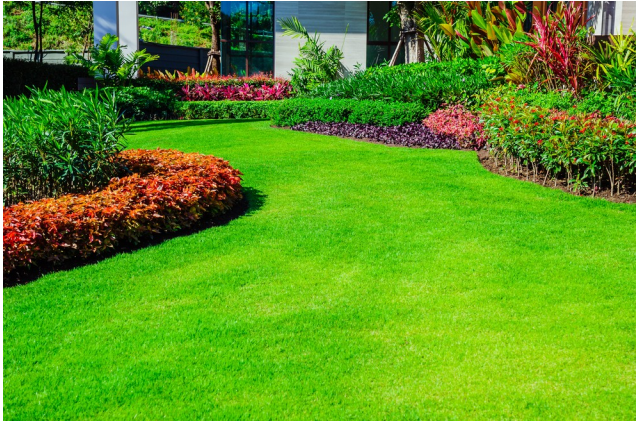


Divorce, Trademark Infringement, and Naked Licensing—Eighth Circuit Grapples With Lawn Care Quality Control

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When family feuds become federal trademark cases, this blog takes notice. In this edition, the U.S. Court of Appeals for the Eighth Circuit wades into a dispute between divorced lawn care proprietors. Their divorce “Mutual Separation Agreement” split their business in half but, for a time, permitted both businesses to use the same name. Central to the dispute—how would consumers know whether they would receive the same quality from the spouses’ separate businesses as they did when the spouses worked together?

Trademarks identify a product’s source. Consumers know products with the same mark share a common source and expect consistent quality. Licensing creates a potential problem—when a trademark holder licenses its mark, what if the licensee’s product quality is not consistent with the licensor’s quality expectations? The public would be deceived if products with the same mark had varying levels of quality.

To weed out this problem, courts prohibit “naked licensing”—a trademark becomes unenforceable if the mark’s owner licenses it without attempting to ensure the licensee’s quality will be consistent with that of the owner. (Consistent quality does not necessarily mean high, medium, or low quality—the doctrine merely ensures consumers receive from a licensee whatever quality they have come to expect from the licensor.)

Spouses Randy and Linda operated Lawn Managers, Inc. together around St. Louis, Missouri, for twenty years. Lawn Managers offers lawn fertilizer, weed killer treatments, and related services. Perhaps seeking greener pastures, the two divorced in 2012. Their divorce settlement sought to divide their business. They agreed Linda would open a new business and could use the “Lawn Managers” trademark for two years before adopting a new name—Progressive Lawn Managers. The two businesses split customers, equipment, and employees.

Acrimony grew quickly after the divorce agreement. Randy and Linda were not on speaking terms. As the two years ended, the parties disagreed about whether Linda’s new marketing materials were confusingly similar to the “Lawn Managers” name. Among other things, Randy argued the word “Progressive” was not prominent enough in Linda’s new logo. Randy’s business then registered the “Lawn Managers” mark with the U.S.

Patent and Trademark Office and sued Linda's business for infringement. The trial court found in Randy's favor.

On appeal, Linda's business did not contest the district court's finding of infringement but instead pressed its defense that the parties' divorce settlement was a naked license that invalidated the "Lawn Managers" trademark. She asserted the agreement did not give Randy's business any control over the quality of her business's lawn care. The majority—Chief Judge Lavenski R. Smith and Circuit Judge Jane Kelly—disagreed.

As they explained, to determine whether a licensor has exercised sufficient quality control, a court should evaluate three factors: whether the licensor retained contractual rights to control quality; actually controlled the quality of a trademark's use; or reasonably relied on the licensee to maintain quality. The divorce settlement didn't say anything about quality control, and the parties agreed there was no evidence that Randy's business exercised actual quality control over Linda's business. Thus, the case turned on the third means of control—reasonable reliance on the licensee.

Past cases found reasonable reliance when the licensor and licensee had a long-term professional association, often called a "special relationship." Courts occasionally find this "special relationship" permits a licensor to exercise sufficient control without a formal agreement or actual quality control efforts. Hindsight matters—courts emphasize a lack of evidence of deviating quality in the licensee's products when they find reliance was reasonable.

Here, the majority found the parties' 17-year marriage, the absence of any complaints about the quality of Linda's new business, and the structure of the parties' divorce agreement supported the trial court's finding that Randy's business could reasonably rely on Linda's business to maintain quality. The majority highlighted that the divorce agreement meant the parties were effectively operating the same business for two years, that Linda's business sought to emulate Randy's business, and that Randy's employees were in a position to observe whether Linda's employees were delivering services of equal quality.

The majority emphasized that the naked license doctrine requires a high degree of proof—clear and convincing evidence—because a naked license invalidates a trademark. The majority concluded there was sufficient evidence to support the trial court's finding that Linda's business failed to reach that high level of proof.

Dissenting, Circuit Judge Jonathan A. Kobes initially observed that "No one thinks the Marital Separation Agreement (MSA) is a model trademark transaction." He then posited that a close working relationship between licensor and licensee might provide enough quality control to protect a mark, but a *past* relationship between now-divorced spouses doesn't cut it. He agreed with the majority that a prior relationship could provide the basis for reasonable reliance but he argued some evidence of ongoing control was required. Judge Kobes cited Randy's testimony that there was "no way possible" for him to control the quality of Linda's business. Judge Kobes also cited evidence that consumers were confused about the absence of a relationship between the two businesses, highlighting

the need for quality control to protect the public.

As the majority emphasized, naked licensing is a hard defense to prove. But trademark holders who license their marks – whether in a marital divorce, a business divorce or in the ordinary course of business – should be careful to maintain some control over the quality of the products to which the licensee applies the mark. Contractual provisions are ideal, but even if there is nothing in writing, exercising control or oversight in fact can help establish that the requisite quality control was in fact taking place. That quality can be high, medium, or low so long as consumers get the quality they expect from products bearing the trademark.