NOTES

ANTITRUST LAW—TIE-INS—*Chicken Delight* "PER SE" DOCTRINE EXTENDED TO DISTRIBUTORSHIP FRANCHISE—*Warriner Hermetics, Inc. v. Copeland Refrigeration Corp.*, 463 F.2d 1002 (5th Cir. 1972).

Copeland Refrigeration Corporation is a major manufacturer of refrigeration and air conditioning equipment. It concentrates its efforts on the production and sale of compressors, condensing units, and their respective parts to original equipment manufacturers (OEM's) who integrate the Copeland devices into their final products. To enable these OEM's to easily replace failed or malfunctioning units, Copeland maintains a national system of over two hundred authorized wholesalers which carry complete inventories of compressors and their replacement parts. These wholesalers, independent distributors which are allowed under their license agreements to display the Copeland trademark, deal directly with the OEM's in their respective geographic territories. In 1958, to facilitate the replacement process, Copeland stopped rebuilding failed compressors and began licensing this activity to independent rebuilders. The rebuilders receive the failed compressors directly from the wholesalers and subsequently return them to the wholesalers bearing the Copeland trademark and carrying the same one-year warranty as the original compressors.

Warriner Hermetics, Inc. and Warriner Parts, Inc. rebuild compressors and manufacture and distribute compressor parts respectively. Following a series of business reversals, including the cancellation of an order for rebuilt compressors from the Copeland authorized wholesaler in Houston, Texas, both companies brought suit against Copeland.[1] The complaint alleged, *inter alia*, that Copeland had, in two respects, engaged in a tie-in prohibited by section 1 of the Sherman Antitrust Act.[2] With respect to Warriner Hermetics, it was alleged that

1 Warriner Hermetics, Inc. v. Copeland Refrigeration Corp., 463 F.2d 1002, 1005-06 (5th Cir.), *cert. denied*, 409 U.S. 1086 (1972).

2 15 U.S.C. § 1 (1970). The Act reads in pertinent part:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal . . . .

A tie-in violative of the Sherman Act occurs when a seller with market power over product *A* (the "tying" product) forces the purchaser of *A* to also purchase a separate and distinct product *B* (the "tied" product), and such an arrangement affects an amount of commerce which is not insubstantial. A tying arrangement may also be illegal under section 3 of the Clayton Act, 15 U.S.C. § 14 (1970), which provides:

> It shall be unlawful for any person engaged in commerce, in the course of

Copeland did not allow its franchised wholesalers to deal in compressors rebuilt by non-authorized rebuilders. With respect to Warriner Parts, it was alleged that the franchised rebuilders and wholesalers were not allowed to obtain replacement parts from sources other than Copeland. Thus, Warriner Hermetics was foreclosed from possible outlets for its rebuilt compressors, while Warriner Parts lost numerous customers for its products. Judgment was rendered for the defendant Copeland, and the Warriner companies appealed. The major issue on appeal was whether the trial judge was in error when he submitted special interrogatories to the jury which instructed them that, in order to find Copeland liable, they must find that Copeland's conduct constituted an "unreasonable" restraint of trade. Apparently, the court felt that the practice of which Copeland stood accused was an exclusive dealing arrangement, whose illegality is gauged under a "rule of reason."[3]

> such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodities, whether patented or unpatented, for use, consumption, or resale within the United States . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodities of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Under the Clayton Act, all that need be shown is that either the seller had market power over the tying product or that the requisite amount of commerce was affected. This burden is lighter than that imposed upon a plaintiff by the Sherman Act, where both market power and effect upon commerce must be shown. *See* Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 608-09 (1953). However, the tying product must be a commodity in order to violate the Clayton Act, while the tying product in *Warriner*, whether it is considered to be the Copeland trademark, franchise or authorization, cannot be labeled such.

The distinction between violations of section 1 of the Sherman Act and of section 3 of the Clayton Act may now be little more than academic. *See* Kamenshine, *Competition Versus Fairness in Franchising*, 40 GEO. WASH. L. REV. 197, 204-05 (1971).

See generally Bowman, *Tying Arrangements and the Leverage Problem*, 67 YALE L.J. 19 (1957); Turner, *The Validity of Tying Arrangements Under the Antitrust Laws*, 72 HARV. L. REV. 50 (1958).

3 The special interrogatory submitted to the jury asked:

> Do you find from a preponderance of the evidence that defendant Copeland entered into any one or more of the following alleged contracts, combinations or conspiracies with non-defendant alleged co-conspirators hereinbefore named as Copeland 'authorized' wholesalers and as Copeland 'authorized' rebuilders; that such contracts, combinations or conspiracies constituted an unreasonable restraint of trade . . . [?]
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> . . . .
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> (c) . . . [Do you find that] defendant, Copeland, sold or fixed a price charged on new or rebuilt Copeland compressors or parts on the condition, agreement or understanding that such 'authorized' wholesalers or rebuilders not use or deal in the products of the plaintiffs, where the effect of such sale, condition, agreement or

The court of appeals reversed and remanded, holding that the alleged conduct of Copeland, if proven, was a per se violation of the Sherman Act. Since the violation is per se, neither its "unreasonableness" nor "anticompetitive effect" need be shown by the plaintiffs.[4] This holding was based upon the appellate court's finding that the alleged acts amounted to a "tie-in arrangement" rather than an "exclusive dealing contract."[5] It is the objective of this note to examine the analysis upon which the court relied, and to critically review that rapidly changing area of antitrust law which affects franchises and trademark-licensing agreements.

In determining whether a particular marketing arrangement is a tie-in and violative of section 1 of the Sherman Act, the inquiry most logically proceeds in three steps: does a tie-in exist; does the tying product possess sufficient market power; and, is a "not insubstantial" amount of commerce affected?[6] If these three questions are answered affirmatively, then a violation exists. However, the use of the words "per se" to describe such a violation is unfortunate and tends to ob-

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understanding may be substantially to lessen competition or tend to create a monopoly in any line of commerce . . . ?

463 F.2d at 1007.

4 *Id.* at 1015-16. *See* International Salt Co. v. United States, 332 U.S. 392, 396 (1947), where the doctrine of per se illegality was first applied to this violation. The basic rationale was that it was unreasonable per se to foreclose competitors from any substantial market. *See also* Standard Oil Co. v. United States, 337 U.S. 293, 305-06 (1949); ATTORNEY GENERAL'S NATIONAL COMMITTEE TO STUDY THE ANTITRUST LAWS, FINAL REPORT 145 (1955) [hereinafter cited as REPORT].

5 463 F.2d at 1015-16. Exclusive dealing arrangements, wherein the buyer or lessee agrees to purchase or lease exclusively from one party, are violative of section 3 of the Clayton Act where the effect of the agreement "may be to substantially lessen competition or tend to create a monopoly in any line of commerce." The authorities have found many reasons to apply a rule of reason rather than a per se rule to exclusive dealing contracts—they allow distributors to concentrate their efforts and energy on single products, and they can provide stability in a fluctuating market. C. KAYSEN & D. TURNER, ANTITRUST POLICY 159-60 (1959); Robinson, *Restraints on Trade and the Orderly Marketing of Goods*, 45 CORNELL L.Q. 254, 276 (1960).

Unlike the tie-in cases, where the size of the market is irrelevant as long as a not insignificant amount of commerce is affected, the determination of illegality in exclusive dealing cases rests to a large extent on what the court considers to be the relevant market for the particular plaintiff. *See* Tampa Elec. Co. v. Nashville Coal Co., 365 U.S. 320 (1961). In this case, although $128 million in commerce was effectively foreclosed from the plaintiff, this was not considered a substantial enough share of the relevant market for there to be a violation of the Act. *Id.* at 333-34.

Although it was written prior to *Tampa Electric*, a most worthwhile article on exclusive dealing is Lockhart & Sacks, *The Relevance of Economic Factors in Determining Whether Exclusive Arrangements Violate Section 3 of the Clayton Act*, 65 HARV. L. REV. 913 (1952).

6 *See* note 2 *supra*.

scure the basic legislative and judicial philosophies which underlie the antitrust laws.

The first inquiry of a court in distinguishing between tie-ins and exclusive dealing arrangements must be to determine whether at least two distinct products exist. The factual complexities that face a court in making this determination are exacerbated by the lack of any manageable standards.[7] Some courts, without even taking note of differing fact situations, merely followed the tests set out in *United States v. Jerrold Electronics Corp.*,[8] a case in which the court determined that an entire community antenna system could not be treated as a single product:

> There are several facts presented in this record which tend to show that a community television antenna system cannot properly be characterized as a single product. Others who entered the community antenna field offered all of the equipment necessary for a complete system, but none of them sold their gear exclusively as a single package as did Jerrold. The record also establishes that the number of pieces in each system varied considerably so that hardly any two versions of the alleged product were the same. Furthermore, the customer was charged for each item of equipment and not a lump sum for the total system. Finally, while Jerrold had cable and antennas to sell which were manufactured by other concerns, it only required that the electronic equipment in the system be bought from it.[9]

A similar test for separability which is also in use suggests that it be asked whether the seller participates for profit in the tied market.[10] The assumption made is that if the seller does not participate for profit in that market, then the tied product is ancillary to the tying prod-

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7 *See* Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 507 (1969).

8 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961). For examples of cases which have directly followed the *Jerrold* criterion, see Associated Press v. Taft-Ingalls Corp., 340 F.2d 753, 764 (6th Cir.), *cert. denied*, 382 U.S. 820 (1965) (a newswire service could be separated into distinct components); Kugler v. AAMCO Automatic Transmissions, Inc., 337 F. Supp. 872, 874-75 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972) (an advertising service made part of the franchise agreement held to be a separate product).

9 187 F. Supp. at 559.

10 Note, *Product Separability: A Workable Standard to Identify Tie-in Arrangements Under the Antitrust Laws*, 46 So. Cal. L. Rev. 160, 166 (1972). The following cases have made this inquiry to determine whether or not a tie-in existed: Crawford Transp. Co. v. Chrysler Corp., 338 F.2d 934 (6th Cir. 1964), *cert. denied*, 380 U.S. 954 (1965) (car manufacturer, although saving millions of dollars by having its dealers only use certain car transporting companies, did not participate for profit in the transporting business); Osborn v. Sinclair Ref. Co., 286 F.2d 832 (4th Cir. 1960), *cert. denied*, 366 U.S. 963 (1961) (filling station lessor profited by forcing his lessees to sell another manufacturer's tires, batteries and accessories); Miller Motors v. Ford Motor Co., 149 F. Supp. 790 (M.D.N.C. 1957), *aff'd*, 252 F.2d 441 (4th Cir. 1958) (auto manufacturer did not profit from dealers' use of particular required advertising agency).

uct; if this is the case, then the products cannot be separated for the purpose of determining the existence of an illegal tie-in.[11] The question of ancillary products arises by implication in cases concerning the licensing of trademarks; there will often be contractual stipulations that the licensee use certain sources of materials for the purpose of quality control and protection of the trademark.[12] These sources can either be the licensor itself or those designated by it. The courts are more apt to find ancillarity in the latter type of arrangement, pointing out the fact that the licensor does not sell the materials involved and is therefore motivated by a true desire for quality control rather than by a wish to enrich himself by appending his own non-necessary products to the trademark.[13] The designated-source requirements have, nonetheless, been attacked as a camouflage to actual competition between the franchisor and the outside suppliers:[14]

> [T]he transaction is cast in the form of a sale directly to [the franchisor] which in turn resells the items to the individual dealers, the suppliers acting as [the franchisor's] agents for payment and delivery.[15]

Thus, the efficacy of this test for separability remains in doubt.

The failure of the district court in *Warriner* to discern a tying arrangement was no mere oversight, for no court had even considered the trademark of a franchisor as capable of being a tying product until

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11 *See* Note, *supra* note 10, at 168-69.

12 *See generally* Lahart, *Control—the Sine Qua Non of a Valid Trademark License*, 50 TRADEMARK REP. 103 (1960); Sage, *Trade-mark Licenses and "Control"*, 43 TRADEMARK REP. 675 (1953); Comment, *Trademark Licensing: The Problem of Adequate Control*, 1968 DUKE L.J. 875; Comment, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171 (1963). For a discussion of the use of tying arrangements to maintain quality control in the franchise situation, see Comment, *Antitrust Barriers to Franchising*, 61 GEO. L.J. 189 (1972).

Originally an owner of a trademark could not license his trademark—otherwise it would be an abandonment. *See* Macmahan Pharmacal Co. v. Denver Chem. Mfg. Co., 113 F. 468, 475-76 (8th Cir. 1901). However, this doctrine eroded when the courts began to uphold licensing arrangements in which the licensor would maintain certain controls over the licensee. The pioneer cases in this area involved the Coca-Cola Company's licensing of its trademark to regional bottling plants. The arrangements were upheld since Coca-Cola provided its own secret mix and maintained control over the mixing and bottling processes. *See, e.g.*, Coca-Cola Co. v. Bennett, 238 F. 513 (8th Cir. 1916); Coca-Cola Bottling Co. v. Coca-Cola Co., 269 F. 796 (D. Del. 1920); Coca-Cola Co. v. J.G. Butler & Sons, 229 F. 224 (E.D. Ark. 1916).

13 *See* Denison Mattress Factory v. Spring-Air Co., 308 F.2d 403, 410-11 (5th Cir. 1962); Susser v. Carvel Corp., 206 F. Supp. 636, 644 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965).

14 Susser v. Carvel Corp., 332 F.2d 505, 513-14 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965) (Lumbard, C.J., dissenting in part).

15 *Id.* at 514.

1964,[16] and the cases that have followed this principle are few.[17] The Federal Trade Commission has explicitly declared that a trademark cannot be a tying product,[18] and some courts, while considering the possibility of a tie-in, have ruled that no tying arrangements exist since the franchise and the items bought by the franchisees constitute one package.[19] The first case to explore in depth the possibility that the trademark of a franchisor could be a tying product was *Susser v. Carvel Corp.*[20] The court did not find illegal a tie-in to the trademark of a special ice cream mix produced by a source designated by Carvel, as well as the accessory products such as toppings, cones and paper products. Although the federal district court had assumed the tying product to be the patented dispenser freezers sold by Carvel to its franchisees,[21] the circuit court labeled the Carvel trademark as the tying product.[22]

16 *See id.* at 513, 519.

17 *See, e.g.*, Falls Church Bratwursthaus, Inc. v. Bratwursthaus Management Corp., 5 TRADE REG. REP. (1973 Trade Cas.) ¶ 74,408 (E.D. Va., Jan. 11, 1973); Siegel v. Chicken Delight, Inc., 311 F. Supp. 847 (N.D. Cal. 1970), *rev'd on other grounds*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972); Big Top Stores, Inc. v. Ardsley Toy Shoppe, Ltd., 64 Misc. 2d 894, 315 N.Y.S.2d 897 (Sup. Ct. 1970). Although the latter is a state case, the Sherman Act violation was pleaded as a defense in an action brought by a franchisor against his franchisee. The court emphasized that a counterclaim (and, by implication, a claim) could not be based upon any of the federal antitrust statutes, but since many of the states have antitrust and trademark licensing (or franchise) laws similar to that of the federal government, the state courts will rely to a certain extent on federal statutes and their interpretation by the federal courts. Ten states even have anti-dilution clauses in their trademark statutes, protection which is not afforded by the federal trademark legislation. Arnold, *Protecting Intellectual Property and Good Will in Franchised Business Operations*, in THE FRANCHISING SOURCEBOOK § 17.12 (Commercial Law and Practice Sourcebook Series No. 2, J. McCord ed. 1970) [hereinafter cited as SOURCEBOOK].

18 Carvel Corp., 68 F.T.C. 128, 176 (1965).

19 Kugler v. AAMCO Automatic Transmissions, Inc., 337 F. Supp. 872, 875 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972) (advertising service held to be part of an automobile accessory franchise); Chicken Delight Eastern, Inc. v. A. Weitzmann's Sons, 1968 Trade Cas. ¶ 72,425 (N.Y. Sup. Ct. 1968) (non-food accessories held to be parts of fast food franchise).

20 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965). For commentary on the case, see Note, *Tying Arrangement With Trademark as the Tying Item Is Not a Per Se Violation of the Antitrust Laws*, 63 MICH. L. REV. 550 (1965); Note, *Franchises, Requirements Contracts and Tie-ins: One Test for a Tangled Two*, 74 YALE L.J. 691 (1965).

21 206 F. Supp. 636, 644 n.7 (S.D.N.Y. 1962).

22 332 F.2d at 519 (Friendly & Medina, J.J., concurring). Chief Judge Lumbard, dissenting in part, stated that the tying product was the "lease or license of the trademark itself, buttressed by this array of patents and subsidiary trademarks." *Id.* at 513. The majority felt that Lumbard had erred since the associated patented products were of no motivating significance in having the franchisees enter the tying arrangement. *Id.* at 519. It is possible that Lumbard was emphasizing the trademark as the major component of the tying package, thus making the difference between the two opinions on this point a negligible one. Whatever the magnitude of this schism in the court was, both sides none-

Nonetheless, no illegality was found. The court did not look at the question of whether the accessory products constituted a part of the trademark-franchise, for it had already determined that Carvel did not possess the requisite amount of market power.[23] However, the court did look at the tie-in of the special mix. It went on to hold that even if a tie-in could be assumed, it would be justified because there was no way that adequate quality control could be maintained through the mere imposition of standards for the licensee-franchisee to follow.[24] The main problem created by such standards, said the circuit court, was how to control through standards given to dealers "something so insusceptible of precise verbalization as the desired texture and taste of an ice cream cone or sundae."[25] Both the district and circuit courts relied on the dictum in *Standard Oil Co. v. United States*[26] for their rationale:

> The only situation, indeed, in which the protection of good will may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied.[27]

The dissenting circuit judge in *Susser* did not find the argument that Carvel was unable to define appropriate standards very convincing.[28] He relied in part on a similar ice cream franchise case where the franchisor had established specifications for mix, topping, and other garnishments.[29]

In *Arthur Murray, Inc. v. Reserve Plan, Inc.*,[30] a court did everything *but* label the franchise arrangement as an illegal tie-in—it held back, perhaps bound more by tradition than logic. The defendant had

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theless found the tying item to be the thing most representative to the public of the Carvel franchise.

23 *Id.* at 518.

24 *Id.* at 519-20.

25 *Id.* at 520.

26 337 U.S. 293 (1949).

27 *Id.* at 306. *See also* International Business Machs. Corp. v. United States, 298 U.S. 131, 138-39 (1936).

28 332 F.2d at 515 (Lumbard, C.J., dissenting in part).

29 Engbrecht v. Dairy Queen Co., 203 F. Supp. 714 (D. Kan. 1962); *accord*, Tastee-Freez Int'l, Inc., 3 TRADE REG. REP. ¶ 20,247 (FTC, March 5, 1973) (consent order). *But see* Engbrecht v. Dairy Queen Co., *supra* at 719 (no tie-in on a *freezer* which defendants claimed was the only kind that could produce the required type of soft freeze, and where plaintiffs could not prove that any other type of freezer would satisfy the defendant's standard of quality); United States v. Reddi-Wip, Inc., 1955 Trade Cas. ¶ 68,187, at 70,878 (S.D. Cal. 1955) (consent decree) (plaintiff could acquire an ice cream ingredient from a source other than the defendant franchisor as long as it is identical to the franchisor's).

30 406 F.2d 1138 (8th Cir. 1969).

forced its franchisees to use one specific finance plan, and the plaintiff, a competitor finance company, brought suit. The circuit court drew a direct analogy to *United States v. General Motors Corp.*,[31] where a tie-in between the sale of cars and the utilization of the G.M.A.C. finance plan was found.[32] Had the court in *Arthur Murray* wished to find a tie-in, the only conceivable tying product would have been the franchise-trademark. However, the circuit court chose not to find a tie-in violation, but merely affirmed a lower court decision which stated that the violation was "compelling contracts in restraint of commerce among the several states."[33]

The Supreme Court subsequently took a much stricter look at the single product test in *Fortner Enterprises, Inc. v. United States Steel Corp.*,[34] a case more noted for its impact on the "amount of commerce affected" test.[35] The Court found a tie-in where United States Steel conditioned the obtaining of credit from its wholly-owned subsidiary credit corporation on the purchase, at artificially high prices, of prefabricated houses manufactured by the parent corporation. The furnishing of credit, often considered by businessmen to be part of a package deal, was labeled a separate product.[36] Thus, although the Court neither set up new tests or standards, nor repudiated the old tests or standards of separability, there was little doubt that future courts would be hesitant to make a finding of a single product unless it was absolutely necessary that the two products be sold or utilized together.[37]

A subsequent decision demonstrated the ramifications of *Fortner* in the franchise area. *Siegel v. Chicken Delight, Inc.*[38] involved a fast-

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31 121 F.2d 376, 402 (7th Cir. 1941).

32 406 F.2d at 1144-45.

33 Reserve Plan, Inc. v. Arthur Murray, Inc., 38 F.R.D. 23, 30 (W.D. Mo. 1965).

34 394 U.S. 495 (1969).

35 See note 53 *infra* and accompanying text.

36 394 U.S. at 507.

37 Even after *Fortner*, however, some courts have allowed the single product defense when they found ancillarity between the tying and tied products. In Washington Gas Light Co. v. Virginia Elec. & Power Co., 438 F.2d 248 (4th Cir. 1971), *rev'g* 309 F. Supp. 1119 (E.D. Va. 1970), the circuit court reversed a district court decision which had found a tie-in of the delivery of electricity (through underground lines) to the sale of electricity, stating that the delivery service was ancillary to the production and sale of electricity. In Kugler v. AAMCO Automatic Transmissions, Inc., 337 F. Supp. 872 (D. Minn. 1971), *aff'd*, 460 F.2d 1214 (8th Cir. 1972), an advertising service was found to be ancillary to a nationwide automobile accessories franchise.

38 311 F. Supp. 847 (N.D. Cal. 1970), *rev'd on other grounds*, 448 F.2d 43 (9th Cir. 1971), *cert. denied*, 405 U.S. 955 (1972). For commentary on this case, see Erickson, *Siegel v. Chicken Delight: Continued Erosion of Defenses to Tying Arrangements*, 9 AM. BUS. L.J. 21 (1971); Comment, *Trademark Franchising and Antitrust Sanctions: The Need for a Limited Rule of Reason*, 52 B.U.L. REV. 463 (1972).

food franchise with alleged tie-ins to the trademark of the paper packaging products, cookers and fryers, and food preparation mixes. In the district court, the jury found that the defenses of uniqueness and trade secrets were inadequate to justify the tie-in of the trademark to the other products.[39] The court itself found that it was clearly evident that specifications could have been supplied for the paper products.[40] Although the majority decision in *Susser* implied that the franchise and the mix were in fact so interrelated (through a familiar taste and consistency) that they constituted a single product, the *Siegel* court rejected the idea that the franchise and all accessories were a single product:

> [I]t is apparent that the goodwill of the Chicken Delight trademark does not attach to the multitude of separate articles used in the operation of the licensed system or in the production of its end product. It is not what is used, but how it is used and what results that have given the system and its end product their entitlement to trademark protection. It is to the system and the end product that the public looks with the confidence that established goodwill has created.[41]

The second question to be asked in determining illegality is whether the tying product possesses sufficient market power. The seller's market power, which does not have to be exercised as long as the potential for exercise exists, was once a function of the percentage of the market controlled by the seller.[42] This "percentage of the market" test was eased in *Northern Pacific Railway v. United States*,[43] a case in which certain land owned by the defendant was the tying product and the defendant's railroad freight service was the tied product. Although the defendant's percentage of the land market was miniscule, the Court found that the necessary "market power" existed because the land in question was "unique."[44] This view was subsequently refined until it is now only necessary that the product be

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39 311 F. Supp. at 852-53.

40 *Id.* at 851. *But see* Chicken Delight Eastern, Inc. v. Hunter Paper Co., 1968 Trade Cas. ¶ 72,448 (N.Y. Sup. Ct. 1968); Chicken Delight Eastern, Inc. v. A. Weitzmann's Sons, 1968 Trade Cas. ¶ 72,425 (N.Y. Sup. Ct. 1968) (both situations involved the denial of motions for temporary injunctions against Chicken Delight—in each, it was held that the paper products tied in were specially designed to hold in heat).

41 448 F.2d at 49. *But see* Chock Full O'Nuts Corp., 3 TRADE REG. REP. ¶ 20,311 (FTC, April 9, 1973).

42 *See* Times-Picayune Publishing Co. v. United States, 345 U.S. 594, 606, 610-13 (1953). *See also* United Shoe Mach. Corp. v. United States, 258 U.S. 451, 457-58 (1922) (Clayton Act violation).

43 356 U.S. 1 (1958).

44 *Id.* at 7-8.

viewed as unique by some buyers.[45] This, along with the fact that patented articles[46] and copyrighted materials[47] had already been considered "unique" enough to be tying products, seemingly would have allowed the courts to label trademarks as tying items long before *Susser.* Nonetheless, there had long been substantial debate over whether a trademark carries with it the same market power that a patent or copyright does.[48] In *Susser,* the circuit court had found that the Carvel

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45 Fortner Enterprises, Inc. v. United States, 394 U.S. 495, 503 (1969); United States v. Loew's, Inc., 371 U.S. 38, 45 n.4 (1962).

46 International Salt Co. v. United States, 332 U.S. 392 (1947); International Business Machs. Corp. v. United States, 298 U.S. 131 (1936); United Shoe Mach. Corp. v. United States, 258 U.S. 451 (1922).

47 United States v. Loew's, Inc., 371 U.S. 38 (1962); United States v. Paramount Pictures, Inc., 334 U.S. 131 (1948).

48 *Compare* United States v. E.I. du Pont de Nemours & Co., 351 U.S. 377, 392-93 (1956), where the Court noted:

> Patents . . . furnish the most familiar type of classic monopoly. As the producers of a standardized product bring about significant differentiations of quality, design, or packaging in the product that permit differences of use, competition becomes to a greater or less degree incomplete and the producer's power over price and competition greater over his article and its use, according to the differentiation he is able to create and maintain. . . . However, this power that, let us say, automobile or soft-drink manufacturers have over their trademarked products is not the power that makes an illegal monopoly. Illegal power must be appraised in terms of the competitive market for the product.

with Timberg, *Trade-marks, Monopoly, and the Restraint of Competition,* 14 LAW & CONTEMP. PROB. 323, 323-24 (1949):

> [F]or large corporations desirous of promoting a monopoly or advancing a trade restraint, a trade-mark or trade name has its advantages. The trade-mark "monopoly," limited though it may be to a segment of the English language or of the art of design, is a perpetual one. Unlike a patent, a mark or name is not limited to a specific product or class of products, but can cover all products worked on or distributed by a single firm. Furthermore, in an era when the consumer is beleaguered by a host of commodities of whose production he can know nothing, he must order by ear rather than sight or touch, and a monopoly of the only familiar or convenient way to describe a commodity to a consumer—"Worcestershire sauce" or "linoleum," for example—gives the owner of this semantic monopoly a strong competitive advantage. . . . [F]or the bulk of American industry, patents are now concerned with relatively minor improvements in technology, at a time when American courts have been raising the level of inventiveness necessary to the validity of patents. Trade-marks and trade names, directed as they are to distribution rather than production, have thus by comparison expanded their prominence on the American industrial scene.

(footnote omitted).

In most of the literature in the field of intellectual property, the predominating feeling was that patents and copyrights were monopolistic in their effect, while trademarks were considered competitive. E. CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 59-60 (7th ed. 1956). Two articles in the 1940's stressed that trademarks did raise antitrust implications, but the emphasis was on monopolistic agreements between trademark licensors (division of territories, division of fields) rather than on arrangements between the trademark licensor and his licensee. Borchardt, *Are Trademarks an Antitrust Problem?,* 31 GEO. L.J. 245 (1943); Diggins, *Trade-marks and Restraints of Trade,* 32 GEO. L.J. 113 (1944).

trademark did not possess the requisite amount of market leverage, since Carvel had only 1% of the sales of ice cream cones in its area of heaviest concentration.[49] However, seven years later, the circuit court in *Siegel*, relying on the "uniqueness" test as enunciated in *Fortner*, rejected the market dominance test utilized by the *Susser* court. In *Siegel*, the court merely presumed that a trademark, like a patent or copyright, presents a legal barrier against competition from which sufficient economic power may be inferred.[50]

The final test involves the amount of commerce affected. The *Susser* court determined that the minimum had not been met—in one year, the sales of all ingredients other than the ice cream mix to the dealers amounted to $1,354,599, less than $3,400 per dealer.[51] The dissenting judge, unlike the majority, did not focus his attention upon the amount of commerce closed out for *each dealer*.[52] Again, the subsequent *Fortner* decision portended a change in the area. But this time, the result was so clear that the effect on cases involving tie-ins would be uniform. The *Fortner* Court determined that the amount of commerce affected by the tie-in arrangement was not to be found by looking at the individual plaintiff, but to *all* those affected by the policy of the defendant:

> Congress has encouraged private antitrust litigation not merely to compensate those who have been directly injured but also to vindicate the important public interest in free competition.[53]

The *Siegel* court's uncritical application of *Fortner* to the trademark-franchise field has produced an unfortunate result, a result well-illustrated by *Warriner*. The franchisor is now thrust into a position whereby if he requires that the franchisee purchase *anything* from him in addition to the trademark itself, then he is *per se* guilty of violating section 1 of the Sherman Act.[54] This result is unfortunate in that it is the product of the simplistic use of formulaic phrases which are not appropriate to the trademark-franchise context.

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49 332 F.2d at 521. *But see id.* at 513 (Lumbard, C.J., dissenting in part), where Chief Judge Lumbard states that no reason can be found for differentiating the economic power that could be generated by a patent or copyright from that generated by a trademark.

50 448 F.2d at 50 & n.7.

51 332 F.2d at 519 n.2.

52 *Id.* at 514 (Lumbard, C.J., dissenting in part).

53 394 U.S. at 502.

54 *See* Baker, *Another Look at Franchise Tie-ins After Texaco and Fortner*, 14 ANTITRUST BULL. 767, 780 (1969), where the author stated that any franchisor after *Fortner* would find that his licensed trademark satisfied both the market dominance and the amount of commerce affected tests.

With respect to the "amount of commerce affected" test, there are no significant differences between franchises and other types of business arrangements. Therefore, this aspect of tie-in law will not be discussed any further. With respect to the other two—the market power (or "uniqueness") test and the single product test—the courts have thus far failed to distinguish between "pure" franchises and other types.[55] This failure has resulted in the application of the same analytical shortcuts to highly dissimilar commercial arrangements. In particular, the *Warriner* court *assumed* sufficient uniqueness in the Copeland trademark to satisfy the market power test. Reliance was placed on the *Siegel* court's equation of a trademark with a patent or copyright. The *Siegel* court had found that trademarks, patents and copyrights possess the same uniqueness, a uniqueness that is considered proof of adequate market power. But this is too simple an answer for a complex issue. The uniqueness of a patent or copyright lies in the fact that legal protection is afforded to a certain, specific product. Although the trademark affords similar legal protection, there is a question of exactly what items are protected. There is little mystery in the pure franchise, where certain characteristics will be uniform in every outlet, including items sold, methods of operation, and perhaps even building design.[56] But the protection cannot be so pervasive when other types of franchises are involved. Other types of franchisees, for example, "authorized" distributorships,[57] may be similar only in that they all sell,

[55] The essential element of what one writer calls a "pure" franchise is a "particular and distinct way of doing business." Garlick, *Pure Franchising, Control and the Antitrust Laws: Friends or Foes?*, 48 J. URB. L. 835, 839 (1971). This type of franchise is the kind that holds the attention of the commentators on the subject. Their ideas, which span the spectrum from the assertion that franchises should be a specific exemption from the per se rule on tie-ins to the equally strong assertion that there are almost no situations where quality control will justify a tie-in of supplies to the trademark, seem to be based solely on an analysis of "pure" franchises. *Compare id.* at 875-82 *with* McCarthy, *Trademark Franchising and Antitrust: The Trouble with Tie-ins*, 58 CAL. L. REV. 1085, 1117 (1970).

For examples of the other types of franchises, see notes 57-58 *infra* and accompanying text.

[56] *See* Susser v. Carvel Corp., 206 F. Supp. 636, 640-41 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed as improvidently granted*, 381 U.S. 125 (1965) (distinctive appurtenances to the buildings, paper containers and spoons); Medd v. Boyd Wagner, Inc., 132 F. Supp. 399, 408 (N.D. Ohio 1955) (uniform quality, quantity, style and mode of operation). *See also* Howard D. Johnson Co. v. Robbins Light, Inc. 328 Mass. 46, 50, 101 N.E.2d 348, 351 (1951) (more is required of a franchisee than that he merely buy the franchisor's products and conduct the business in a proper manner).

[57] In addition to the "pure" franchises, there are the distributorships, outlets which the manufacturer will license to sell his product either exclusively or in conjunction with other products. There are also the manufacturing or processing plants, in which case the manufacturer of the essential ingredient of a certain product will transmit that ingredient to the licensee, who will manufacture or process and market the final product to a

among other items, the products of the same manufacturer. They are more likely to be recognized in the local community by their own individual trade names than by that of the manufacturer for whom they distribute.[58] Thus, the trademark of a distributorship is less likely to satisfy the uniqueness test than that of a pure franchisor.

In addition, the *Copeland* court *assumed* sufficient differentiation between the trademark and the associated products to avoid a single product defense. The holding that only a single product existed in *Susser* was due to the fact that a chain-type franchise was involved. The chain-type or "pure" franchisor sells a name—this name, which connotes "a particular and distinct way of doing business,"[59] provides practically the entire inducement for becoming a franchisee. The trademark of a pure franchisor could conceivably suffer if inferior products are sold under that mark. In the mind of the consuming public the franchisor *is* the retail seller. The public is largely unaware and unconcerned with the particular form of business association under which the chain-type outlet sells its products. Thus, the trademark is associated much more intimately, in the popular conception, with the details of the franchisee's operation.[60] The trademark in this "pure" franchise situation operates as a guarantee of quality and uniformity, rather than as a mere designation of source—its function in the distributorship type franchise.[61] The trademark attached to a

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wholesaler or retailer. Ad Hoc Committee on Franchising, *Report*, in SOURCEBOOK, *supra* note 17, at 567; G. GLICKMAN, FRANCHISING § 2.02 (15 BUSINESS ORGANIZATIONS, 1972 rev.).

58 *See* FTC v. Brown Shoe Co., 384 U.S. 316 (1966), where the franchisor attempted to bar competing products from the retail outlets. The court could not condone the arrangement because the normal justification of a franchisor did not exist—the franchisor's image would not suffer if an inferior product with a different trademark was sold in its outlet. *See also* Arnold, *supra* note 17, § 1.10, at 28-29.

59 See note 55 *supra*.

60 Where the franchise outlets have a uniform appearance and manner of operation, the courts may protect the right of the franchisor to bar competing products—for even if the goods were dispensed in untrademarked containers, they would still be sold under the aegis of that mark, which not only covers the trademarked goods sold, but the whole outlet itself. *See* Franchised Stores, Inc. v. Winter, 394 F.2d 664, 668 (2d Cir. 1968); Carvel Corp., 68 F.T.C. 128, 184-85 (1965).

An interesting sidelight is the fact that the oil companies have gained added protection through the passage of laws in many states which prohibit gasoline dealers from using any other gasoline but the franchisor's in the franchisor's pumps. Nevertheless, there has been considerable doubt raised about the uniqueness of any single oil company's product. Brown, *Future Legislative Prospects*, in FRANCHISING—TODAY'S LEGAL AND BUSINESS PROBLEMS 497-503 (Commercial Law and Practice Transcript Series No. 2, L. Ratner ed. 1970).

61 There are two major theories concerning the function of a trademark: one is the "source" theory, which states that a trademark is an indication of origin and ownership; the other is the "guarantee" theory, which labels the trademark as a declaration to the consumer that all goods bearing the mark have the same nature, quality and characteristics.

distributorship will not suffer so much if an inferior product (for example, a product of another manufacturer) is sold in that distributorship. The product will be primarily identified with the name of the distributorship rather than the attached trademark.[62] Thus, an allegation of a single product would have more trouble standing up to inquiry in the case of a distributorship than it would in the instance of a pure franchise. As can be seen above, the test to determine whether a trademark licensor has engaged in an illegal tie-in should be a subjective one—each trademark must be looked at on its own merits. This the *Warriner* court failed to do.

Copeland wholesale outlets can easily be classified as the distributorship type of franchise. It would be absurd to say that there is no desirability in the trademark that attaches to the Copeland authorized wholesaler, but the name is not an absolute *sine qua non* for conducting business. Copeland's market power,[63] in and of itself, could be enough to draw the wholesaler into an exclusive dealing or requirements contract for Copeland-manufactured parts. While such an arrangement might be illegal, the determination of illegality would have to be made under a rule of reason rather than a per se rule, since "market power" by itself cannot be a tying product.[64]

The requirement that authorized Copeland wholesalers deal only with *authorized* Copeland rebuilders must also be examined. This requirement is similar to the one that wholesalers sell only Copeland-manufactured replacement parts, since the desirability of the product may be enough to induce the wholesaler into an exclusive dealing or requirements contract without the lure of the trademark. In the alternative, the relationship can also be interpreted as a tie-in of the authorized rebuilding service to the designation as an "authorized" wholesaler. In this case, the service is merely supplemental instead of ancillary to the main purpose of the business, that of selling compressors and parts. The wholesalers might lack the desire to utilize that service to the exclusion of other services—one possible reason being that there are only three such authorized rebuilders in the country[65] and it might cause inconvenience to transport the compressor a great distance when the job can just as easily be done in a more accessible

3 R. CALLMANN, THE LAW OF UNFAIR COMPETITION TRADEMARKS AND MONOPOLIES §§ 65.1, 65.2 (3d ed. 1969).

62 *See* note 58 *supra*.

63 Copeland is the nation's largest producer of rebuilt commercial refrigeration compressors and parts. 463 F.2d at 1005.

64 *See generally* note 5 *supra* and accompanying text.

65 Brief for Appellant at 3.

locale. The courts, however, have not tended to allow the tie-in of repair services on the grounds of quality control,[66] although a service tie-in may be upheld if the service is ancillary to the sale of the tying product.[67]

The final relationship to be scrutinized is that between Copeland and its authorized rebuilders. The contention that a tie-in exists as to the authorized rebuilders having to use Copeland parts holds up to strict scrutiny. The trademark of authorized rebuilders carries a unique advantage in that they alone have the right to attach the Copeland trade name and accompanying one-year warranty to the finished product.[68] Copeland could rebut the inference of a tie-in by claiming that Copeland-manufactured parts and the failed compressors are technologically interdependent and, in effect, a single product.[69] One com-

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66 *See, e.g.*, United States v. Ohio Crankshaft Co., 1956 Trade Cas. ¶ 68,329 (N.D. Ohio 1956); United States v. International Business Machs. Corp., 1956 Trade Cas. ¶ 68,245 (S.D.N.Y. 1956) (consent decree).

Cf. Williams v. Hughes Tool Co., 186 F.2d 278 (10th Cir. 1950), *cert. denied*, 341 U.S. 903 (1951), a patent infringement suit where the lessee, in violation of the leasing agreement, replaced the teeth on worn-out drilling bits instead of returning the bits to the lessor. The leasing clause was upheld since this was not a mere repair situation, the tooth interfit being the novel part of the patent.

67 Comment, 72 YALE L.J., *supra* note 12, at 1202-03. For examples of service tie-ins justified on ancillarity grounds, see Fortner Enterprises, Inc. v. United States Steel Corp., 394 U.S. 495, 525 (1969) (Fortas, J., dissenting) (credit is an ancillary service in connection with a sale); Washington Gas Light Co. v. Virginia Elec. & Power Co., 438 F.2d 248, 253 (4th Cir. 1971), *rev'g* 309 F. Supp. 1119 (E.D. Va. 1970) (installation of electric lines is ancillary to the business of selling and producing electricity).

However, the determination of whether the practice of tying in computer software (computer programs and systems design services) to the hardware (basic machinery) is justifiable has never come up for final determination. The case of Control Data Corp. v. International Business Machs. Corp., No. 3-68 Civil 312 (D. Minn., filed Dec. 11, 1968), was recently settled out of court, preventing such a determination. *See* The Wall Street Journal, Jan. 16, 1973, at 3, col. 1 (eastern ed.). An attempt to adjudicate a similar claim against IBM failed in Levin v. International Business Machs. Corp., 319 F. Supp. 51 (S.D.N.Y. 1970). In this case, the court denied a motion for a preliminary injunction against IBM, saying that it could not find a probability of success on the merits because of the sound engineering reasons raised by IBM. The issue may be resolved in one of two current suits where IBM is the defendant. *See* Telex Corp. v. International Business Machs. Corp., Civil No. 72-C-18 (N.D. Okla., filed Jan. 21, 1972); United States v. International Business Machs. Corp., No. 69-C-200 (S.D.N.Y., filed Jan. 17, 1969). In the former case, the district judge has denied a motion for preliminary injunction by the plaintiff, stating that the chances of probable success on the merits could not be assayed without a full trial. 1972 Trade Cas. ¶ 74,199, at 92,941 (D. Minn. 1972).

For a view of the role of ancillarity in trade regulation, see Bork, *Ancillary Restraints and the Sherman Act*, 15 A.B.A. ANTITRUST SECTION 211 (1959).

68 463 F.2d at 1005.

69 *See, e.g.*, Dehydrating Process Co. v. A.O. Smith Corp., 292 F.2d 653 (1st Cir.), *cert. denied*, 368 U.S. 931 (1961) (no tie-in found where defendant would sell its patented

mentator has stated that he "would rarely expect objections from a buyer or lessee that a complementary product is being forced upon him, if the technological reasons advanced by the seller are valid."[70] This defense, however, may no longer be so reliable, especially in regard to tied-in replacement parts.[71]

Section 1 of the Sherman Act makes illegal, on its face, *every* contract or combination in restraint of trade between the states.[72] In 1911, however, twenty-one years after the enactment of the Act, this concept was erased in *Standard Oil Co. v. United States*,[73] when the Supreme Court found that the purpose of the Act was only to prevent *undue* restraints.[74] Since that decision, only certain practices have been considered to be per se illegal—they include price fixing,[75] division of markets between competitors,[76] group boycotts,[77] and tie-ins. Tie-ins are, however, the only one of these practices which, although labelled

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unloader only if it was installed in its patented glass-lined silo—when they were sold separately, complaints were received from 18 of the 36 purchasers of the unloader).

70 Bowman, *supra* note 2, at 28.

71 Many automobile franchise arrangements have been attacked on these grounds as exclusive dealing violations of section 3 of the Clayton Act because of the contractual stipulations that the franchisee buy only replacement parts manufactured or authorized by the franchisor. Originally, these contracts were held justifiable as necessary to protect the goodwill of the franchisor:

> In the minds of the owners, the cars are identified and associated with the manufacturer. If defective or inefficient repairs or replacements should be made, and the cars, as a result, should operate unsatisfactorily, the owners' recollections will naturally and inevitably revert to the specific name and manufacturer thereof.

Pick Mfg. Co. v. General Motors Corp., 80 F.2d 641, 643 (7th Cir. 1935), *aff'd per curiam*, 299 U.S. 3 (1936). More recent cases have determined that a cause of action under section 3 of the Clayton Act did exist. *See, e.g.*, Englander Motors, Inc. v. Ford Motor Co., 267 F.2d 11 (6th Cir. 1959); AAMCO Automatic Transmissions, Inc., 3 TRADE REG. REP. ¶ 20,-094 (FTC, Sept. 1, 1972) (consent order). This trend is probably based on the fact that many independently manufactured component and replacement parts can be adapted for use in different brands of similar products (for example, automobile spark plugs, computer disks and tapes, and tubes and transistors for radio and television). Even American Telephone and Telegraph Company has been barred from subjecting users of an independently manufactured device used in conjunction with a telephone and a mobile radio system to financial penalty. Use of the Carterfone Device in Message Toll Telephone Service, 13 F.C.C.2d 420 (1968). AT&T urged that the telephone companies should have absolute control over the quality, installation and maintenance of the parts in their system, but the FCC found no reason why devices which would cause no harm to the system should be proscribed, nor why the company could not set up reasonable standards for these devices. *Id.* at 424.

72 15 U.S.C. § 1 (1970).

73 221 U.S. 1 (1911).

74 *Id.* at 62.

75 United States v. Socony-Vacuum Oil Co., 310 U.S. 150 (1940).

76 Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951).

77 Fashion Originators' Guild of America, Inc. v. FTC, 312 U.S. 457 (1941).

per se, may in some circumstances be justified.[78] Copeland was, according to the circuit court, still left on remand with the defense that the tie-in was justifiable as the least restrictive method of control over the trademark.[79] This is a paradoxical situation, for although a tie-in illegal under the Sherman Act is supposedly per se illegal, the above-mentioned defense may be raised to justify the policy. Although there is a difference between the justification of per se illegality and the utilization of the "rule of reason" test in exclusive dealing cases, the judicial rationale for applying the per se rule to trademark tie-ins is highly questionable. One court has responded to the situation by labelling such defensible arrangements as *conceptual* tie-ins which may be exculpated from the reach of the antitrust laws.[80]

There is an additional item which creates confusion. The defense which Copeland is left with, the "least restrictive method" defense, is very similar to the single product test. The defense implies that if the method of control is the least restrictive one, then it is necessary for the protection of the trademark, and, in effect, the tied product is ancillary to the tying one. The logical conclusion of this train of reasoning is that, for business purposes, but one product exists.

Therefore, it becomes clear that the current state of the law on trademark tie-ins, with a number of justifications weakening its effect and confusing the rationale of judicial decisions, is not conducive to a per se rule. Kaysen and Turner point out that a per se rule should

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78 *See* Roth, *Antitrust Aspects of Franchising*, in FRANCHISING—TODAY'S LEGAL AND BUSINESS PROBLEMS 190-91 (Commercial Law and Practice Transcript Series No. 2, L. Ratner ed. 1970).

Among the other justifications which are allowed to be raised is the protection of trade secrets. *Cf.* Turner v. Colbern, 186 Kan. 39, 348 P.2d 603 (1960). For a discussion of trade secrets in general, see A. TURNER, THE LAW OF TRADE SECRETS (1962). For a more specialized look at trade secrets in the area of trademark law, see 1 H. NIMS, THE LAW OF UNFAIR COMPETITION AND TRADEMARKS §§ 141 *et seq.* (4th ed. 1947).

The newest justification is the newcomer defense. This was designed to protect certain industries while they are in their developing stage. *See* United States v. Jerrold Electronics Corp., 187 F. Supp. 545 (E.D. Pa. 1960), *aff'd per curiam,* 365 U.S. 567 (1961). The alleged tie-in in this case was the fact that all the components of the defendant's community antenna system were only sold as a package. The court noted that this tie-in could be justified in the situation where a new business is being launched, where the company has no other venture to fall back upon in case of technological failure, and where such failure might hamper the entire industry in its developing state. *Id.* at 557. *See generally* Note, *Newcomer Defenses: Reasonable Use of Tie-ins, Franchises, Territorials, and Exclusives,* 18 STAN. L. REV. 457 (1966); Note, *The Use of Tie-ins in New Industries,* 70 YALE L.J. 804 (1961). On the specific subject of justifications for franchise tie-ins, see Comment, *The Franchisor's Dilemma: Justifying Tying Arrangements in Antitrust Suits,* 4 ST. MARY'S L.J. 358 (1972).

79 463 F.2d at 1016.

80 Baker v. Simmons Co., 307 F.2d 458, 468 (1st Cir. 1962).

apply only to practices that are readily identifiable, and that it should be addressed to business conduct rather than to a market situation.[81] Their influential book, written before the enormous growth of the franchise business in this country, suggests that the per se rule should apply to tie-ins.[82] It is reliance upon this type of outdated reasoning which led to the confusion wrought in the antitrust law by *Susser, Fortner,* and *Siegel.* In the franchise area the alleged tie-ins are no longer so readily identifiable. While the courts have been looking at business conduct, the investigation of franchise tie-ins lends itself more readily to a look at the market situation. The uniqueness of the trademark lies in its name, and names have different meanings to different franchises. This difference is based not only upon the type of franchise, but also upon the class of consumer to whom the franchisee sells.[83] The type of supplier may also be determinative of whether or not competition is actually foreclosed.[84]

The test for determining whether a franchise tie-in exists should proceed on two grounds (assuming that the "amount of commerce affected" test is satisfied). The first is a determination of whether the trademark is sufficiently unique and independently desirable enough to be a tying product. If it is, the second inquiry must look at the relationship between the trademark and each product for which a tie-in is alleged. If the product is ancillary to the mark or if the arrangement is the least restrictive method of quality control, then it is essential to protect the integrity of the trademark. In this case, *the products are so inter-*

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81 C. KAYSEN & D. TURNER, *supra* note 5, at 142.

82 *Id.* at 157-59.

83 *See* Note, *Developments in the Law, Trademarks and Unfair Competition,* 68 HARV. L. REV. 814, 897 (1955). A trademark relating to capital goods or raw materials

> may be no more than a symptom of market strength possessed by a firm which derives its power from its established capital assets and large-scale economies, and which offers industrial buyers reliability, reputation for quality, and assurance of continued supply.

Id. However, in relation to mass-produced consumer goods, "a trade-mark may become a basic element in securing a fixed share of consumer purchases." *Id.*

84 *Cf.* REPORT, *supra* note 4, at 146-47 (footnotes omitted):

> That investigation [into the economic effects of exclusive dealing] might well reveal that an exclusive arrangement preempting wholesalers or intermediate distributors rather than industrial consumers, for example, need not "foreclose" competitors from the ultimate markets. Under some circumstances rivals may easily cultivate their own channels of distribution, especially where the essential capital investment is relatively low, no special skills or experience are demanded, and entry into the marketing end is otherwise free. On the other hand, the industry's characteristic retailing structure may not enable more than one outlet in a particular consuming area, so that an exclusive arrangement which ties up any single customer shuts off a significant local market. . . . The heart of the matter is the ease with which rival suppliers can practicably secure consumer access in alternative ways.

dependent that they are but one product and no tie-in exists. Only the single product—the complete package of trademark, image, product, method of operation and associated goodwill—is being sold. If, on the other hand, this test is not satisfied, then there *are* really two or more separable products involved. Thus, a tie-in is present, and the court's inquiry, at least as to the existence of a tie-in, is at an end.

The *Warriner* court, by not taking a closer look at the relationship between the trademark and the market situation, has extended the per se rule another questionable step. The per se rule was extended to trademarks to prevent such unwarranted occurrences as a fast-food-chain franchisor being able to force on his franchisee a certain source of napkins or paper cups. Both this extreme case and the more arguable permissible *Warriner* case could be found illegal under the test herein proposed. The difference is that under *Warriner* the result may be chaos in the American franchising system, for *any* potential franchisor has been given unwarranted cause to hesitate before going into the business.

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