; n27 Nevada imposes no corporate tax; n28 and Michigan exempts royalty income from taxation. n29 Therefore, by establishing a subsidiary corporation in one of these states, transferring the parent's intangible assets to the subsidiary corporation, paying the subsidiary royalties for the parent's use of the intellectual property, and otherwise meeting the requirements for the exemption of income from state taxation, some amount of state tax liability is avoided. n30

The tax savings can be considerable. In In re Express, n31 the four trademark companies involved reportedly saved $ 4.8 million in taxes by using the trademark holding company structure. n32 Although royalty payments cannot be artificially high, n33 for maximum savings, the ideal royalty rate is that amount just below the parent's net profit margin. n34 This structure effectively shunts a substantial amount of otherwise taxable income.

However, there is a high risk that the tax savings strategy will fail. n35 For instance, the parent corporation's state may determine that the subsidiary must file combined returns with the parent in the parent's state of incorporation, thereby subjecting the IP holding company to taxation despite its non-taxable status. n36 A foreign state may also hold that the royalty payments attributable to sales made in that state create a sufficient nexus for taxation of the royalty payments. n37

In addition to the tax benefits, the creation of an IP holding company can increase corporate efficiency in the operation of the business. By consolidating ownership of intellectual property, the separate entity can provide centralized management of IP assets worldwide with a more global view on the exploitation of the assets. n38 Segregating the IP assets also allows the cost/benefit analysis of the IP holdings to be more accurately calculated. n39 Moreover, by placing the intangible assets into an IP holding company and appointing officers and directors different from the operating company's officers and directors, the parent company can insulate itself from involvement in the prosecution of lawsuits involving the intellectual property. n40 Proponents of IP holding companies have also cited protection from liability in the event of catastrophic litigation, as well as protection from hostile takeovers, as valid business reasons for establishing an IP holding company. n41

As outlined above, the advantages accruing to the corporate enterprise as a whole may be substantial. For patents and copyrights licensed back to a parent company, the greatest risk is that the tax benefits will be lost by capture of the tax by another state. For trademarks, however, there is a potentially greater risk: the loss of the right to use the trademarks.

II. Licensors Must Control Use of Their Trademarks

Federal trademark ownership exists only when a trademark is used in interstate commerce for goods or services. n42 Initially, only the entity actually using a trademark could own it. n43 However, as commerce became more complex, the use of a mark by entities other than the owner became acceptable. n44 Trademark law adapted to the change by recognizing the validity of trademark licenses, but required the owner-licensor of the trademark to approve of the quality of the goods or services of the licensee. n45 This control requirement is thought to protect the public; consumers will be assured of the same level of quality in the goods or services they have come to expect, regardless of the true source of the goods. n46

This control requirement exists in all trademark licensing arrangements, even those between a parent-licensee and subsidiary-licensor. Part II.A below discusses the basic requirements for control of a mark, as well as the resulting abandonment of a trademark if control is inadequate. Part II.B reviews the peculiarities of the control requirement in a corporate family relationship. Part II.C discusses a particular problem with the licensor's control of the mark when the licensor is an IP holding company incorporated in Delaware.

A. Basic Requirements for Control

A licensor is free to license others to use the licensor's mark for goods or services, but the licensor must ensure in some way that the goods or services with which the mark is associated meet the licensor's expectations. n47 The owner of the trademark does not have to use the trademark itself, and, for registration purposes, a "related company" provision in the Lanham Act allows a licensee's use of a trademark to inure to the benefit of the trademark owner. n48 In the IP holding company model, the subsidiary-licensor does not ever use the mark itself, but relies on its parent-licensee's use to inure to the subsidiary's benefit for purposes of ownership. The registration is therefore successfully maintained in the subsidiary's name.

There is no set minimum level of quality control that a licensor must exercise; a licensor must only ensure that the quality of the goods originating with the licensee are not so different from the quality of the goods originating with the licensor that a consumer would be deceived by the use of a familiar mark. n49 There is no requirement that a written licensing agreement exist between the licensor and licensee either. n50 If, however, there is no adequate control by the licensor, a court will find that the license is "naked" n51 and the trademark will be deemed abandoned. n52 Abandonment, because it is a forfeiture, must be "strictly proved," n53 i.e., be proved by "clear and convincing" evidence. n54

The question of adequate control is answered on a caseby-case basis, n55 and is a question of fact, n56 without any clear standard. n57 Control was held adequate where there were no complaints about the quality of the goods for a substantial period of time, n58 where the licensor had a contractual right to exercise control but did not do so, n59 and where the licensor lived on the premises of a restaurant operated by the licensee who was formerly the licensor's "right-hand" in the restaurant operation. n60 Control was found inadequate, however, where the licensing agreement allowed the licensee to use the mark on any product it desired, n61 where the licensor had no contact with the licensee for a period of eleven years, n62 and where the parent corporation controlled only the use of the marks by its wholly-owned operating subsidiary, but not the nature and quality of the services provided. n63

B. Trademark Ownership in the Parent-Subsidiary Relationship

The prototypical IP holding company is a wholly-owned subsidiary of an operating parent company. Based on an uncritical review of trademark law, however, one might assume that the parent company must be the owner of the trademark in a parentsubsidiary relationship. n64 Professor Jay Dratler states that "the control must proceed 'downstream' from the licensor to related companies, and the licensor must own any United States registration. In parent-subsidiary relationships, for example, this means that the parent company must own and maintain the mark and its registration." n65 For support, Professor Dratler cites an amendment to the definition of "related company" made by the Trademark Law Revision Act in 1988. n66

Before 1988, the definition of "related company" appeared to allow for the possibility that the licensee could control the registrant of the mark. n67 However, the Trademark Law Revision Act changed the definition of "related company" to "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used." n68 The revision made clear that the owner of the mark must be the entity controlling the quality of the goods on which the mark is used. The Senate Committee reported that the purpose of the change was to "eliminate the confusion that exists about whether a related company can control the registrant or applicant as to the nature and quality of goods or services." n69 The effect of the change was to confirm that a registrant must be the controlling party, but still left open the question of whether a subsidiary can, in fact, control a parent. n70

Arguably, the "related company" provision of the Lanham Act n71 may have been included to ensure that a parent company's registration of a mark used by its subsidiary would be valid. n72 In light of the amended language and the legislative history, the conclusion that a parent should own the registrations used by its subsidiary is a reasonable one.

In the trademark registration process, however, the Patent and Trademark Office ("PTO") will assume that the parent is in control of the subsidiary when the subsidiary is using the mark registered by the parent, n73 but the PTO also appears to allow for the possibility that the subsidiary may own a mark used by the parent. "Related-company use includes situations where a whollyowned related company of the applicant uses the mark or the applicant is wholly owned by a related company that uses the mark." n74 During the registration process, the PTO does not inquire into the specifics of control of the trademark vis a vis the parent and the subsidiary, n75 so long as the subsidiary is whollyowned by the parent. n76

The PTO, however, does not confer ownership of a mark, but only administrates the federal registration process available to the owner of a trademark. n77 Therefore, PTO practice does not control on the question of valid ownership of a mark.

No court has dealt squarely with the question of control of the trademark when the subsidiary owns the mark but the parent uses it. The Federal Circuit was faced with the issue in In re Wella A.G., n78 but chose to remand the issue rather than address it. n79 In Wella, the U.S. subsidiary of a German parent owned U.S. trademark registrations for a family of marks based on the root "WELLA." n80 The German parent subsequently filed for registration of the mark "WELLASTRATE" for similar goods. n81 After the panel's decision that a parent and subsidiary's use of similar marks was not likely to confuse, n82 one judge appended comments to the opinion titled "additional views," questioning the true ownership of the marks. n83 Noting that only the owner of the trademark was entitled to apply for registration, Judge Nies pointed out:

Wella A.G. avers in its application that it is the sole owner of rights in the WELLA marks in U.S. commerce. At the same time, the registrations of Wella U.S. evidence that Wella U.S. is the sole owner of such rights. If Wella A.G. is the sole owner of such rights, its subsidiary Wella U.S. cannot also be the sole owner of the same rights. n84

On remand, the Trademark Trial and Appeal Board ("TTAB") struggled with an appropriate response to the "additional views." n85 The TTAB returned the application to the examining attorney for consideration of the ownership question. n86 The TTAB subsequently affirmed the examining attorney's rejection of the German parent's application on the basis that the parent and subsidiary could not both own the WELLA trademarks. n87 Wella A.G. again appealed. n88

The Court of Appeals for the Federal Circuit ("CAFC") chastised the TTAB for considering the ownership issue. n89 Further, without discussion of the ownership question, the CAFC reversed and remanded the case to the TTAB, with orders to the TTAB to issue the registration. n90 In a concurring opinion to the second appeal, a second judge addressed the ownership problem. n91 This judge noted that the certificates of registration issued to Wella U.S. created a presumption of ownership in the WELLA family of marks by Wella U.S., but the presumption was overcome by the declaration of Wella A.G. that it owned one of the marks. n92 Thus, there was no question of ownership. So, in the only case to consider the question of appropriate ownership of trademarks between a parent and subsidiary, the court deliberately avoided resolving an apparent ownership conflict.

C. Too Much Control Affects Tax Advantages

A subsidiary trademark owner incorporated in Delaware runs an additional risk of loss of control. A Delaware IP holding company will lose its qualification for tax benefits if it conducts activities in the state of incorporation beyond those associated with managing intangible assets. n93 Therefore, in order to maintain the tax benefits associated with an IP holding company, a Delaware subsidiary must try to limit its activities as much as possible. n94 One commentator suggests that Delaware's limitation on the holding company's activities is fatally inconsistent with a trademark owner's duty to exercise quality control. n95 Therefore, in addition to the difficulties a subsidiary may have in arguing that it controls the parent's use of the mark because of the peculiar family relationship, a Delaware subsidiary will be at a disadvantage in claiming it controls a mark when it admittedly exercises as little control as possible because of the state tax law restriction.

III. A Subsidiary's Control of Its Parent

Although there is no statutory bar to registration of a trademark by an IP holding company subsidiary when its parent company uses the mark, n96 a defendant in a trademark infringement action may challenge the relationship between the parent and the subsidiary as an affirmative defense. n97 One theory the defendant may assert is that a wholly-owned subsidiary cannot affect the behavior of its parent, nor control the trademark, thus resulting in abandonment of the trademark when a parent uses a trademark that is registered by its subsidiary. Part III.A discusses whether this theory is sound. Part III.B reviews factual situations where courts acknowledge that a subsidiary can have the power to influence the acts of its parent. Finally, assuming a subsidiary is not precluded as a matter of law from claiming that it controls its parent's use of the mark, Part III.C discusses one tactic for successfully refuting a claim of abandonment solely due to family structure.

A. Validity of Basic Premise Regarding Control

As the Supreme Court noted, a parent will always be able to exert control over the subsidiary: "They share a common purpose whether or not the parent keeps a tight rein over the subsidiary; the parent may assert full control at any moment if the subsidiary fails to act in the parent's best interests." n98 Conversely, the proposition that a subsidiary cannot control a parent seems intuitively correct. n99 At least in the liability context, courts largely seem to subscribe to this converse proposition. Judge Learned Hand stated that "perhaps it would be too much to say that a subsidiary can never be liable for a transaction done in the name of the parent . . . . But such instances, if possible at all, must be extremely rare . . . ." n100 Recently, the Fifth Circuit stated the proposition even more strongly: "When the attempt is to hold the subsidiary liable for the acts of the parent, there is factually no way that the subsidiary can interpose itself in the conduct of the parent's affairs." n101 The question then is whether the same is true in a non-liability context.

B. Control by the Subsidiary

In limited situations, courts recognize that a subsidiary can control the behavior of its parent for a specific purpose. One occasion is based on the subsidiary's leverage over a parent, while a second is where the parent is the acknowledged agent of the subsidiary. The two situations are each discussed in turn.

1. A Subsidiary's Leverage Over Its Parent

Rule 34 of the Federal Rules of Civil Procedure requires a party, upon request, to produce documents in its "possession, custody, or control." n102 A problem occurs when a subsidiary corporation, but not its parent, is involved in litigation, and the subsidiary claims that it cannot produce documents requested because the documents are in the parent's possession. n103 The question presented in this situation is whether the subsidiary has control over the documents in question. n104

Courts agree that the standard of control required for production of documents is construed broadly, n105 and is less than the amount of control required to pierce the corporate veil. n106 Massachusetts has adopted a virtual per se rule that a parent must provide documents that are requested of its subsidiary. n107 The Supreme Judicial Court of Massachusetts found that for purposes of discovery, there is sufficient control by a subsidiary where the "information sought is in the possession or custody of a wholly owning parent (or virtually wholly owning) or wholly owned (or virtually wholly owned) subsidiary corporation . . . . We do not hold that such a relationship is necessary to a finding of control, only that it is sufficient." n108

Other courts are not so generous however. Such courts use language indicating that the parent-subsidiary relationship itself is the reason the discovery request was denied. "It is sufficient to conclude that since a subsidiary does not control the parent it is not required to furnish information held by the latter." n109 "While it may be argued that a parent controls a subsidiary corporation and its employees for discovery purposes, it is unlikely that a subsidiary controls its parent." n110 The middle ground looks more closely at the relationship, evaluating the corporate structure of the parties, the non-party's connection to the transaction at issue, and whether the non-party will receive a benefit from a favorable outcome of the case. n111

In Strom v. American Honda Motor Co., n112 where the Massachusetts court adopted a per se rule, the court rested its decision on the underlying policy considerations of disclosure. n113 The court noted that control for the purposes of discovery was to be construed broadly in order to ensure fair trials by giving parties full knowledge of the issues and facts before trial. n114 The court stated that it would subvert the purposes of discovery if one member of a corporate family could shield documents by transferring them to a different corporate affiliate. n115

The court also rejected a claim that requiring a subsidiary to disclose documents in the parent's possession would be unfair to the subsidiary. n116 The court noted that if a subsidiary is penalized for failing to disclose, the harm is ultimately visited on the parent. n117 The vulnerability of the subsidiary gives it sufficient leverage over the parent so that the subsidiary's control over the documents, as required by FRCP 34, is found. n118

In Strom, the court found, based on the potential consequence to the subsidiary, that the subsidiary had leverage and control over the parent. n119 Similarly, in the context of an IP holding company arrangement, the parent can argue it must acquiesce to the subsidiary's control of the mark because if it does not, the subsidiary may lose ownership of the mark. n120 This potential adverse consequence is so serious that it can be assumed that the parent submits to the subsidiary's authority concerning appropriate use of the mark, and the subsidiary therefore in fact exercises control over the mark.

However, discovery rules under the Federal Rules of Civil Procedure are deliberately liberal. n121 Courts are encouraged to ensure that all information needed for fair litigation is available. n122 A court may therefore have more relaxed requirements for finding a relationship between two different entities, or scrutinize the relationship less carefully, for purposes of discovery than for other purposes.

A different situation, one acknowledging that a parent may modify its behavior rather than risk adverse impact on its subsidiary, arose in United States v. Watchmakers of Switzerland Information Center, Inc. n123 In Watchmakers of Switzerland, two different American parent corporations that distributed Swiss watches each wholly-owned a Swiss watch manufacturer. n124 The Swiss manufacturers bound their American parents to restrictions on the prices and terms of sale of Swiss watches in the United States, and the court recognized that the parents voluntarily acquiesced to these terms as set by their respective Swiss subsidiaries. n125 The court stated that these particular parentsubsidiary relationships were not ones where the subsidiary in actuality controlled the parent, n126 but noted that each subsidiary had "coercive" authority over its parent because of each subsidiary's potential liability for its parent's actions. n127 Similarly, in the parent-subsidiary relationship in trademark matters, a parent voluntarily acquiesces to restrictions set by the subsidiary, to the benefit of the corporate entity as a whole. Thus, the parent's behavior is modified by the subsidiary, and the subsidiary effectively controls the use of the trademark by the parent.

2. Parent As Agent of Subsidiary Subject to Subsidiary's Control

The relationship between a principal and an agent is defined by the ability of the principal to exert control over its agent. n128 When a parent acts as an agent for its subsidiary for a particular purpose, the parent has necessarily acquiesced to the subsidiary's control, albeit only for the particular purpose. In United States v. Watchmakers of Switzerland Information Center, Inc., n129 the court recognized the possibility that a parent corporation may act as the agent of its subsidiary. n130

Other courts have denied the possibility that a parent could be the agent of its subsidiary, subject to the subsidiary's control. In Hospital Underwriting Group, Inc. v. Summit Health Ltd., n131 a case involving the administration of an insurance policy, the court reasoned that "it defies reason to argue that a wholly-owned subsidiary may control the actions of its parent. . . . Of course, some instances may present extenuating circumstances which suggest that a subsidiary may have some control over its parent . . . but such circumstances are not before the court." n132 The court did not suggest any "extenuating circumstances," and no court in any jurisdiction cites to Hospital Underwriting claiming that it found the exceptional case.

Courts have thus acknowledged that in some limited factual situations, a subsidiary can influence the actions of its parent corporation. A parent may voluntarily agree to limitations set by its subsidiary, n133 or may be coerced into behavior because of harm that will befall the subsidiary if the parent does not behave appropriately. n134 Both may be true in the IP holding company relationship, and it is not outside the realm of reasonable possibility that the subsidiary, in fact, controls the use of the trademark.

C. Adequate Control of Trademark By Subsidiary Based on a Special Relationship Doctrine

If a court finds that a subsidiary is not foreclosed as a matter of law from controlling the behavior of its parent, the special relationship between the parent and its subsidiary may be sufficient to establish that the mark is adequately controlled, even without a more searching inquiry. Courts have recognized a "special relationship" theory in licensing, acknowledging that where the relationship between the licensor and licensee is sufficiently close, it can be presumed that the licensee acts in a way that protects the interests of the licensor. n135 For example, a licensor was found to have sufficient control over the licensee's use of a mark where the licensee sold product for forty years without complaints about quality; n136 where two brothers parted ways and each ran a restaurant using the same trade dress; n137 and where the licensee was the previous owner of the trademark. n138 Even if a special relationship alone is not sufficient to find control of a trademark, n139 the special relationship, plus some additional indication that the owner controls the mark, might be sufficient. n140

In the case of the parent-subsidiary relationship, without doubt the parties have a special relationship. n141 Additional indications allowing a court to assume sufficient control by the subsidiary are the benefit accruing to the parent because of favorable tax treatment n142 and the benefit of ownership of federal trademark registrations. n143 A court could presume that the mere existence of the relationship demonstrates adequate control by the subsidiary.

If, however, a court finds that as a matter of law a subsidiary cannot control the acts of its parent, to avoid a claim of abandonment the parent must be able to assert that the parent and its subsidiary are in reality one entity controlling the mark. A parent corporation may assert two arguments to this end. First, as discussed in Part IV, the parent may argue that it is the "alter ego" of the subsidiary, and therefore the separate existence of the subsidiary should be ignored for purposes of trademark ownership. Second, as discussed in Part V, the parent may assert that for trademark purposes, the parent and subsidiary are one entity with a unity of interest, with trademark ownership inhering in the enterprise as a whole.

IV. Entity Theory and "Reverse" Veil Piercing by A Parent

A parent operating company faced with potential loss of trademark rights may attempt to "reverse pierce" the corporate veil and assert that it is the alter ego of the subsidiary. Part IV.A reviews basic veil piercing theory, while Part IV.B examines the veil piercing doctrine as it has been specifically applied in trademark law. Part IV.C discusses courts' reluctance to allow a parent to invoke the veil piercing doctrine for its own benefit, and analyzes whether a reverse veil pierce should be allowed in the IP holding company context. Finally, Part IV.D reviews the potentially adverse consequences of a successful reverse veil piercing by the parent.

A. Veil Piercing Doctrine

A corporation is considered a separate entity, distinct from the shareholders, directors and officers. n144 Although a subsidiary corporation is controlled by its parent through the parent's ownership of a majority of the shares of the subsidiary corporation, n145 in most instances the parent and subsidiary are nevertheless considered to have independent existence. n146

When the separate existence of corporate entities is used to subvert justice, however, courts may ignore the separate existence of the subsidiary and the parent, or a corporation and its shareholders. n147 In these cases, the corporate form will be disregarded, and a court will "pierce the corporate veil." n148 A claim that the corporate veil should be pierced generally arises in the context of liability, where a parent will be held responsible for the wrongful acts of its subsidiary in tort, contract, or statutory violations. n149 Piercing the corporate veil is an equitable remedy, used when respecting the corporate form would work an injustice. n150

States recite different standards for situations where they will allow the corporate form to be disregarded, n151 but generally require a subsidiary to be so dominated and controlled by its parent that it is a "mere instrumentality" or "alter ego" of the parent. n152 Courts look at a variety of different factors to determine whether the contours of the relationship between a parent and a subsidiary support the parent's liability for the subsidiary's actions. Some typical factors include whether: 1) the parent corporation owns all or most of the capital stock of the subsidiary; 2) the parent and subsidiary corporations have common directors or officers; 3) the parent corporation finances the subsidiary; 4) the subsidiary has grossly inadequate capital; 5) the subsidiary has substantially no business except with the parent corporation, or no assets except those conveyed to it by the parent corporation; and 6) the formal legal requirements of the subsidiary are observed. n153 Courts consider these factors indicators of whether the entities consider themselves independent, and are more willing to pierce the corporate veil where the entities do not behave independently. n154 The fact that the subsidiary is wholly-owned by the parent, standing alone, is insufficient to warrant piercing the corporate veil, n155 as is the existence of common directors and officers. n156

B. Disregard of Corporate Entities Under the Lanham Act

Any discussion regarding piercing the corporate veil should take into account the policy basis for allowing or disallowing such action. n157 Piercing the corporate veil has occasionally arisen in Lanham Act actions, although it does not appear that the claim has ever been asserted in the context of trademark ownership or licensing. Nevertheless, courts' analysis of the policies underlying the Lanham Act provide the necessary context against which a request for piercing the corporate veil to assert ownership should be analyzed.

The District Court for the Northern District of Georgia had to decide whether a parent company should be liable for its subsidiary's trademark infringement. n158 The court concluded that the policies of the Lanham Act are to protect the public by avoiding consumer confusion and to safeguard the private producer in its marketing of a distinctive product. n159 The court also opined that the public and private rights created by federal law should not be thwarted by a state's protective concern for its local corporate enterprise as manifested in the state's veil piercing doctrine. n160

The court considerably relaxed the standard for piercing the corporate veil in the context of a Lanham Act violation as compared to the standard used for violations of state law. n161 First, when assessing the factors to determine whether a parent dominates its subsidiary, n162 the court stated that the factors should be evaluated in the context of how they relate specifically to trademark infringement. n163 Second, while relevant state law requires proof of fraud or intent to defraud as part of a veil piercing claim, the court recognized that fraud is not an element of trademark infringement. n164 Imposing a requirement that the wrongful act be fraudulent before liability can attach would unfairly raise the bar on trademark infringement claims. n165 The court therefore modified the element, deciding that the plaintiff need only show that a federally defined right was violated before a claim could be made against the parent. n166 Finally, state law veil piercing doctrine requires a causal link between the alleged domination or fraud and the injury to the plaintiff. n167 The court determined that this element would necessarily be tempered by the easing of the standard for the first two elements of the veil piercing claim. n168 The court also stated that because of the intertwining corporate networks, it would allow greater inference in the proof of proximate cause. n169

This standard for Lanham Act veil piercing has been criticized as "the purest dicta," n170 and it is questionable whether a court would adopt such a low standard when traditional state law policy dictates a much more rigorous one. n171 It may nevertheless be argued that policy considerations behind the Lanham Act dictate that a revised approach to traditional veil piercing should occur in Lanham Act cases, rather than using the same approach that is used for veil piercing in cases involving state law claims.

C. Parent's Invocation of the Veil Piercing Doctrine

The doctrine of piercing the corporate veil is generally used to impose liability on the parent for the acts of its subsidiary. n172 An IP holding company subsidiary might be forced to ask the court to waive observance of the corporate form in order to assert its trademark rights, but courts have been extremely reluctant to allow the parent itself to make such an argument. n173 For example, the Supreme Court did not allow a subsidiary to claim it was a private carrier so that the subsidiary could avoid submitting an application for a contract carrier permit to the Interstate Commerce Commission, even though the subsidiary was only going to carry the goods of its parent. n174 The Court stated:

While corporate entities may be disregarded where they are made the implement for avoiding a clear legislative purpose, they will not be disregarded where those in control have deliberately adopted the corporate form in order to secure its advantages and where no violence to the legislative purpose is done by treating the corporate entity as a separate legal person. One who has created a corporate arrangement, chosen as a means of carrying out his business purposes, does not have the choice of disregarding the corporate entity in order to avoid the obligations which the statute lays upon it for the protection of the public. n175

Despite the strong language used by the Supreme Court, occasionally a parent may be allowed to assert the rights of its subsidiary if the equitable balance is fair. n176 For example, in Barium Steel Corp. v. Willey, n177 a parent corporation purchased all of the stock of a corporation and transferred the assets to a subsidiary. n178 When the seller breached its contract, the seller argued that the parent had no claim because the cost of the breach was borne by the subsidiary. n179 In the alternative, if the subsidiary made a claim against the seller, recovery would have been avoided because there was no privity of contract between the seller and the subsidiary corporation. n180 The court resolved the problem by allowing the parent to reverse pierce, bringing an action against the sellers for the loss to the subsidiary. n181

Furthermore, in Schenley Distillers, the Supreme Court did not entirely close the door on the reverse pierce. n182 In Schenley, the Court held that a subsidiary must comply with a contract carrier requirement of the Interstate Commerce Act, rather than be granted an exemption as a private carrier, even though it was only carrying its parent's goods. n183 Nevertheless, the Court seemed to allow the possibility that a parent may be able to assert the rights of the subsidiary where there might be "violence to the legislative purpose," n184 or where the corporate entity was not trying to avoid obligations placed upon it for the protection of the public. n185

An IP holding company may present such a situation. The legislative purpose of the Lanham Act is to protect the public and to protect the investment of the trademark owner from pirates and cheats. n186 Abandonment of a trademark occurs when a mark "loses its significance as a mark," n187 i.e., when the words or design used no longer indicate to consumers a unique source. However, in the IP holding company context, where the subsidiary licenses back exclusively or primarily to its corporate parent, and the parent uses the mark continuously in interstate commerce, the source-indicating ability of the mark has not been diminished as the result of the licensing relationship. Arguably, then, there is "violence to the legislative purpose" where a putative infringer is allowed to continue its infringement simply by asserting that the trademark was abandoned solely by virtue of the corporate structure. In the paradigm IP holding company arrangement, there is no question that either the parent or the subsidiary is the party actually in control of the mark, and thus one or the other is the true owner of the mark. No public purpose is served by allowing an infringer to escape liability because of a formalistic application of corporate law theories without reaching the merits of the infringement claim.

In a tort liability action where a parent shields itself behind the corporate structure, the parent is trying to avoid responsibility. To the contrary, the litigation of a trademark infringement claim by a parent or subsidiary IP holding company is probably not adverse to any public interest. Even though there is a public interest in the elimination of marks that convey a "mixed message" about product quality, the usual basis for a naked licensing claim, n188 the "mixed message" is probably not occurring when the parent is the exclusive or primary licensee. A more liberal view of the veil piercing doctrine, which would allow the corporate parent to assert that it is the alter ego of the subsidiary, may more readily achieve the goals of the Lanham Act.

D. Effect of a Parent's Successful Piercing of the Corporate Veil on the Validity of the Trademark License

Successfully convincing the court that the parent is the alter ego of the subsidiary might later be used to negate the benefits of the IP holding company arrangement stemming from the license agreement, i.e., the payment of royalties and the avoidance of taxation. n189 Once a parent corporation successfully invokes the veil piercing doctrine, it may not later claim, at least for the purposes of the same litigation, that it is not the alter ego of the subsidiary. n190 If a state later challenges the tax status of the parent or subsidiary, the holding in the trademark infringement action might preclude the parent from claiming, in the subsequent tax action, that the subsidiary has an existence independent from the parent. n191 Further, if there is no separate existence, the license under which royalty payments are made might cease to exist because a party cannot contract with itself. n192

Indeed, when the corporate veil is pierced, "under certain circumstances a hole will be drilled in the wall of limited liability erected by the corporate form; for all purposes other than that for which the hole was drilled, the wall still stands." n193 However, the "hole drilled" allowing a parent to assert the trademark rights of its subsidiary-licensee may be the same hole that would allow a tax court to find that there cannot be royalty payments because there is no valid license. n194

It therefore might be a losing proposition for the parent to assert that it is the alter ego of the subsidiary. Either the court will look skeptically at the claim and forbid the parent outright from invoking the doctrine, or the veil piercing, once invoked, will make the license under which royalties are paid a nullity.

V. Enterprise Theory and Unity of Interest

A party seeking to protect its registered trademarks instead might turn to the Supreme Court precedent established in Copperweld Corp. v. Independence Tube Corp. n195 to assert a claim that the parent and subsidiary have a "unity of interest" which allows them to act as one entity. n196 Part V.A will briefly review the Copperweld case, and Part V.B will discuss the extension of the Copperweld holding to other areas of law. Finally, Part V.C will discuss Copperweld in the context of the Lanham Act and IP holding companies.

A. Copperweld Corp. v. Independence Tube Corp.

In Copperweld, the Supreme Court was asked to analyze carefully a parent/wholly-owned subsidiary relationship in the context of a violation of federal antitrust law. n197 The parent, Copperweld Corporation, and its subsidiary, Regal Tube Company, were accused of conspiring to violate the Sherman Act. n198 The Court held that a parent and its wholly-owned subsidiary are incapable of conspiring with each other for purposes of the Sherman Act because the parent and subsidiary have a unified interest in the well-being of the economic enterprise. n199

The Supreme Court explained that Congress considered concerted anti-competitive activity more dangerous than unilateral anti-competitive activity. n200 The Court reasoned that concerted actions by those normally competitive deprives the marketplace of the benefits of two independent sources of economic power pursuing separate interests. n201 A single firm's activities involving the actions of officers, employees, or unincorporated divisions, on the other hand, does not serve to limit the number of independent actors in a marketplace. n202 Instead, coordinated conduct of employees and unincorporated divisions is a benefit, allowing the business to maintain a competitive posture. n203 Therefore, the actions in furtherance of a unified plan carried out by officers or unincorporated divisions do not restrict the marketplace, and the unified actions do not result in any harm that section 1 of the Sherman Act was designed to prevent. n204

The Court noted that benefits from unified action by unincorporated divisions would also accrue where the subdivision was a wholly-owned subsidiary. n205 The Court stated that a subsidiary and parent have a "complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one." n206 Therefore, a parent and subsidiary, for purposes of section 1 of the Sherman Act, cannot conspire to monopolize a market. n207

The Court concluded that allowing a claim of conspiracy in the parent-subsidiary relationship would discourage corporations from using an incorporated subsidiary structure, even though an incorporated subsidiary structure may be more beneficial to the corporate enterprise than an unincorporated form. n208 Consumers and businesses would then be deprived of the benefit of what might be the most efficient corporate structure, but no antitrust goals would concomitantly be served. n209

B. Application of Copperweld to Other Areas of Law

After the less formalistic interpretation of the parentsubsidiary relationship in Copperweld, corporations began to assert the Copperweld theory in other contexts with mixed success. n210 The theory that a parent and subsidiary are a common enterprise which should allow a parent to avoid a breach of contract claim brought by its subsidiary was rejected in Stamp v. Inamed Corp. n211 The Stamp court held that Copperweld stood for the proposition that a subsidiary and its parent cannot have a separate economic agenda, not that the two are not separate entities, and therefore declined to follow Copperweld. n212

Copperweld was found applicable to a potential violation of the Robinson-Patman Act, n213 which forbids discriminatory pricing by a single entity. n214 In Caribe BMW, Inc. v. Bayerische Motoren Werke Aktiengesellschaft, n215 the First Circuit applied Copperweld and held that a parent and subsidiary are a single enterprise and thus, a single seller capable of discriminatory pricing for the purposes of the Robinson-Patman Act. n216 The First Circuit thus applied Copperweld in a way that created liability instead of shielding the corporate parent from liability.

The Seventh Circuit refused to apply Copperweld in Haroco, Inc. v. American Nat'l Bank & Trust Co., n217 a case brought under the Racketeer Influenced and Corrupt Organizations statute ("RICO"). n218 For a RICO violation, a RICO person must conduct the affairs of the RICO enterprise through racketeering or collection of unlawful debt. n219 The court held that the subsidiary can be the RICO person, while the parent is the RICO enterprise, rejecting an argument that under Copperweld the entities were unified. n220 The Seventh Circuit noted that the Copperweld holding was based on finding that the policy basis of the Sherman Act is to protect market competition, and therefore encouraging the use of incorporated subsidiaries furthered the same goal. n221 The goal of RICO, however, attacking the profits of racketeering activity, is not furthered by allowing a parent and subsidiary to claim that they have a unity of interest. n222 The District Court for the Southern District of New York similarly concluded that the Copperweld court recognized that vigorous competition at the base of the free market economy depended on a unitary corporate policy, but no similar social benefit flowed from allowing a corporate family to avoid RICO liability. n223

It would appear that courts are generally reluctant to allow a parent and subsidiary to evade liability by claiming that they are one unified entity. n224 In the IP holding company example (assuming that the parent is the primary or exclusive licensee of a trademark, and the mark has not lost its ability to designate a single source), the IP holding company and its parent are not trying to avoid any liability but are simply trying to enforce their rights against a putative wrongdoer. In this particular case, a favorable application of the Copperweld unity of interest theory might be appropriate.

C. Application of Copperweld to the Lanham Act

The Copperweld unity of interest theory for a parentsubsidiary relationship can be applied to the Lanham Act. Part V.C.1 tracks the policy reasons behind the Supreme Court's decision in Copperweld and evaluates whether the same reasoning is applicable to the parent-subsidiary IP holding company relationship. Parts V.C.2 and V.C.3 discuss two situations where courts have applied the unity of interest theory to parents and subsidiaries in matters involving the use of trademarks. Part V.C.2 discusses In re Wella A.G., where the court agreed with the corporate enterprise that the enterprise should be viewed as one entity, incapable of generating confusion. Part V.C.3 looks at the Tariff Act where an enterprise failed to convince the court that the parent and subsidiary were two different companies with two different interests.

1. Policy Basis for Applying the Unity of Interest Doctrine in Trademark Law

In Copperweld, the Supreme Court found that there was no fit between the legislative purpose of section 1 of the Sherman Act and the intra-enterprise conspiracy theory asserted in the case. n225 The legislative purpose underlying the conspiracy cause of action under the Sherman Act was to prevent concerted action by independent parties that would serve to restrict a market, rather than maintain a competitive atmosphere. n226 The Supreme Court observed that a parent and subsidiary acting toward a common goal do not restrict a market, n227 but instead benefit a market by allowing the entity to work efficiently by maintaining a more competitive stance. n228

First, to apply the Copperweld analysis to the trademark situation, it would be necessary to determine the purpose underlying the Lanham Act. The Supreme Court has stated that the Lanham Act's purposes are "to secure to the owner of the mark the goodwill of his business[;] . . . to protect the ability of consumers to distinguish among competing producers[;] . . . to foster competition[;] and [to maintain the] quality [of goods] by securing to the producer the benefits of good reputation." n229 Of the above purposes, protecting consumers may be of paramount importance in the legislative scheme, n230 but the protection of the trademark owners is also fundamental. n231 The question then becomes whether the purposes of the Lanham Act are furthered by a rule of law which prevents a parent from configuring ownership in a particular way, or perhaps even whether the purposes of the Lanham Act might be hindered by preventing a parent from placing ownership in an IP holding company.

The IP holding company does not imperil the protection of consumers that is provided for in the Lanham Act. As long as the acts of the parent and subsidiary are unified, consumers will still be able to rely on a unique mark to distinguish goods. A corporate family using the paradigm corporate structure can only act in a unified manner, because the IP holding company does not use the mark itself and instead only one company, the operating company, is actually affixing the mark to the goods. It does not appear, then, that the primary purpose of the Lanham Act, protecting consumers, is affected by the IP holding company structure.

Secondly, the Lanham Act also demonstrates a concern for the protection of the trademark owner and for the promotion of a vigorous marketplace. n232 If not allowed to use an IP holding company, a company may not be able to avail itself of legitimate benefits arising from a corporate family structure, such as centralized management of intellectual property and coordination of worldwide trademarks, n233 and as a result might operate less efficiently. This potential loss in efficiency, coupled with the fact that the corporate structure poses no danger of a likelihood of confusion, weighs against a rigid observation of strict corporate form. n234

2. Unity of Interest and the Likelihood of Confusion

A number of Trademark Trial and Appeal Board ("TTAB") decisions have strictly observed corporate formalities, and held that both a parent and subsidiary could not register marks that are likely to be confused. n235 The Federal Circuit rejected the PTO's virtual per se rule in In re Wella A.G. n236

In Wella, the U.S. subsidiary of a German parent owned U.S. trademark registrations for WELLATONE, WELLA STREAK, WELLASOL, and WELLA with a design. n237 The German parent filed for registration of the mark WELLASTRATE for similar goods. n238 The examining attorney rejected the application on the basis that the WELLASTRATE mark was likely to be confused with the subsidiary's registrations, and the TTAB affirmed the denial of registration. n239

The Court of Appeals for the Federal Circuit ("CAFC") vacated the TTAB's decision. n240 Stating that the Board had taken an "unduly, unnecessarily, and improperly narrow view," n241 the CAFC held that where a family of marks connotes to consumers only a single source of products, i.e., the Wella organization as a whole, there is no likelihood of confusion. n242 The CAFC thus recognized that the enterprise as a whole was the relevant entity, regardless of its internal structure.

3. Unity of Interest and the Tariff Act

Section 526 of the Tariff Act of 1930, n243 as interpreted by the Customs Service and the Supreme Court, is tacit Congressional endorsement of the unity of interest theory as it applies to trademark owners. Section 526, designed to protect domestic companies but not foreign-owned companies, n244 bars importation into the United States of "any merchandise of foreign manufacture if such merchandise . . . bears a trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States . . . ." n245 The Customs Service interpreted this language to exempt from the ban (and therefore allow the importation of) goods if the foreign and U.S. trademark owners were parent and subsidiary companies, or were otherwise subject to common ownership or control. n246

The Customs Service regulation was challenged, and the Supreme Court provided its analysis in K Mart Corp. v. Cartier, Inc. n247 The Court considered the statutory words "owned by" to be ambiguous, noting that a foreign parent would "own" the U.S. trademarks if the trademarks were held by a wholly-owned subsidiary. n248 The Court thus deferred to the agency interpretation of the statute, n249 and held that a parent/whollyowned subsidiary relationship is one entity for purposes of Section 526 of Tariff Act. n250

Thus, in two situations specifically relating to trademarks, in In re Wella A.G. for the benefit of the parent, and in K Mart Corp. to the detriment of the parent, courts have recognized that the effect of trademark ownership is realized by the larger corporate enterprise, regardless of which particular corporate family member owns the trademark. A court's refusal to entertain a naked licensing claim against an IP holding company on the belief that the greater corporate enterprise should be allowed to benefit from the protection afforded trademark owners would be in harmony with these decisions.

CONCLUSION

The IP holding company is a fairly commonplace structural arrangement, although perhaps not yet fully endorsed by the courts. The lack of express approval for the structure opens the door for trademark defendants to argue formalistic abandonment, diverting attention away from the substantive infringement question. The three theories discussed above which might allow the corporate enterprise to assert valid ownership each have weaknesses. The argument that a subsidiary cannot control its parent has strong intuitive appeal, and case law recognizing that in some situations a subsidiary has in fact controlled its parent is sparse.

In addition, a court may find appealing the neat argument that a parent should not be allowed to pierce the corporate veil, but should instead bear the burden of the corporate form it has chosen. A court would have no shortage of case law upon which to base this decision.

And, although there is case law support for application of the unity of interest theory to trademark law and trademark policies, the Lanham Act might better be served by applying the unity of interest doctrine. A court may be reluctant to allow the corporate enterprise to extend the theory outside antitrust situations.

Nevertheless, allowing a corporate enterprise to maintain the ownership of trademarks as it sees fit is not harmful to consumers who rely on the mark. Additionally, it allows the corporate entity to function in the most efficient manner possible. Given the uncertain state of trademark law, a corporate enterprise must be willing to accept the risks both on the tax side and on the trademark side, including the potentially severe consequences of the loss of trademark rights, before investing the time and effort in corporate restructuring.

FOOTNOTES:

n1 See Michael A. Lisi, Intracorporate Licensing: A Domestic Trademark Holding Company Example, in Advanced Seminar on Licensing Agreements 381, 385 (PLI Pat., Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. G4-4033, 1998) (outlining advantages of IP holding company); George T. Bell, et al., A State Tax Strategy for Trademarks, *81 Trademark Rep. 445, 445 (1991)* (noting that trademarks can be a business' most valuable asset); Ira H. Rosen, Use of a Delaware Holding Company to Save State Income Taxes, 20 Tax Adviser 180, 180-81 (1989) (explaining reduction of state taxes for Delaware holding companies).

n2 See *Bell, supra* note 1, at 446 (noting that the essence of the strategy is to transfer trademarks to a wholly-owned corporate affiliate); Rosen, supra note 1, at 180 (recommending formation of a Delaware subsidiary to take advantage of state tax savings arising from Delaware income tax law).

n3 This article addresses only the situation where the parent is the primary or exclusive licensee of the intellectual property. An IP holding company could also license to sister corporations or to third parties.

n4 The use of the word "trademarks" in this article includes both trademarks and service marks.

n5 See generally *Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 366, 121 U.S.P.Q. (BNA) 430, 436 (2d Cir. 1959)* ("the Lanham Act places an affirmative duty upon a licensor of a registered trademark to take reasonable measures to detect and prevent misleading uses of his mark by his licensees"); Trademark (Lanham) Act of 1964, ch. 540, § 45, 60 Stat. 427, 443 (codified as amended at *15 U.S.C. § 1127* (1994) (stating that a related company is one whose use of a mark is controlled by the owner of the mark); Lanham Act § 5, 60 Stat. at 429 (codified as amended at *15 U.S.C. § 1055* (1994)) (stating that a related company's use of a mark shall inure to the owner's benefit).

n6 See generally *Sheila's Shine Prod. Inc., v. Sheila Shine, Inc., 486 F.2d 114, 125, 179 U.S.P.Q. (BNA) 577, 58485 (5th Cir. 1973)* (allowing use of mark without exercising control works an abandonment of the mark); Stanfield v. Osborne Indus., Inc.,

52 F.3d 867, 872, 34 U.S.P.Q.2d (BNA) 1456, 1461 (10th Cir. 1995) (allowing indiscriminate use of STANFIELD mark by licensee was abandonment); *Robinson Co. v. Plastics Research & Dev. Corp., 264 F. Supp. 852, 864, 153 U.S.P.Q. (BNA) 220, 230 (W.D. Ark. 1967)* (holding that license was a naked license that did not give the licensor the authority to control use of the REB-L mark for fishing lures and therefore resulted in abandonment of the mark). Although this article only explores the issues revolving around the licensing of a mark in a parent-subsidiary relationship, it is also possible that the initial assignment of the trademark to the IP holding company is invalid as an "assignment in gross," i.e., the assignment of a mark without any transfer of the underlying goodwill associated with the mark. See, e.g., *Sugar Busters LLC v. Brennan, 177 F.3d 258, 265-66, 50 U.S.P.Q.2d (BNA) 1821, 1825 (5th Cir. 1999)* (holding that assignment of the mark SUGARBUSTERS used for retail stores services to a party using it for books was an invalid assignment in gross). For an exploration of assignment in gross in the context of the IP holding company, see *Bell, supra* note 1, at 456-57.

n7 See Lisi, supra note 1, at 395. Mr. Lisi states that "it should suffice if [the holding company] . . . makes a knowing delegation of some or most of its quality control duties to the same party which originally performed them." Lisi also notes, however, that the only case known to him that examined the control issue in the holding company context held otherwise. See id. at 396 & 417 n.9 (citing to *CNA Fin. Corp. v. Brown, 922 F. Supp. 567, 574 (M.D. Fla. 1996)* (holding that the parent-licensor did not control the mark and therefore the mark was forfeited)).

n8 See Kathleen J. Lester, Availability of the Research Tax Credit for Government Funded Research: Fairchild Industries v. United States, 50 Tax Law. 873, 874-75 (1997) (discussing development of tax credit for research and development).

n9 See *Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48, 171 U.S.P.Q. (BNA) 269, 273 (9th Cir. 1971)* ("The burgeoning business of franchising has made trade-mark licensing a widespread commercial practice."); *Bell, supra* note 1, at 445 (noting that Coca-Cola trademarks are valued at $ 35 billion and represent 85% of the enterprise's value). See generally Robert C. Denicola, Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols, *62 N.C. L. Rev. 603, 604 (1984)* (discussing merchandising rights in trademarks); Charles W. Grimes & Gregory J. Battersby, The Protection of Merchandising Properties, *69 Trademark Rep. 431, 431 (1979)* (describing "merchandising properties" as trademarks with greater value than simply the ability to denote source).

n10 It is difficult to ascertain whether a company owning trademarks is an intellectual property holding company, and the author makes no claim that the listed companies are in fact IP holding companies. Reviewing records of trademark ownership, Securities and Exchange Commission ("SEC") filings, secretary of state records and company names, however, reveals several companies that appear to have established Delaware subsidiaries to which they transferred valuable trademarks. For example, PF Brands is a Delaware corporation, and the owner of over 60 registered trademarks or pending applications. Twenty-four of the registrations were assigned by Pepperidge Farm, Inc., a Connecticut corporation, to PF Brands on July 30, 1990 (including registrations for the shape of the Pepperidge Farm Goldfish cracker, and the marks PEPPERIDGE FARM and PEPPERIDGE FARM MILANO). Texas Secretary of State records indicate that PF Brands is a wholly-owned subsidiary of Campbell Soup Company, and the Directory of Corporate Affiliations reports that Pepperidge Farm, Inc. is also a wholly-owned subsidiary of Campbell Soup Company. The corporate form therefore appears to be either as sisters or as parent-subsidiary. In addition, Campbell Soup Company, a New Jersey corporation, transferred ten trademark registrations (including FRANCOAMERICAN, PREGO, and SWANSON) on July 30, 1990 to CSC Brands, a Delaware corporation. In its October 9, 1998 Form 10-K, filed with the SEC, Campbell Soup Company lists CSC Brands, Inc. as a subsidiary, although the percentage of ownership is unstated.

n11 Hunt, a Pennsylvania corporation, is a manufacturer of office products and art, craft and hobby supplies. Thirtythree trademark registrations, including BOSTON, SIGNATURE, and SCRIFFITO, were assigned to Hunt Holdings, Inc., a Delaware corporation, effective September 26, 1983 (although some of the trademark applications were not filed until after that date). In Hunt Corporation's February 27, 1999 Form 10-K, filed with the SEC, Hunt Holdings is listed as a wholly-owned subsidiary of Hunt Corporation.

n12 Congoleum, a Delaware corporation, assigned six registrations for the mark CONGOLEUM on September 20, 1995 to Congoleum Intellectual Properties, Inc., a Delaware corporation. Congoleum Corporation's March 26, 1999 Form 10-K filed with the SEC lists Congoleum Intellectual Properties, Inc. as a subsidiary of Congoleum Corporation, and Texas Secretary of State records indicate the subsidiary is wholly-owned.

n13 See Lisi, supra note 1, at 385 & 417 n.1 (stating that many corporations employ this strategy, but do not publicize their corporate structure).

n14 This article only considers the situation where the subsidiary is wholly-owned by the parent operating corporation. Potential tax benefits are discussed below in Part I.B.

n15 I.R.C. § 351 (West 2000) ("No gain or loss shall be recognized if property is transferred to a corporation by one or more persons solely in exchange for stock in such corporation and immediately after the exchange such person or persons are in control . . . of the corporation."). This is true so long as the liabilities assumed do not exceed the basis in the property contributed. See I.R.C. § 357(c)(1) (2000).

n16 See Lisi, supra note 1, at 385 (outlining steps in establishment of intellectual property holding company).

n17 See I.R.C. § 162(a)(3) (West 2000) (allowing deduction for ordinary and necessary business expenses); see also Judith L. Church, Resolving Intellectual Property Issues in Mergers and Acquisitions, in Handling Intellectual Property Issues in Business Transactions 1999, 135, 148 (PLI Pat., Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. G0-007G, 1999) (stating that the royalty payments are expenses to the operating company, thus reducing the operating company's tax payment); *Bell, supra* note 1, at 446 (stating that in most cases the payment of royalties is permitted as a deduction from the income of the operating company).

n18 See infra notes 26-29 and accompanying text for discussion of appropriate states of incorporation for an IP holding company.

n19 See Church, supra note 17, at 148 (stating that total tax will be reduced); *Bell, supra* note 1, at 446 (noting that licensing income paid to the subsidiary would not be subject to Delaware state income taxes, and the operating company's tax burden would also be reduced).

n20 See Lisi, supra note 1, at 385 (suggesting investment of income by the subsidiary in securities or debt instruments or loans to the parent or sister subsidiaries, prior to the transfer via dividend back to the parent).

n21 See I.R.C. § 243 (West 2000) (allowing deduction for dividends received from a member of the same affiliated group); *Bell, supra* note 1, at 456 (stating that many states permit a corporation to deduct some or all dividends it receives from an affiliated group).

n22 The interest payments will not be income to the subsidiary if the interest payment, like the royalty payment, is exempted from state taxation. See infra notes 26-29 and accompanying text for discussion of types of income exempted in several states.

n23 See *Bell, supra* note 1, at 456 (suggesting subsidiary loan to parent). For the reasons stated in note 33, infra, the parties must maintain an arm's length relationship. Therefore, the interest rate would have to be competitive and the parent could not default on the loan.

n24 See Eugene F. Corrigan, Interstate Corporate Income Taxation -Recent Revolutions and a Modern Response, *29 Vand. L. Rev. 423, 429 (1976)* (outlining methods for avoiding state taxation by attributing income to a state that does not tax that particular form of income).

n25 See Rosen, supra note 1, at 180-81 (discussing using a Delaware holding company to save on state taxes).

n26 See Church, supra note 17, at 147 (stating that Delaware, Michigan and Nevada have favorable state tax laws for IP holding companies).

n27 See Del. Code Ann. tit. 30 § 1902(b)(8) (1997).

(b) The following corporations shall be exempt from taxation under this chapter:

. . .

(8) Corporations whose activities within this State are confined to the maintenance and management of their intangible investments . . . and the collection and distribution of the income from such investments . . . . For purposes of this paragraph, "intangible investments" shall include, without limitation, investments in . . . patents, patent applications, trademarks, trade names and similar types of intangible assets . . . .

Id. See also Lisi, supra note 1, at 385 & 417 n.2; Rosen, supra note 1, at 180 (noting exemption from taxation for corporations whose activities in Delaware are confined to the maintenance and management of intangible investments).

n28 See Lisi, supra note 1, at 385 & 417 n.2 (stating Nevada imposes no corporate income tax); Peter L. Faber, State and Local Income and Franchise Tax Aspects of Corporate Acquisitions, in Tax Strategies for Corporate Acquisitions, Dispositions, Spin-Offs, Joint Ventures, Financings, Reorganizations, and Restructurings 1996, 803, 830 (PLI Tax Law and Estate Planning Course

Handbook Series No. J4-3684, 1996) (noting that Nevada does not impose a tax on income from owning intangible assets); Stuart J. Offer, Representing the Buyer, in Tax Strategies for Corporate Acquisitions, Dispositions, Spin-Offs, Joint Ventures, Financings, Reorganizations and Restructurings: 1995, 599, 638 (371 PLI Tax Law and Estate Planning Course Handbook Series No. J4-3684, 1995) (noting that Nevada does not levy a corporate tax).

n29 See *Mobil Oil Corp. v. Dep't of Treasury, 373 N.W.2d 730, 742-43 (Mich. 1985)* (stating that the Michigan Single Business Tax Act taxes the one who pays royalties, not the one who receives them); Lisi, supra note 1, at 385 & 417 n.2 (noting that royalty income is excluded if the Michigan corporation is not considered a financial organization).

n30 See Lisi, supra note 1, at 403 ("The Express case is in many ways a textbook example of how to set up and operate a trademark holding company, and how to defend it when challenged by tax authorities."). Nevertheless, there are risks that a state other than the subsidiary's state of incorporation may tax the exempted income. For more on the tax consequences of the IP holding company, see *In re Burnham Corp., DTA No. 814531, 1997 WL 413931,* at *21 (N.Y. Tax. App. July 10, 1997) (holding that parent and subsidiary were required to file combined return, resulting in greater tax liability to New York). See also *In re Express, Inc., DTA Nos. 812330-34, 1995 WL 561501,* at *40 (N.Y. Tax. App. Sept. 14, 1995) (holding that four trademark holding companies and their respective retailers had arm's length relationship for tax purposes and were therefore not required to file combined tax returns); *Geoffrey, Inc. v. South Carolina Tax Comm'n, 437 S.E.2d 13, 23-24 (S.C. 1993)* (requiring foreign trademark holding company to pay state taxes on royalties earned in state); Lisi, supra note 1, at 402-13 (discussing cases above in depth); Marc M. Levey & Lawrence W. Shapiro, The Limited: Section 482 is Applied in a State Tax Case, *6 J. Int'l Tax'n 568 (1995)* (reviewing the taxation theories discussed in In re Express, Inc.); Richard H. Kirk, Supreme Court Refuses to Re-Examine Whether Physical Presence is a Prerequisite to State Income Tax Jurisdiction: Geoffrey, Inc. v. South Carolina Tax Commission, 48 Tax Law. 271, 271-87 (1994) (reviewing the taxation theories discussed in Geoffrey); *Bell, supra* note 1, at 448-51 (listing steps for establishment of Delaware Investment Holding Company).

n31 *DTA Nos. 812330-34, 1995 WL 561501,* at * 5 (N.Y. Tax. App. Sept. 14, 1995).

n32 See Lisi, supra note 1, at 411.

n33 The royalty payments must be an amount that is normally paid in an arm's length transaction to survive scrutiny by the tax courts. See *In re Express, 1995 WL 561501,* at *28 (stating that there is a presumption of distortion in the existence of substantial intercorporate transactions, which can be rebutted by showing that the transactions were at arm's length).

n34 See Lisi, supra note 1, at 386 (suggesting royalty rate just below the company's net profit margin produces maximum effect).

n35 See Lisi, supra note 1, at 401 (noting that the tax risk in the trademark holding company arrangement is greater than the risk of naked licensing, the topic of this article).

n36 See *In re Burnham Corp., DTA No. 814531, 1997 WL 413931,* at * 18 (N.Y. Tax. App. July 10, 1997) (requiring Delaware trademark holding company to file combined tax reports with parent corporation).

n37 See *Geoffrey, Inc. v. South Carolina Tax Comm'n, 437 S.E.2d 13, 23-24 (S.C. 1993)* (requiring foreign trademark holding company to pay state taxes on royalties earned in state).

n38 See *Express, supra* note 30, at *3 (discussing business reasons for using a trademark holding company). For example, an applicant for a U.S. trademark registration can file applications in some foreign countries up to six months after the filing of the U.S. application and be allowed to claim the filing date in the U.S. as the filing date in the foreign country. A business division with a view of the global implications of trademark management might be more likely to ensure that appropriate applications are timely filed than would the domestic operating company. But see *Burnham, supra* note 37, at *17 (stating that parent corporation never explained how the transfer of trademarks to an IP holding company resulted in corporate efficiency, parent and subsidiary were required to file a combined return resulting in greater tax liability to New York).

n39 See Lisi, supra note 1, at 415 (suggesting segregation as a justifiable business reason for a trademark holding company).

n40 See *Express, supra* note 30, at *3 (discussing business reasons for using a trademark holding company). But see *Burnham, supra* note 37, at *17 (rejecting all business reasons offered by the parent for formation of an IP holding company).

n41 See *Express, supra* note 30, at *3 (stating the parent operating company viewed the establishment of a trademark holding company as a way to insulate valuable trademarks in the event of a catastrophic lawsuit). In Burnham, however, the court held that the record did not support the parent company's argument that the trademarks were transferred to protect them from catastrophic lawsuits and hostile takeovers. See *Burnham, supra* note 37, at *17. The court further noted that trademarks would not be protected by the transfer to a subsidiary since the stock of the subsidiary was an asset of the parent, and was therefore presumably subject to the parent's liabilities and still vulnerable to hostile takeover. See id.

n42 See *United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918)* ("There is no such thing as property in a trade-mark sic except as a right appurtenant to an established business or trade in connection with which the mark is employed."); *American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619, 625, 136 U.S.P.Q. (BNA) 286, 291 (5th Cir. 1963)* ("The right to a particular mark grows out of its use and not its mere adoption."); *Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 413 (1916)* ("It often has been said that there is no property whatever in a trademark, as such.").

n43 *Ex parte United States Steel Corp., 23 U.S.P.Q. (BNA) 145, 146-47* (Dec. Comm'r Pat. 1934) (holding, under the Trademark Act of 1905, that ownership of a trademark is exclusively in the proprietor and therefore ownership could not be had by the stockholding corporation).

n44 See *Menendez v. Holt, 128 U.S. 514, 520 (1888)* (recognizing ownership of trademark by company that selected but did not manufacture flour for resale); *Siegel v. Chicken Delight, Inc., 448 F.2d 43, 48, 171 U.S.P.Q. (BNA) 269, 273 (9th Cir. 1971)* ("The historical conception of a trade-mark sic as a strict emblem of source of the product to which it attaches has largely been abandoned."). See generally Ronald B. Coolley, Related Company: The Required Relationship in Trademark Licensing, *77 Trademark Rep. 299 (1987)* (reviewing the development of trademark licensing).

n45 See *Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 387, 193 U.S.P.Q. (BNA) 649, 665-66 (5th Cir. 1977)* (discussing general policy of control requirement).

n46 See *Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1121, 19 U.S.P.Q.2d (BNA) 1253, 1259 (5th Cir. 1991)* (stating that the "quality theory" of trademark broadens the older "source theory" of trademark use); *Kentucky Fried Chicken, 549 F.2d at 387, 193 U.S.P.Q. at 665* (noting that trademarks have the informational purpose of conveying a quality standard); *Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East, 542 F.2d 1053, 1059, 191 U.S.P.Q. (BNA) 563, 568 (9th Cir. 1976)* (stating that the major purpose of quality control is to protect the public).

n47 See *Kentucky Fried Chicken, 549 F.2d at 387, 193 U.S.P.Q. at 665* (discussing the general policy of control requirement); *Taco Cabana, 932 F.2d at 1121, 19 U.S.P.Q.2d at 1259* ("The purpose of the quality-control requirement is to prevent the public deception that would ensue from variant quality standards under the same mark or dress."); *Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 367, 121 U.S.P.Q. (BNA) 430, 437 (2d Cir. 1959)* ("The Lanham Act places an affirmative duty upon a licensor of a registered trademark to take reasonable measures to detect and prevent misleading uses of his mark by his licensees or suffer cancellation of his federal registration."); *CNA Fin. Corp. v. Brown, 922 F. Supp. 567, 574 (M.D. Fla. 1996)* (stating that the licensor must control not only the marks themselves, but the nature and quality of the services associated with the marks); *First Interstate Bancorp v. Stenquist, 16 U.S.P.Q.2d (BNA) 1704, 1705-06 (N.D. Ca. 1990)* (noting that without a control requirement, there would be a danger that products bearing the same trademark might be of diverse quality). See also *Engineered Mechanical Serv., Inc. v. Applied Mechanical Tech., Inc., 584 F. Supp. 1149, 1159, 223 U.S.P.Q. (BNA) 324, 330 (M.D. La. 1984)* (stating that not all licenses granted for use of a trademark must have identical control requirements). But see Kevin Parks, "Naked" Is Not a Four-Letter Word: Debunking the Myth of the "Quality Control Requirement" in Trademark Licensing, *82 Trademark Rep. 531, 531 (1992)* (arguing that "the quality control requirement should be abandoned as a legal fiction lacking sound theoretical foundation").

n48 See Trademark (Lanham) Act of 1946, ch. 540, § 45, 60 Stat. 427, 443 (codified as amended at *15 U.S.C. § 1127* (1994)). In the Lanham Act, the term "related company" does not refer to a relationship based on stock ownership. A "related company" is defined as "any person whose use of a mark is controlled by the owner of the mark with respect to the nature and quality of the goods or services on or in connection with which the mark is used." Id. In other words, a "related company" is simply any licensee of the trademark owner controlled by the trademark owner. The Lanham Act then allows the licensee's use of the mark to support the licensor ownership interest through § 5, which states:

> Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such manner as to deceive the public.

Lanham Act § 5, 60 Stat. 427, 429 (codified as amended at *15 U.S.C. § 1055* (1994)).

Therefore, a licensee's use of a mark inures to the benefit of the registrant for purposes of the use requirement of registration.

n49 See *First Interstate Bancorp, 16 U.S.P.Q.2d at 1706* (stating that licensor must only exercise enough control to prevent deception); *Kentucky Fried Chicken, 549 F.2d at 387, 193 U.S.P.Q. at 666* (stating that retention of a trademark requires only minimal quality control); *Syntex*

Lab. Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45, 56, 166 U.S.P.Q. (BNA) 312, 320 (S.D.N.Y. 1970) (stating that the purpose of the quality control requirement is to ensure that the public will not be deceived about the quality of goods sold under a recognized name).

n50 See *Stanfield v. Osborne Indus. Inc., 52 F.3d 867, 871, 34 U.S.P.Q.2d (BNA) 1456, 1460 (10th Cir. 1995)* ("The absence of an express contractual right of control does not necessarily result in abandonment of a mark, as long as the licensor in fact exercised sufficient control over its licensee."); *Transgo Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1018, 227 U.S.P.Q. (BNA) 598, 606 (9th Cir. 1985)* (upholding oral license); *Embedded Moments, Inc. v. International Silver Co., 648 F. Supp. 187, 194 (E.D.N.Y. 1986)* (stating that it is not necessary for license to contain a written provision for control because actual control by the licensor is sufficient); *Moore Bus. Forms, Inc. v. Ryu, 960 F.2d 486, 489, 22 U.S.P.Q.2d (BNA) 1773, 1775 (5th Cir. 1992)* ("There need not be formal quality control where 'the particular circumstances of the licensing arrangement indicate that the public will not be deceived,'" quoting *Taco Cabana, 932 F.2d at 1121).*

n51 See Parks, supra note 48, at 534 (defining "naked" licensing as uncontrolled licensing).

n52 See *Taco Cabana Int'l v. Two Pesos, Inc., 932 F.2d 1113, 1121, 19 U.S.P.Q.2d (BNA) 1253, 1259* (stating that a "'naked license' signals involuntary trademark abandonment and forfeits protection"). The statutory basis for a finding of abandonment is in Section 33 of the Lanham Act, which allows an assertion of abandonment as a defense to a claim of infringement. Trademark (Lanham) Act of 1946, ch. 540, § 33(b)(2), 60 Stat. 427, 438 (codified as amended at 15 U.S.C.

§ 1115(b)(2) (1994)). Section 45 of the Lanham Act defines abandonment as "any course of conduct of the owner, including acts of omission as well as commission, causing the mark to . . . otherwise . . . lose its significance as a mark." Trademark (Lanham) Act of 1946, ch. 540, § 45, 60 Stat. 427, 443 (codified as amended at *15 U.S.C. § 1127* (1994 & Supp. IV 1998)). See also *Exxon Corp. v. Oxxford Clothes, Inc., 109 F.3d 1070, 42 U.S.P.Q.2d (BNA) 1417 (5th Cir. 1997)* (discussing in detail the theory of abandonment as the result of naked licensing).

n53 See *American Foods, Inc. v. Golden Flake, Inc., 312 F.2d 619, 624-25, 136 U.S.P.Q. (BNA) 286, 290 (5th Cir. 1963)* (stating that abandonment is in the nature of a forfeiture, therefore abandonment requires strict proof applicable in forfeiture cases); *Taco Cabana, 932 F.2d at 1121* (calling standard "stringent"); *Edwin K. Williams & Co. v. Edwin K. Williams & Co.-East, 542 F.2d 1053, 1059, 191 U.S.P.Q. (BNA) 563, 568 (9th Cir. 1976)* ("Because a finding of insufficient control essentially works a forfeiture, a person who asserts insufficient control must meet a high burden of proof.").

n54 See *Winnebago Indus. Inc. v. Oliver & Winston, Inc., 207 U.S.P.Q. (BNA) 335 (TTAB 1980)* ("It is also well settled that insofar as the question of abandonment of a mark is concerned, the burden is on petitioner to establish as a fact by clear and convincing proofs the abandonment of such mark by respondent."); 2 J. Thomas McCarthy, McCarthy on Trademarks and Unfair Competition, § 17:12, at

17-14.2 to 17-15 (rel no. 14, June 2000) (stating that the majority rule requires clear and convincing proof of abandonment, but the Federal Circuit only requires proof by the "preponderance of the evidence" standard) [hereinafter McCarthy].

n55 See *Edwin K. Williams & Co., 542 F.2d at 1060, 191 U.S.P.Q. at 568* ("The amount of control required varies with the circumstances.").

n56 See *CNA Fin. Corp. v. Brown, 922 F. Supp. 567, 574 (M.D. Fla. 1996)* (stating that factual finding of control over the nature and quality of services is necessary); Parks, supra note 48, at 538-39 (noting that the control issue is a fact-intensive question that can only be resolved on a case-by-case basis).

n57 See Trademark Licensing: The Problem of Adequate Control, *59 Trademark Rep. 820, 838 (1969)* ("An examination of case law since the Lanham Act reveals judicial approval of a wide spectrum of licensing arrangements, ranging from those involving detailed control provisions to those in which licensee inspection is made at the licensee's option."); McCarthy, supra note 55, § 18:55 at 18-90.1 (rel. no. 14, June 2000) ("It is difficult, if not impossible to define in the abstract exactly how much control and inspection is needed to satisfy the requirement of quality control over trademark licensees.")

n58 See *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co., 330 F.2d 667, 670, 141 U.S.P.Q. (BNA) 281, 283-84 (7th Cir. 1964)* (holding sufficient control existed where licensee sold product for 40 years without complaints about quality).

n59 See *Engineered Mechanical Serv., Inc. v. Applied Mechanical Tech., Inc., 584 F. Supp. 1149, 1159, 223 U.S.P.Q. (BNA) 324, 330-31 (M.D. La. 1984)* (finding that recital of right to control in licensing agreement was sufficient to avoid abandonment); *Wolfies Restaurant, Inc. v. Lincoln Restaurant Corp., 143 U.S.P.Q. (BNA) 310, 311 (N.Y. Sup. Ct. 1964)* (holding that so long as there was a license, inspection was not required).

n60 See *Stock Pot Restaurant, Inc. v. Stockpot, Inc., 737 F.2d 1576, 1580, 222 U.S.P.Q. (BNA) 665, 667 (Fed. Cir. 1984)* (holding that the licensor's presence on premises was sufficient control).

n61 See *Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 871, 34 U.S.P.Q.2d (BNA) 1456, 1459-60 (10th Cir. 1995)* (noting that where license allowed the licensee to use the mark on any product it desired, the licensor had an insufficient claim of control absent actual control).

n62 See *Sheila's Shine Prod., Inc., v. Sheila Shine, Inc., 486 F.2d 114, 123-24, 179 U.S.P.Q. (BNA) 577, 583-84 (5th Cir. 1973)* (holding that lack of contact between licensor and licensee estopped the licensor from challenging use of the mark by the licensee).

n63 See *CNA Fin. Corp. v. Brown, 922 F. Supp. 567, 574 (M.D. Fla. 1996)* (finding that parent owner of mark did not control services rendered under the mark by subsidiary, and therefore the mark was abandoned). In CNA, the mark in question was originally owned by the subsidiary, who assigned it to the parent but also continued to use the mark itself. See *id. at 571.* This holding is difficult to reconcile with *Syntex Lab. Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45, 56, 166 U.S.P.Q. (BNA) 312, 320 (S.D.N.Y. 1970),* which found adequate control where it could be assumed that the goods manufactured by the licensee after it assigned the mark to the licensor were the same as the goods manufactured before the assignment.

n64 See Jay Dratler, Jr., Licensing of Intellectual Property § 11.03[2], at 11-43

(rel. no. 7) (stating that the parent in a parent-subsidiary relationship must control the mark) [hereinafter Dratler]; 2 McCarthy, supra note 55, § 18:51, at 1886 ("The better practice is to have the parent own registrations of all marks used by subsidiaries.").

n65 Dratler, supra, note 65, § 11.03[2], at 11-43.

n66 Id. ("Before amendment in 1988, the statutory definition of 'related company' permitted control relationships to flow in both directions, but that feature of the Lanham Act was eliminated in 1988.").

n67 See *15 U.S.C. § 1127* (1994) (noting, in the Amendments section, that prior to the Trademark Law Revision Act of 1988, related company was defined as "any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used").

n68 Trademark Law Revision Act of 1988, Pub. L. No. 100667, § 134, 102 Stat. 3935, 3947 (codified as amended at *15 U.S.C. § 1127* (1994).

n69 S. Rep. No. 100-515, at 44 (1988), reprinted in 1988 U.S.C.C.A.N. 5577, 5606-07.

The author could find no case expressing doubt about the proper registrant of a mark.

n70 When Professor Dratler states "in parent-subsidiary relationships . . . the parent company must own and maintain the mark and its registration," he seems to assume that a subsidiary cannot control a parent. See Dratler, supra note 65, § 11.03[2], at 11-43. That assumption is the topic of this article.

n71 See Trademark (Lanham) Act of 1946, ch. 540, § 5, 60 Stat. 427, 429 (codified as amended at *15 U.S.C. § 1055* (1994)).

n72 See Before A Subcomm. of the Senate Comm. on Patents, H.R. 82, 78th Cong., 2d Sess. 94 (1944) (statement of patent attorney Earl H. Thomson) (stating that § 5 was designed to allow parent companies to register marks of subsidiaries because use by subsidiaries would inure to parent companies).

n73 See *In re Pharmacia, Inc., 2 U.S.P.Q.2d (BNA) 1883, 1884 (T.T.A.B. 1987).*

In cases where it is stated that use is by a related company which is a wholly owned subsidiary of applicant and there is no information in the application inconsistent with such a statement, the control by applicant with use by the wholly owned subsidiary inuring to applicant's benefit is presumed by the Examining Attorney from the business structure.

Id. Accord In re Hand, 231 U.S.P.Q. (BNA) 487, 487-88 (T.T.A.B. 1986) (presuming that sole stockholder/applicant controlled the use of the mark by his wholly-owned corporation).

n74 Patent & Trademark Office, U.S. Dep't of Commerce, Trademark Manual of Examining Procedure § 1201.03(c) (Matthew Bender & Co. ed., 2d ed., rev. 1.1 1997) (emphasis added) [hereinafter TMEP]. This language may simply be an artifact from the original language of the definition of "related company" as discussed supra at note 67, and may no longer have a statutory basis.

n75 "In general, where the application states that a mark is used by a related company or companies, the Office no longer requires an explanation of how the applicant controls such use." TMEP § 1201.03(c). In addition, the TMEP states:

Either a parent corporation or a subsidiary corporation may be the proper applicant depending upon the facts concerning ownership of the mark. The filing of an application either by the parent or by the subsidiary should be considered by the examining attorney to be the expression of the intention of the parties as to ownership in accord with the arrangements between them.

Id. Professor McCarthy interprets this statement to indicate that the Patent and Trademark Office practice is to permit the subsidiary to own the mark if it also uses the mark. See McCarthy § 18:51 at 18-86 ("in certain circumstances, the PTO will permit a subsidiary corporation itself to be the registrant of marks that it uses.") However there is no statement in the TMEP requiring the subsidiary to use the mark. See TMEP § 1201.03(c).

n76 When there is potential likelihood of confusion because two different corporate family members are using similar marks, the Patent and Trademark Office states, "if the applicant or the applicant's attorney represents that either the applicant or the registrant owns all of the other entity, and there is no contradictory evidence, then the examining attorney should conclude that there is unity of control, a single source and no likelihood of confusion." TMEP § 1201.07(b)(i). Likelihood of confusion arising from both a parent's and subsidiary's use of the same or similar marks is discussed infra at notes 227-233 and accompanying text.

n77 "The right to register a mark and the right to use a mark are separate and distinct rights. The right to register depends on the statute. The right to use may rest on private acts and agreements. The two must not be confused." *In re Wella A.G., 787 F.2d 1549, 1554, 229 U.S.P.Q. (BNA) 274, 278 (Fed. Cir. 1986)* (Nies, J., additional views).

n78 *787 F.2d 1549, 1552-53, 229 U.S.P.Q. (BNA) 274, 276-77 (Fed. Cir. 1986),* on remand, *5 U.S.P.Q.2d (BNA) 1359, 1361 (T.T.A.B. 1987),* rev'd, *858 F.2d 725,*

8 U.S.P.Q.2d (BNA) 1365 (Fed. Cir. 1988).

n79 *787 F.2d at 1552-53, 229 U.S.P.Q. at 276-77.* See also *Wella, 858 F.2d at 729,*

8 U.S.P.Q.2d at 1369 ("We hold . . . that the [Trademark Trial and Appeal] Board's new ground of refusal of registration --that Wella A.G. is not the owner of the mark --cannot stand because under our remand, the Board was not authorized to consider the related company issue, on which there was not controversy.").

n80 *787 F.2d at 1550, 229 U.S.P.Q. at 274.*

n81 Id.

n82 See *id. at 1552, 229 U.S.P.Q. at 276.*

n83 See *id. at 1554-55, 229 U.S.P.Q. at 277-78* (Nies, J., additional views).

n84 *Id. at 1554, 229 U.S.P.Q. at 277* (Nies, J., additional views).

n85 See *Wella, 5 U.S.P.Q.2d (BNA) 1359, 1361 (T.T.A.B. 1987)* ("we readily confess that, after repeated readings of the Court's opinion and Judge Nies' "additional views," we are not sure that we understand fully the Court's analysis of the issues in this case.")

n86 See *id. at 1361.*

n87 See *id. at 1362.*

n88 See *Wella, 858 F.2d at 725, 8 U.S.P.Q.2d at 1365.*

n89 *Id. at 728, 8 U.S.P.Q.2d at 1365.*

Indeed, the unusual nature of our limiting instruction to the Board -- we did not merely reverse the Board's denial of registration but explicitly told the Board what it could consider on remand -- should have led the Board to realize that the majority of the court did not view the additional issue Judge Nies had raised as something for the Board to address on remand. . . .

An "inferior court has no power or authority to deviate from the mandate issued by an appellate court."

Id. at 728, 8 U.S.P.Q.2d at 1368.

n90 See *id. at 729, 8 U.S.P.Q.2d . at 1369.*

n91 See *id. at 729-31, 8 U.S.P.Q.2d at 1369-70* (Archer, J., concurring-in-result).

n92 See *id. at 731, 8 U.S.P.Q.2d at 1370* (Archer, J., concurring-in-result).

n93 See Del. Code Ann. tit. 30 § 1902(b)(8) (1997) (stating exemption from taxation for corporations whose activities in Delaware are confined to the maintenance and management of intangible investments).

n94 See *Bell, supra* note 1, at 461 ("A licensor who aggressively polices quality and mandates the way certain aspects of the licensee's business will be conducted in order to maintain the reputation of the trademark, may be regarded as carrying on activities beyond merely maintaining and managing intangible investments. Such circumstances may result in the licensor losing its . . . [Delaware Investment Holding Company] status.").

n95 See Lisi, supra note 1, at 385 & 417 n.2.

n96 See supra notes 74-78 and accompanying text discussing the registration practice of the Patent and Trademark Office.

n97 Trademark (Lanham) Act of 1946, ch. 540, § 33, 60 Stat. 427, 438 (codified as amended at *15 U.S.C. § 1115*(b)(2) (1994)) (providing abandonment as a defense to infringement).

n98 *Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 771-72 (1984)* (holding that subsidiary and parent cannot conspire for purposes of § 1 of the Sherman Act).

n99 See supra note 71 and accompanying text.

n100 *Kingston Dry Dock Co. v. Lake Champlain Transp. Co., 31 F.2d 265, 267 (2d Cir. 1929)* (refusing to hold a subsidiary liable for the acts of its parent).

n101 *FMC Fin. Corp. v. Murphree, 632 F.2d 413, 422 (5th Cir. 1980)* (establishing a different standard for veil piercing when a plaintiff seeks to hold a subsidiary liable for the acts of its parent). See also *Mid-West Metal Products, Inc. v. Simpson, 13 B.R. 562, 567 (Bankr. D. Kan. 1981)* (stating that because traditional veil piercing generally requires that one entity dominate another, it is not applicable in the reverse veil piercing context because a subsidiary cannot control its parent).

n102 Fed. R. Civ. P. 34(a).

n103 See, e.g., *Camden Iron & Metal, Inc. v. Marubeni Am. Corp., 138 F.R.D. 438, 444*

(D. N.J. 1991) (allowing a plaintiff to gain access to records of its foreign parent through a request to a U.S. subsidiary); *Westinghouse Credit Corp. v. Mountain States Mining & Milling Co., 37 F.R.D. 348, 349 (D. Colo. 1965)* (discussing an interrogatory to a subsidiary requesting information from its non-party parent). See also Kristine Cordier Karnezis, Annotation, Materials Held by Non-Party Corporate Affiliate of Corporate Party as Subject to Production Under Rule 34 of Federal Rules of Civil Procedure, *145 A.L.R. Fed. 527, 535 (1999)* (compiling various cases).

n104 See *Camden Iron, 138 F.R.D. at 441* (noting that the critical question in the case was whether the subsidiary had control over the documents in the parent's possession).

n105 See *Scott v. Arex, Inc., 124 F.R.D. 39, 41 (D. Conn. 1989)* ("The word 'control' is to be broadly construed. A party controls documents that it has the right, authority, or ability to obtain upon demand."). For a more detailed discussion of the various standards of control for purposes of discovery requests, see *Strom v. American Honda Motor Co., 667 N.E.2d 1137, 1141-44 (Mass. 1996)* (reviewing development of federal case law as it relates to control of discovery documents); 8A Charles Alan Wright et al., Federal Practice and Procedure § 2172 (2d ed. 1994); Gregory P. Joseph, Current Issues in Discovery, in Current Problems in Federal Civil Practice 321 (PLI Litig. and Admin. Practice Course Handbook Series No. H4-5183, 1994).

n106 See *Ferber v. Sharp Elec. Corp., 40 Fed. R. Serv. 2d (Callaghan) 950, 951 (S.D.N.Y. 1984)* (noting the difference between the amount of control required to pierce the corporate veil and that required of a subsidiary to produce documents in its parent's possession); *In re Uranium Antitrust Litig., 480 F. Supp. 1138, 1153 (N.D. Ill. 1979)* ("There is a crucial distinction between ability to compel production of documents and liability for a subsidiary's acts."). See infra Part IV for a background discussion about piercing the corporate veil.

n107 See *Strom, 667 N.E.2d at 1144-45* (establishing the rule that a parent corporation is required to produce documents that are requested in a suit brought against its wholly-owned subsidiary). "Because the Massachusetts Rules of Civil Procedure are patterned after the Federal rules, we interpret our rules consistently with the construction given their Federal counterparts . . . ." See *id. at 1140.*

n108 Id.

n109 *Westinghouse Credit Corp. v. Mountain States Mining & Milling Co., 37 F.R.D. 348, 349 (D. Colo. 1965)* (refusing to require a subsidiary to answer interrogatories about its parent's sales to the opposing party).

n110 *Volkswagen of America, Inc. v. Superior Court, 18 Cal. App. 3d 477, 480 (Cal. Ct. App. 1971)* (refusing to allow depositions to be taken of employees of the West German parent of the defendant).

n111 See *Afros S.p.A. v. Krauss-Maffei Corp., 113 F.R.D. 127, 130-31 (D. Del. 1986)* (requiring production of documents when the subsidiary corporation was whollyowned by its parent, the subsidiary was the exclusive distributor, and the parent and its subsidiary had overlapping directors, officers and employees).

n112 *667 N.E.2d 1137 (Mass. 1996).*

n113 See *id. at 1144-45.*

n114 See *id. at 1141* (discussing policy basis for the Federal Rules of Civil Procedure).

n115 See *id. at 1144* (discussing the result of narrowly construing the meaning of control).

n116 See *id. at 1145* (discussing the unfairness of holding a subsidiary responsible for its parent's failure to disclose).

n117 See id.

n118 See id.

If the corporate entities are related as they are here, the defendant is not at all being made the hostage for the compliance of a party for whose recalcitrance it is not responsible. Consider the extreme sanction that might be visited on the defendant here: that judgment might be entered against it. Given the relation between the corporations involved, that is a consequence that ultimately falls on the corporate parent. Perhaps the defendant will fail to prevail on its parent to supply the needed information, and the defendant's officers sincerely wish and have attempted to secure the parent's compliance.

It is the parent that has decided that it is worth visiting this dire consequence on its subsidiary, and the subsidiary may complain to it, but not to us, if the subsidiary must suffer that consequence. In this sense the defendant's vulnerability gives it all the leverage over its parent that the concept of control requires.

Id.

n119 See *id. at 1144* (stating that this wholly-owned subsidiary must disclose documents that are in the possession of its parent).

n120 See supra Part II.A for a discussion of the requirement of control of a trademark.

n121 "Parties may obtain discovery regarding any matter, not privileged, that is relevant to the claim or defense of any party . . . ." Fed. R. Civ. P. 26(b)(1). This includes not only information that is directly related to the proceeding, but also information that "bears on, or that reasonably could lead to other matter that could bear on, any issue that is or may be in the case." *Oppenheimer Fund, Inc. v. Sanders, 437 U.S. 340, 351 (1978).*

n122 See *United States v. Procter & Gamble Co., 356 U.S. 677, 682 (1958)* ("Modern instruments of discovery . . . make a trial less a game of blindman's buff sic and more a fair contest with the basic issues and facts disclosed to the fullest practicable extent."); *Hickman v. Taylor, 329 U.S. 495, 507 (1947)* ("Mutual knowledge of all the relevant facts gathered by both parties is essential to proper litigation.").

n123 *133 F. Supp. 40 (S.D.N.Y. 1955).*

n124 See *id. at 46-47* (discussing corporate structure).

n125 See *id. at 47* (finding personal jurisdiction over the Swiss subsidiaries when their respective American parents had voluntarily subjected themselves to policy controls set by the subsidiaries).

n126 See *id. at 46-47* (noting that in neither case did the subsidiary actually control the parent).

n127 See *id. at 47* ("Sanctions imposed in Switzerland upon [the subsidiary] . . . coerce action by . . . [the parent]. Restrictive trade practices in the United States market by

. . . [the parent] serve . . . [the subsidiary]. Their commitments in Switzerland are that they will deal as one here.").

n128 "Agency is the fiduciary relation which results from the manifestation of consent by one person to another that the other shall act on his behalf and subject to his control, and consent by the other so to act." Restatement (Second) of Agency

§ 1(1) (1958).

n129 *133 F. Supp. 40,* reh'g denied, *134 F. Supp. 710 (S.D.N.Y. 1955).*

n130 See *134 F. Supp. at 712* ("[The parent] having acted for [the subsidiary] . . . as well as the others in this regard, its acts may be regarded as those of . . . [the subsidiary].").

n131 *719 F. Supp. 627 (M.D. Tenn. 1989).*

n132 *Id. at 635 & n.24* (holding that the parent was not the agent of its subsidiary when the parent failed to report to its insurer a medical malpractice claim filed against the subsidiary).

n133 See supra notes 124-28 and 130-33 and accompanying text discussing a parent's acquiescence to control by its subsidiary, and a parent as an agent of its subsidiary.

n134 See supra notes 108-19 and accompanying text discussing the situation where potential punishment of the subsidiary gives the subsidiary leverage over its parent.

n135 See *Stanfield v. Osborne Indus., Inc., 52 F.3d 867, 872, 34 U.S.P.Q.2d (BNA) 1456, 1460 (10th Cir. 1995)* (discussing when a special relationship exists); *Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1121-22, 19 U.S.P.Q.2d (BNA) 1253, 1259 (5th Cir. 1991)* (finding that two brothers who ran a chain of restaurants and later divided the business could rely on each other to maintain quality); *Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1017-18, 227 U.S.P.Q. (BNA) 598, 605-06 (9th Cir. 1985)* (finding sufficient control where licensor was friend of licensee, licensee was knowledgeable about goods, and only small amount of product was manufactured by licensee); *Land O'Lakes Creameries, Inc. v. Oconomowoc Canning Co., 330 F.2d 667, 670, 141 U.S.P.Q. (BNA) 281, 283-84 (7th Cir. 1964)* (finding sufficient control where licensee sold product for 40 years without complaints about quality); *Morgan Creek Prod., Inc. v. Capital Cities/ABC, Inc., 22 U.S.P.Q.2d (BNA) 1881, 1884 (C.D. Cal. 1991)* (upholding license where the licensor was familiar with and relied upon licensee's own efforts to control quality); *Embedded Moments, Inc. v. International Silver Co., 648 F. Supp. 187, 194 (E.D.N.Y. 1986)* (holding that reliance on the integrity of the licensee is sufficient control where there is a history of trouble-free manufacture); *Syntex Lab., Inc. v. Norwich Pharmacal Co., 315 F. Supp. 45, 56, 166 U.S.P.Q. (BNA) 312, 320 (S.D.N.Y. 1970)* (holding that there was sufficient control where the licensee manufactured under a license-back arrangement after assigning the mark to the licensor when the licensee was required to comply with FDA regulations governing manufacture). But see *CNA Financial Corp. v. Brown, 930 F. Supp. 1502, 1508, 40 U.S.P.Q.2d (BNA) 1444, 1448 (M.D. Fla. 1996)* (relationship of parties is at most an inference of control).

n136 See *Land O'Lakes Creameries, 330 F.2d at 670, 141 U.S.P.Q. at 283-84.*

n137 See *Taco Cabana, 932 F.2d at 1121, 19 U.S.P.Q.2d at 1259.*

n138 See *Syntex Lab., 315 F. Supp. at 56, 166 U.S.P.Q. at 320.*

n139 See *CNA, 930 F. Supp. at 1508, 40 U.S.P.Q.2d at 1448* (parent owner of mark did not control services rendered under the mark by subsidiary, therefore the mark was abandoned). But see *Sterling Drug Inc. v. Lincoln Lab., Inc., 322 F.2d 968, 972-73, 139 U.S.P.Q. (BNA) 31, 34 (7th Cir. 1963)* (trademark owner held as a matter of law to have controlled the quality of DIAPARENE dusting powder manufactured by its wholly-owned subsidiary); *NEC Elec., Inc. v. Cal Circuit ABCO, Inc., 231 U.S.P.Q. (BNA) 956 958-60 (C.D. Cal. 1986)* (assuming sufficient control in parent-subsidiary relationship).

n140 See *First Interstate Bancorp v. Stenquist, 16 U.S.P.Q.2d (BNA) 1704, 1707 (N.D. Cal. 1990)* (holding that licensor's confidence in the licensee alone is insufficient to find control; additional indicia of control are required).

n141 See *Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 772 (1984)* ("At least when a subsidiary is wholly owned . . . the ultimate interests of the subsidiary and the parent are identical . . . .").

n142 See supra Part I.B, discussing the advantages of an IP holding company.

n143 Advantages of federal registration include:

(1) Federal jurisdiction for infringement; see *15 U.S.C. § 1121* (1994 & Supp. IV 1998);

(2) the recoverability of profits, damages, and costs, with potential recovery of treble damages and attorney fees; see *15 U.S.C. § 1117* (1994 & Supp. IV 1998);

(3) the provision of prima facie evidence (or conclusive evidence if the mark is made incontestable under *15 U.S.C. § 1065* (1994)) of the validity of the registered mark, of the registration of the mark, of the registrant's ownership of the mark, and of the registrant's exclusive right to use the registered mark; see *15 U.S.C. § 1057*(b) (1994); *15 U.S.C. § 1115*(a) (1994);

(4) the provision of constructive notice of a claim of ownership eliminating a defense of good faith adoption and use made after the date of registration; see *15 U.S.C. § 1072* (1994);

(5) the establishment of a "constructive use date" as of the filing date of the application; *15 U.S.C. § 1057*(c) (1994); and

(6) providing a basis to prevent the importation into the United States of articles bearing an infringing mark; *15 U.S.C.. § 1124* (1994 & Supp. IV 1998).

Even if a subsidiary is held not to control the mark, and the mark is therefore abandoned, the operating company parent is instead the true owner of the mark. The operating company parent is using the mark and thus owns it. However, the parent's trademark will be unregistered, and the parent does not benefit from rights granted to trademark registrants.

n144 See *Chenault v. Jamison, 578 So. 2d 1059, 1061 (Ala. 1991)* ("This Court has held that a corporation is a 'distinct and separate entity from the individuals who compose it as stockholders or who manage it as directors or officers'"); *Skouras v. Admiralty Enter., Inc., 386 A.2d 674, 681 (Del. Ch. 1978)* ("Mere control and even total ownership of one corporation by another is not sufficient to warrant the disregard of a separate corporate entity."). See generally 1 William Meade Fletcher,

Fletcher Cyclopedia of the Law of Private Corporations § 25 (1999) (discussing the separate existence of corporations) [hereinafter Fletcher].

n145 See *Sharff v. Ohio Cas. Ins. Co., 605 So. 2d 657, 660 (La. Ct. App. 1992)* (noting state statute defines subsidiary as "a corporation in which a majority of the stock is owned by another corporation"); *Rimes v. Club Corp. of Am., 542 S.W.2d 909, 912 (Tex. App. 1976)* ("A 'subsidiary corporation' is one which is controlled by another corporation by reason of the latter's ownership of at least a majority of the shares of the capital stock."). See generally 1 Fletcher § 25, supra note 146 (discussing relationship of family corporations).

n146 See *Catawba Indian Tribe v. South Carolina, 978 F.2d 1334, 1344 (4th Cir. 1992)* ("'The mere ownership of the capital stock of one corporation by another does not create an identity of corporate interest between the two companies, or render the holding company the owner of the property of the other, or create the relationship of principal and agent, or representative, or alter ego between the two.'"); *Mellon Bank, N.A. v. Metro Communications, Inc., 945 F.2d 635, 643 (3d Cir. 1991)* ("There is a presumption that a corporation, even when it is a wholly owned subsidiary of another, is a separate entity."); *In re Rehabilitation of Centaur Ins. Co., 606 N.E.2d 291, 295 (Ill. App. Ct. 1992)* (holding that even a wholly-owned subsidiary is a separate entity from its parent). See generally 1 Fletcher § 25, supra note 146.

n147 See *Cooperman v. Unemployment Ins. Appeals Bd., 49 Cal. App. 3d 1, 7 (Cal. Ct. App. 1975)* (stating that "the corporate entity will be disregarded to prevent fraud, to protect third persons or to prevent a grave injustice"); *Federal Sav. & Loan Ins. Corp. v. Morque, 372 N.W.2d 872, 876 (N.D. 1985)* (stating that a corporate entity may be disregarded to avoid injustice). See generally 1 Fletcher § 25, supra note 146.

n148 See *Rowland v. California Men's Colony, 506 U.S. 194, 207 (1993)* (defining "piercing the corporate veil" as looking beyond the entity to its owners or members); *First Health, Inc. v. Blanton, 585 So. 2d 1331, 1334 (Ala. 1991)* (defining veil piercing as imposing liability on the corporate parent). See generally

1 Fletcher § 41, supra note 146 (analyzing the doctrine of piercing the corporate veil).

n149 See *Homan & Crimen, Inc. v. Harris, 626 F.2d 1201, 1208 (5th Cir. 1980)* (recognizing that the corporate entity may and should be disregarded in cases of fraud, violation of law or contract, or public wrong, or to work out the equities among members of the corporation internally); *DeWitt Truck Brokers, Inc. v. Flemming Fruit Co., 540 F.2d 681, 683-90 (4th Cir. 1976)* (discussing veil piercing in a contract case); *Walker v. Newgent, 583 F.2d 163, 167-68 (5th Cir. 1978)* (discussing veil piercing in a procedural matter). See generally Phillip I. Blumberg, The Law of Corporate Groups: Tort, Contract and Other Common Law Problems in the Substantive Law of Parent and Subsidiary Corporations § 6.01, at 105-11 (1987 & 2000 Supp.) (discussing generally the doctrine of piercing the corporate veil) [hereinafter Blumberg].

n150 See *McClaran v. Plastic Indus., Inc., 97 F.3d 347, 358, 40 U.S.P.Q.2d (BNA) 1225, 1231 (9th Cir. 1996)* (stating the standard for piercing the corporate veil under Tennessee law).

n151 See generally Blumberg § 6.01 et. seq. (discussing a variety of standards for corporate veil piercing).

n152 See *Ex parte Baker, 432 So. 2d. 1281 (Ala. 1983)* (stating the "alter ego" standard); *Pirelli Armstrong Tire Corp. v. Titan Tire Corp., 4 F. Supp. 2d 794, 797 (C.D. Ill. 1998)* (stating the

Illinois standard for piercing the corporate veil); *Rolls-Royce Motor Cars, Inc. v. Schudroff, 929 F. Supp. 117, 122 (S.D.N.Y. 1996)* (stating the New York state standard for corporate veil piercing).

n153 See *Duff v. Southern Ry. Co., 496 So. 2d 760, 763 (Ala. 1986).*

n154 See *Castleberry v. Branscum, 721 S.W.2d 270, 272 (Tex. 1987)* ("'If the shareholders themselves disregard the separation of the corporate enterprise, the law will also disregard it so far as necessary to protect individual and corporate creditors.'"); *Consumer's Co-op v. Olsen, 419 N.W.2d 211, 218 (Wis. 1988)* ("'It is a combination of factors which, when taken together with an element of injustice or abuse of corporate privilege, suggest that the corporate entity attacked had 'no separate mind, will or existence of its own' and was therefore the 'mere instrumentality or tool' of the shareholder.'").

n155 See *Williams Plaza, Inc. v. Sedgefield Sportswear Div. of Blue Bell, Inc., 297 S.E.2d 342, 344 (Ga. Ct. App. 1982)* ("While it is true that both corporations have common ownership, and that one is a wholly-owned subsidiary of the other, these facts alone are not sufficient to overcome the fact that the two are separate and distinct entities in the eyes of the law.").

n156 See *McClaran v. Plastic Indus., Inc., 97 F.3d 347, 358, 40 U.S.P.Q.2d (BNA) 1225, 1231 (9th Cir. 1996)* (interpreting Tennessee law).

n157 See *Coca-Cola Co. v. International Tel. & Tel. Corp., 201 U.S.P.Q. (BNA) 424, 427-28 (N.D. Ga. 1978)* ("Whether a subsidiary corporation is to be considered a separate entity 'cannot be asked, or answered, in vacuo' . . . the issues in each cas sic must be resolved in light of the policy underlying the applicable legal rule, whether of statute or common law.").

n158 See *Coca-Cola, 201 U.S.P.Q. at 428-29* (creating federal law for veil piercing in a Lanham Act context).

n159 See *id. at 428* (explaining purposes of the Lanham Act).

n160 See id. (regarding federal interests of Lanham Act as being greater than interests of states in protecting corporate form).

n161 See *id. at 429* ("The strictures of state law exemplified in the instrumentality rule propounded by the New York court in Lowendahl would be softened and remolded in recognition of the Lanham Act purposes."). See also Kitchens of Sara Lee, Inc. v. Sar-A-Lee, Inc., No. 85*C9292, 1988 WL 56180,* at *1-2 (N.D. Ill. May 26, 1988) (citing Coca-Cola with approval); *Papercraft Corp. v. Gibson Greeting Cards, Inc., 515 F. Supp. 727, 728-29, 212 U.S.P.Q. (BNA) 599, 601 (S.D.N.Y. 1981)* (refusing defendant-licensor's request to pierce the corporate veil in order to foreclose parent corporation from bringing trademark action when the subsidiary-licensee was prevented from challenging the trademark's validity by licensee estoppel). But see *U-Haul Int'l, Inc. v. Jartran, Inc., 793 F.2d 1034, 1043, 230 U.S.P.Q. (BNA) 343, 350 (9th Cir. 1986)* (reversing trial court's piercing of corporate veil in false advertising case where Florida law requires misleading creditors). For a more general discussion of corporate veil piercing under federal statutes, see Note, Piercing the Corporate Law Veil: The Alter Ego Doctrine Under Federal Common Law, *95 Harv. L. Rev. 853 (1982).*

n162 See supra note 154 and accompanying text discussing various factors that are used to determine whether the subsidiary is the alter ego of the parent.

n163 See *Coca-Cola, 201 U.S.P.Q. at 428* ("The review of the myriad factors should be made with constant attention to the relationship of the factors to advertising and marketing of a possibly infringing and unfairly competing product.").

n164 See id.

N165 See id.

n166 See id.

n167 See *id. at 429.*

n168 See id.

n169 See id.

n170 *Warner Bros., Inc. v. Gay Toys, Inc., 598 F. Supp. 424, 430, 233 U.S.P.Q. (BNA) 503, 506 (S.D.N.Y. 1984).*

n171 See id. (using the fraud standard and declining to pierce the corporate veil).

n172 See *Lumpkin v. Envirodyne Indus., Inc., 933 F.2d 449, 459 (7th Cir. 1991)* (noting that the purpose of the doctrine is to prevent a corporation that has acted fraudulently or unjustly from protecting itself from liability by shielding itself through the use of the corporate form).

n173 See *id. at 460* ("The alter ego doctrine is a sword, not a shield, the basis for a cause of action, not a defense."); *Regal Ware, Inc. v. Fidelity Corp., 550 F.2d 934, 946 (4th Cir. 1977)* ("The corporate fiction . . . is dryly technical in nature and of questionable application at the best. Since Fidelity seeks separate treatment of the corporations for the purpose of preserving the corporate fiction, it is not unjust to require it so to do sic in the distribution of assets . . . ."); *Stamp v. Inamed Corp., 777 F. Supp. 623, 626-27 (N.D. Ill. 1991)* (discussing cases where courts refused to allow reverse veil piercing); Pennsylvania Eng'g Corp. v. Islip Resource Recovery Agency, 710

F. Supp. 456, 465 (E.D.N.Y. 1989) ("A parent corporation cannot create a subsidiary and then 'ignore its separate corporate existence whenever it would be advantageous to parent.'"); *Bross Util. Serv. Corp. v. Aboubshait, 618 F. Supp. 1442, 1445 (S.D.N.Y. 1985)* (refusing to allow parent to assert rights of a subsidiary involved in a joint venture when the parent created a foreign subsidiary so it could enter an agreement); *Sims v. Western Waste Indus., 918 S.W.2d 682, 686 (Tex. Ct. App. 1996)* (stating that a parent cannot assert immunity under the Texas Workers' Compensation Act by reverse piercing the corporate veil that they established themselves); *Brevard County v. Ramsey, 658 So. 2d 1190, 1997 (Fla. Dist. Ct. App. 1995)* ("There are both advantages and disadvantages to the choice of the form made with which to conduct business, and, once chosen, the disadvantages cannot be ignored in order to eliminate unintended results."); *In re Disston Co., 187 A.D.2d 283, 283 (N.Y. App. Div. 1992)* (refusing to allow a corporation to pierce its own corporate veil to benefit either the parent or a subsidiary); *Institutional Laundry, Inc. v. Utah State Tax Comm'n, 706 P.2d 1066, 1067 (Utah 1985)* (holding that a corporation must accept the tax burden attendant to a corporate form); *Toffolon v. Town of Avon, 378 A.2d 580, 587 (Conn. 1977)* ("'The corporate entity will not be disregarded merely for the benefit of the individual stockholders when the corporate form works to their detriment or disadvantage . . . ."); *Mid-West Metal Prod., Inc. v. Simpson, 13 B.R. 562, 568 (Bankr. D. Kan. 1981)* (allowing a claim by a former employee against a subsidiary debtor in bankruptcy when the employment contract was with the parent).

n174 See *Schenley Distillers Corp. v. United States, 326 U.S. 432, 437 (1946)* (affirming the requirement that a subsidiary must obtain a contract carrier permit).

n175 Id.

n176 See Michael J. Gaertner, Note, Reverse Piercing the Corporate Veil: Should Corporation Owners Have It Both Ways?, *30 Wm. & Mary L. Rev. 667, 681-89 (1989)* for a discussion of reverse piercing where public policy favors the approach.

n177 *108 A.2d 336 (Pa. 1954).*

n178 *Id. at 342.*

n179 See *id. at 341* (stating that the crux of the defense was that the parent could not recover because it did not pay the tax deficiency).

n180 See *id. at 343* (noting that the defendants could avoid liability by pleading that there was no privity of contract).

n181 See *id. at 343.*

> The learned court below allowed [the plaintiff] . . . such a recovery, and this court now does likewise, on the theory of 'piercing the corporate veil' by applying the doctrine in reverse for the benefit of the fabricator of the veil.
>
> . . .
>
> The decisions in this State will be searched in vain for a single instance where a piercing of the corporate veil has been judicially sanctioned in order to confer a benefit upon the ones responsible for the presence of the veil.

Id. at 345, 347 (Jones, J., dissenting). See also *Cargill, Inc. v. Hedge, 375 N.W.2d 477, 478 (Minn. 1985)* (allowing the shareholders of an incorporated farm to assert homestead rights in the farm).

n182 *Schenley Distillers Corp. v. United States, 326 U.S. 432, 437 (1946).*

n183 See id. (affirming the commissioner's decision to require a contract carrier permit).

n184 Id.

n185 See id.

n186 See *In re National Distillers & Chem. Corp., 297 F.2d 941, 951, 132 U.S.P.Q. (BNA) 271, 279 (C.C.P.A. 1962)* (discussing the policy basis of the Lanham Act) (Rich, J., concurring).

n187 Trademark (Lanham) Act of 1946, ch. 540, § 45, 60 Stat. 427, 443-44 (codified as amended at *15 U.S.C. § 1127* (1994 & Supp. IV 1998)).

> A mark shall be deemed to be "abandoned" if either of the following occurs:

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment.

"Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark.

Id.

n188 See supra note 50 and accompanying text discussing the consistency of quality.

n189 See supra notes 24-38 and accompanying text discussing the tax benefits resulting from the payment of royalties.

n190 See *Lumpkin v. Envirodyne Indus., Inc., 933 F.2d 449, 460 (7th Cir. 1991)* (noting that a party may not invoke the doctrine and then, when it is no longer advantageous to do so, deny it).

n191 See *Goldstein v. Scott, 439 N.E.2d 1039, 1042, 1046 (Ill. App. 1982)* (holding that when church successfully argued that it was alter ego of a beneficial owner of property which collapsed to obtain insurance coverage, the church was judicially estopped from denying it was alter ego in a later tort action).

n192 See Restatement (Second) of Contracts § 3 (1979) ("An agreement is a manifestation of mutual assent on the part of two or more persons."); *Luis v. Orcutt Town Water Co., 204 Cal. App. 2d 433, 444 (Cal. Dist. Ct. App. 1962)* (stating that if alter ego doctrine was applied, the contract upon which the plaintiff relied for this claim would be null because it is impossible for a legal entity to contract with itself).

n193 *Mesler v. Bragg Management Co., 702 P.2d 601, 607 (Cal. 1985).*

n194 See *Stamp v. Inamed Corp., 777 F. Supp. 623, 628 & n.4 (N.D. Ill. 1991)* (stating that if a wholly-owned subsidiary could not sue its parent because they are a single entity, it is equally true that the parent and subsidiary could never contract since a person cannot contract with itself). But see *Mesler, 702 P.2d at 610 (1985)* (Lucas, J., dissenting) (pointing out that the majority decision used a "confusing meld of incompatible and inapplicable principles" by allowing the veil to be pierced for purposes of liability, while allowing the same veil to remain intact when considering the effects of a settlement agreement on the liability claim).

n195 *467 U.S. 752 (1984).*

n196 *Id. at 771* ("A parent and its wholly owned subsidiary have a complete unity of interest.").

n197 See *id. at 756-57* (outlining the context of the case).

n198 See *id. at 757-58.*

n199 See *id. at 777.*

n200 See *id. at 776.*

n201 See *id. at 768-69.*

n202 See *id. at 769.*

n203 See id.

n204 See id.

n205 See *id. at 770-71.*

n206 *Id. at 771*.

n207 See *id. at 777.*

n208 See *id. at 772-73.*

n209 See *id. at 772-74.*

n210 See *Pizza Management, Inc. v. Pizza Hut, Inc., 737 F. Supp. 1154, 1165 (D. Kan. 1990)* (discussing cases which applied Copperweld to various causes of action). See also *Alexander & Alexander, Inc. v. B. Dixon Evander & Assoc., Inc., 596 A.2d 687, 698 (Md. Ct. Spec. App. 1991)* (discussing the applicability of the Copperweld theory to a civil conspiracy claim); Stephen Calkins, Copperweld in the Courts: The Road to Caribe, *63 Antitrust L.J. 345, 371-78 (1995)* (reviewing various situations where the Copperweld theory was asserted).

n211 *777 F. Supp. 623, 628-29 (N.D. Ill. 1991)* (refusing to apply Copperweld where a subsidiary sued its parent for breach of contract).

n212 See *id. at 628* (stating that allowing a subsidiary to sue its parent for breach of contract was consistent with Copperweld).

n213 Robinson-Patman Anti-Discrimination Act, ch. 592, § § 12 , 49 Stat. 1526, 1526-27 (codified as amended at *15 U.S.C. § § 13* to 13b, 21a (1994)).

n214 The Robinson-Patman Act forbids any person "to discriminate in price between different purchasers of commodities of like grade and quality . . . where the effect of such discrimination may be . . . to injure . . . competition with any person who . . . grants . . . the . . . discrimination, or with [that granting person's] customers . . . ." Id. at § 1, 49 Stat. at 1526 (codified as amended at *15 U.S.C. § 13*(a) (1994)).

n215 *19 F.3d 745 (1st Cir. 1994).*

n216 See *id. at 751* (applying Copperweld in a RobinsonPatman Act situation).

n217 *747 F.2d 384 (7th Cir. 1984).*

n218 See *id. at 402-03* (deciding that for RICO purposes, a subsidiary can be a RICO person separate from its corporate parent, which can be a RICO enterprise); see also *Borden, Inc. v. Spoor Behrins Campbell & Young, Inc., 828 F. Supp. 216, 223-24 (S.D.N.Y. 1993)* (holding that Copperweld is not applicable in a RICO situation because no similar social benefit would result).

n219 See *Haroco, 747 F.2d at 386.*

n220 See *id. at 403 & n.22* (distinguishing Copperweld).

n221 See id. (noting that the policy considerations of Copperweld do not apply to RICO since RICO "is targeted primarily at the profits from patterns of racketeering activity").

n222 See id. (stating that recovering profits from patterns of racketeering activity was the purpose of RICO).

n223 See *Borden, 828 F. Supp. at 224* (stating that there is no social benefit flowing from agreement to commit securities fraud or in establishing and maintaining racketeering enterprises).

n224 See *Bell Atl. Bus. Sys. Serv. v. Hitachi Data Sys. Corp., 849 F. Supp. 702, 707 (N.D. Cal. 1994)* (stating that the Sherman Act and violation of state law claims have different purposes and policy considerations). See also Calkins, supra note 212, at 378 (noting that courts recognize that Copperweld turned on a balance of Sherman Act interests that may have little applicability in other contexts).

n225 See *Copperweld, 467 U.S. 752, 772-75 (1984).*

n226 See *id. at 768-69.*

n227 See *id. at 769.*

n228 See *id. at 772-73.*

n229 Park '*N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 198, 224 U.S.P.Q. (BNA) 327, 331 (1985)* (citing legislative history of the Lanham Act).

n230 See *Gilbert/Robinson, Inc. v. Carrie Beverage-Missouri, Inc., 989 F.2d 985, 994, 26 U.S.P.Q.2d (BNA) 1378, 1384 (8th Cir. 1993)* (stating that the Lanham Act's dominant purpose is to protect consumers from confusion in the marketplace).

n231 *Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 78182, 23 U.S.P.Q.2d (BNA) 1081, 1089* (Stevens, J., concurring) (internal brackets omitted) ("The purpose of the Lanham Act is to protect legitimate business and the consumers of the country.").

See also *Fun-damental Too, Ltd. v. Gemmy Indus. Corp., 111 F.3d 993, 999, 42 U.S.P.Q.2d (BNA) 1348, 1352 (2d. Cir. 1997)* ("The Lanham Act is designed to protect trademarks for the benefit of both the consumer and business."); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633, 636, 25 U.S.P.Q.2d (BNA) 1256, 1258 (1st Cir. 1992)* ("Two amaranthine principles fuel the Lanham Act. One aims at protecting consumers. The other focuses on protecting registrants and their assignees."); *In re National Distillers and Chem. Corp., 297 F.2d 941, 951, 132 U.S.P.Q. (BNA) 271, 279 (C.C.P.A. 1962)* (Rich, J., concurring) ("To protect trademarks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and goodwill by preventing their diversion from those who have created them to those who have not.").

n232 See Park '*N Fly, 469 U.S. at 198, 224 U.S.P.Q. at 331* (noting that fostering competition is one goal of the Lanham Act). See also *Fun-damental Too, 111 F.3d at 999, 42 U.S.P.Q.2d at 1352* (noting that one purpose of the Lanham Act is to protect business).

n233 See supra Part I.B discussing the advantages of an IP holding company. See also, e.g., *Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 772-73.*

("Separate incorporation may improve management, avoid special tax problems arising from multi-state operations, or serve other legitimate interests. Especially in view of the increasing complexity of corporate operations, a business enterprise should be free to structure itself in ways that serve efficiency of control, economy of operations, and other factors dictated by business judgment . . . .").

n234 See *Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 682, 11 U.S.P.Q.2d (BNA) 1001, 1020 (3d Cir. 1989)* (Becker, J., concurring). In his concurring opinion, Judge Becker states:

In Copperweld Corp. v. Independence Tube Corp. . . . the Supreme Court said the following about the unity of interest between a corporate parent and its wholly owned subsidiary:

A parent and its wholly owned subsidiary have a complete unity of interest.

Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one. In my view, this concept makes as much sense in the trademark context as it did in the antitrust context of Copperweld. Therefore, the unity of interest between a wholly owned subsidiary and its parent should be held to exist as a matter of law in the trademark context.

Id.

n235 See *In re Citibank, N.A., 225 U.S.P.Q. (BNA) 612, 616 (TTAB 1985)* (refusing registration of similar marks by both bank holding company parent and bank operating company subsidiary due to a likelihood of confusion between the similar marks). See also *In re Champion Int'l Corp., 220 U.S.P.Q. (BNA) 478, 479 (TTAB 1982)* (refusing application of parent because of likelihood of confusion with its subsidiary's registrations); *In re Air Prod., Inc., 124 U.S.P.Q. (BNA) 81, 81 (TTAB 1960)* (refusing registration of similar marks by both parent and subsidiary); cf. *In re Pharmacia, Inc., 2 U.S.P.Q.2d (BNA) 1883, 1884 (TTAB 1987)* (holding that an American subsidiary cannot take advantage of the related company exception to trademark ownership when the subsidiary's sister, not its parent, appears to own the mark); *Greyhound Corp. v. Armour Life Ins. Co., 214 U.S.P.Q. (BNA) 473, 475 (TTAB 1982)* (refusing registration because of likelihood of confusion between marks used by sister corporations); but cf. *In re Sumitomo Elec. Indus., Ltd., 184 U.S.P.Q. (BNA) 365, 367 (TTAB 1974)* (allowing registration of same mark for similar goods as described in registration owned by sister corporation when there was a consent agreement).

n236 *787 F.2d 1549 (Fed. Cir. 1986).*

n237 See *id. at 1550.*

n238 See id.

n239 See *id. at 1550-51.*

n240 See *id. at 1553.*

n241 *Id. at 1552.*

n242 See id. See also *Shoney's, Inc. v. Schoenbaum, 686 F. Supp. 554, 566 (E.D. Va. 1988)* (holding that the subsidiary has a common purpose with its parent and therefore there is no confusion as to source when a subsidiary uses its parent's service mark); but cf. *Papercraft Corp. v. Gibson Greeting Cards, Inc., 515 F. Supp. 727, 728-29, 212 U.S.P.Q. (BNA) 599, 600-01 (S.D.N.Y. 1981)* (observing distinct corporate entities and allowing the parent to bring an unfair competition action against the licensor of its wholly-owned subsidiary when subsidiary was barred from bringing the same action). See also supra notes 78-93 and accompanying text discussion of "additional views" of one judge regarding the ownership of marks by both the parent and subsidiary.

n243 Tariff Act of 1930, ch. 497, § 526, 46 Stat. 741 (codified as amended at 19 U.S.C.

§ 1526 (1994)).

n244 See *United States v. Eighty-Three Rolex Watches, 992 F.2d 508, 511, 27 U.S.P.Q.2d (BNA) 1115, 1118-19 (5th Cir. 1993)* (reviewing development of the Tariff Act).

n245 Tariff Act of 1930, ch. 497, § 526, 46 Stat. 741 (codified as amended at 19 U.S.C.

§ 1526(a) (1994)).

n246 See 19 C.F.R. § 133.21(c) (2000).

n247 *486 U.S. 281, 6 U.S.P.Q.2d (BNA) 1897 (1988).*

n248 See *id. at 292, 6 U.S.P.Q.2d at 1898.* The Court did not engage in a more searching study of the meaning of "ownership" in a trademark context. As discussed in Part II.A, ownership of a mark is with the party that controls the mark. In the Court's model case, the parent foreign manufacturer sets up a U.S. subsidiary, and the U.S. subsidiary registers a mark identical to the parent's. See *K Mart, 486 U.S. at 286, 6 U.S.P.Q.2d at 1091-02.* The Court does not consider, however, the argument that if the foreign manufacturing parent is determining how the mark will be used it is the true owner of the mark. Thus, the subsidiary could not invoke the protection of the Tariff Act in the first instance because the mark is not "owned" by a corporation organized within the United States, as ownership is traditionally defined for a trademark.

n249 See *id. at 291-92.*

n250 See *id. at 294.* Whether a parent-subsidiary relationship, where the subsidiary is less than wholly-owned, will nevertheless be sufficient for common control is not clear.

See *Eighty-Three Rolex Watches, 992 F.2d at 515-16, 27 U.S.P.Q.2d at 1121-22* (discussing the issue of common control).