Concurrent Trademark Uses in Different Regions of the United States: *Dawn Donut* Revisited

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I. Introduction

A. Today I’ll be talking about concurrent uses of trademarks in different regions of the country, and what courts can do to stop them when the mark holder is not yet operating in the defendant’s trading area.

B. A concurrent use, as you may recall, involves a situation where more than one person is using the same or similar mark for the same or similar services or goods, but in different parts of the United States.

C. In some cases, the other use is totally legitimate, and you can thus have two valid and enforceable marks held by two different persons, albeit limited to particular regions of the country.

D. In other cases, the other use is strictly speaking an infringement. It could be because the other user has no rights at all in the mark, or the other user has rights in the mark in some parts of the country but is expanding into an area where another person has senior rights to the mark.

E. *Dawn Donut* is an influential case from 1959 in which the Second Circuit roughly stated a senior user cannot automatically oust an infringing user from a part of the country where the senior user did not operate.

F. But before discussing that case, and because some of you may be rusty or know nothing about the territorial reach of trademarks, I’ll first start with a refresher of some of the basics.

**BACK TO BASICS**

II. Establishing “Common Law” Rights in Unregistered Marks under the Lanham Act

A. Use in Commerce Somewhere in the United States
B. Geographic/Territorial Reach

1. Zone of Market Penetration, i.e., actual use or sales of goods/services.
   a. Universal acceptance by courts.

2. Zone of Reputation, i.e., no sales, but there is recognition in this zone, usually judged by finding secondary meaning.
   a. Universal acceptance by courts.

3. Zone of Natural Expansion
   a. Somewhat controversial. Note: Not the same as a zone of natural expansion into other product lines. Cf. AMF Inc. v. Sleekcraft Boats, 599 F.2d 341, 349, 354 (9th Cir. 1979).

4. Timing of when the above are achieved can differ from each other and thereby affect your priority dates, i.e., trademark rights, in different regions of the country. For example, you might have actual sales in Oregon in 1996, no sales but establish a reputation in Idaho in 1997, and no sales or reputation but nevertheless establish a zone of natural expansion into Montana in 1998.

C. Concurrent Use

1. Because marks in the United States ultimately require use in commerce on a good or service, it is possible for there to be concurrent uses of the mark by others. That is to say, two or more people can hold the same or similar trademark for the same or similar goods/services in different regions of the country.

2. Under the Tea Rose-Rectanus doctrine, a senior user (first adopter) in the United States cannot oust a junior user (later in time adopter) where the junior user adopted his mark in good faith and in a geographically remote area from the senior user. Hanover Star

a. This is because both users have trademarks in their respective regions. The senior user in the whole of the United States is also the senior user in its part of the country. And although the other person is the junior user in the whole of the United States, it is the senior user in its own part of the country.

b. Circuit split on meaning of “good faith.”

i. Many circuits, including the Ninth Circuit, hold that mere knowledge of another’s use of a mark destroys good faith. See Stone Creek, Inc. v. Omnia Italian Design, Inc., 875 F.3d 426 (9th Cir. 2017) (also collecting cases from other circuits).

ii. Others require more, noting that knowledge is a factor to consider, but that the focus should be on whether the mark user had an intent to benefit from the goodwill of the senior user. Id. I’ll return later to which of these approaches makes more sense in this day and age.

c. Role of “remoteness” today is unclear. The Ninth Circuit has not addressed it in recent years, and was able to avoid the issue in the case previously cited. See id. at 436. In another case, the court stated that the purpose of the remoteness prong is to ensure there will be no confusion in the junior user’s region. Grupo Gigante SA De CV v. Dallo & Co., Inc., 391 F.3d 1088, 1097 (9th Cir. 2004).

3. These cases were obviously decided when communications, commerce, and transportation differed remarkably from today.

III. Effect of Registration on the Principal Register under the Lanham Act
A. For pre-November 1989, federal registration of a mark creates constructive notice of the mark as of the date of registration.

1. It thereby eliminates the good faith defense of a junior user.

2. A junior user in the United States lacking good faith may end up infringing the mark.

B. For post-November 1989, federal registration creates constructive nationwide use as of the registration application date.

C. Both generally freeze other users of the mark geographically in place.

**THE DAWN DONUT “RULE” or “DEFENSE”**

Dawn Donut Co. v. Hart’s Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959)

IV. Facts

A. Plaintiff federally registered its mark DAWN for doughnut mix, which it distributed wholesale in various parts of the United States to donut shops, including in New York State, and retailed by licensing franchises who operated donut shops under the Dawn Donut name. Nevertheless, on the whole, the Plaintiff was more of a wholesaler to other donut stores, who operated under their own names, than a retailer.

B. Holding a pre-1989 mark, its registration created constructive notice of the mark as of its renewal date in 1947 under the Lanham Act.

C. Defendant was a retailer who sold donuts at various shops in a radius of 45 miles around the city of Rochester in New York State. It started using the mark DAWN for its donuts in 1951, and did so without actual knowledge of the plaintiff’s use or registration. Defendant’s advertising, which included tv, radio, and print, was limited to the same area.

1. Notably, the Defendant did not obtain its own common-law mark in the area because it was on constructive notice of the Plaintiff’s mark before Defendant began using Dawn on donuts.
This eliminated any good faith on the part of the Defendant and meant that the defendant did not establish its own trademark.

D. Plaintiff had previously used its mark at the retail level in the city of Rochester, but had stopped doing so nearly 30 years prior to this dispute.

E. Plaintiff did wholesale its mixes to shops in the Defendant’s area. But those retail shops were not branded as Dawn Donut stores.

F. The closest authorized and branded Dawn Donut retail shop was 60 miles away from the Defendant’s trading area.

V. Procedure and Ruling

A. Plaintiff sued and sought an injunction barring the Defendant from using the mark with the retail sale of donuts within a six-county area surrounding Rochester.

B. The district court denied the injunction and ruled for the defendant.

C. The Second Circuit affirmed, stating that there was no likelihood of confusion in the Defendant’s trading area:

\[\text{[N]}\text{o likelihood of public confusion arises from the concurrent use of the mark in connection with retail sales of doughnuts and other baked goods in separate trading areas, and … there is no present likelihood that plaintiff will expand its retail use of the mark into the defendant’s market area.}\]

D. The court then stated a few things that have confused courts in subsequent cases (with courts focusing on the italicized text):

\[\text{[A]}\text{ registrant may enjoin only that concurrent use which creates a likelihood of public confusion as to the origin of the products in connection with which the marks are used. Therefore if the use of the marks by the registrant and the unauthorized user are confined to two sufficiently distinct and geographically separate markets, with no likelihood}\]
that the registrant will expand his use into defendant’s market, so that no public confusion is possible, then the registrant is not entitled to enjoin the junior user’s use of the mark.

As long as plaintiff and defendant confine their use of the mark “Dawn” in connection with the retail sale of baked goods to their present separate trading areas it is clear that no public confusion is likely.

If such expansion were probable, then the concurrent use of the marks would give rise to the conclusion that there was a likelihood of confusion.

E. The court summed up by stating that circumstances might change in the future:

1. The “plaintiff may later, upon a proper showing of an intent to use the mark at the retail level in defendant’s market area, be entitled to enjoin defendant’s use of the mark.”

F. There are two major takeaways from the case:

1. Holding a federal registration in a mark does not automatically entitle one to enjoin an infringer throughout the United States.

2. A purported infringer who uses a mark and invests in it in a remote region where the mark holder cannot presently enjoin them, does so at the infringer’s own risk. At some point down the road—granted, it might be years later—the mark holder might come into their territory and boot them out.

G. Let’s look again at the key language from the case:

[I]f the use of the marks by the registrant and the unauthorized user are confined to two sufficiently distinct and geographically separate markets, with no likelihood that the registrant will expand his use into defendant’s market, so that no public confusion is possible, then the registrant is not entitled to enjoin the junior user’s use of the mark.
VI. General Reception and Perceptions

A. *Dawn Donut* was well received. The Ninth Circuit said essentially the same thing in two subsequent cases, and anticipated it in another. Continente v. Continente, 378 F.2d 279, 282 (9th Cir. 1967); Mister Donut of America, Inc. v. Mr. Donut, Inc., 418 F.2d 838 (9th Cir. 1969); Fairway Foods, Inc. v. Fairway Markets, Inc., 227 F.2d 193 (9th Cir. 1955).

B. Litigants and courts have since used *Dawn Donut* in three ways:

1. As a separate affirmative defense raised by a purported infringer. Under this view, *Dawn Donut* created a per se rule that there can be no injunction—because there can be no likelihood of confusion—where the parties operate in geographically distinct and separate markets, and where the mark holder has no prospect of entering the defendant’s market.

   a. As you can imagine, a per se rule makes the “distinct and separate” and expansion analyses dispositive.


2. As an argument raised by a purported infringer in the context of a circuit’s multi-factor likelihood-of-confusion test. This is still seen as a per se rule that effectively cancels out the other factors.

3. As merely presenting factors to consider—geographic markets and likelihood of expansion into them—as part of a multi-factor test. Under this view, *Dawn Donut* and its sweeping statements were nothing more than an application of the likelihood-of-confusion test under the particular facts of that case. At best, the aforementioned “rule” represents a shorthand indicating that confusion is unlikely in circumstances where the uses are far apart and no indication of expansion into the infringer’s market.


C. From among these three choices, the third approach is the only correct one. I submit to you that it is so obvious from reading the case, that it is a wonder that courts have even entertained the first or second options.

1. *Dawn Donut* did more than just rely on the distance between the parties or the lack of concrete plans to expand, as proof that there was no likelihood of consumer confusion in the Rochester area.

2. It further buttressed its conclusion that confusion was unlikely by noting that the perishable nature of the goods meant that most consumers would remain local: “[R]etail purchases of such goods beyond that distance [of 25 miles] are for all practical considerations negligible.” It also noted that it took three years for the Plaintiff to even notice that the Defendant had started selling donuts in 1951 under DAWN in the Rochester area.
a. Again, it is important to put ourselves back to the 1950s in terms of transportation, media, and commerce.

3. The court also made clear, in no uncertain terms, that likelihood of confusion was the test; the injunction turned on it. No likelihood of confusion, no liability, and no injunction.

4. The trend in recent cases seems to be in this, third, direction, as you can see from the number of cases cited above. That has largely been driven by changes in commerce, the Internet, and a close reading of *Dawn Donut*. It has also been driven in large part by the Second Circuit subtly directing courts that way about 15 years ago:

a. *Brennan’s, Inc. v. Brennan’s Restaurant, L.L.C.*, 360 F.3d 125, 134–135 (2d Cir. 2004) (discussing geographic separation as part of “proximity of the products” factor; noting that “a geographically remote mark may nevertheless gain protection in a distant market [due to reputation]”; citing *Dawn Donut* for the proposition that “substantial geographic separation remains a significant indicator that the likelihood of confusion is slight”; and stating that “[g]eography alone is not decisive”) (emphasis added).

5. The Sixth Circuit also headed in this third direction nearly 20 years ago. *Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999); see also id. at 1056–57 (Jones, J., concurring) (“The likelihood of entry is but only one factor to be considered in determining whether a senior user is entitled to an injunction…. If a plaintiff can otherwise demonstrate a likelihood of confusion by a strong showing on the other seven factors, it seems an odd result that the same plaintiff cannot obtain an injunction against an infringer simply because the parties operate in different geographical regions.”). The concurring judge also noted that *Dawn Donut* was decided in 1959 and that “our society is far more mobile that it was four decades ago.” *Id.* He also noted that “recent technological innovations such as the Internet are
increasingly deconstructing geographical barriers for marketing purposes.” *Id.*

6. The Ninth Circuit has yet to revisit *Dawn Donut*. It has stated only in a non-precedential opinion that with “the advent of the Lanham Act, junior users may continue to use a trademark only until such time as the registered trademark owner expands its trade into the junior user’s geographic region.” Good Earth Corp. v. M.D. Horton & Assocs., 156 F.3d 1236 (9th Cir. 1998).

a. But I don’t imagine the court, when asked to revisit the case, will adopt the *per se* approaches mentioned above.

D. There are two other points about *Dawn Donut* I’d like to clarify:

1. First, *Dawn Donut* does not say that a mark holder cannot enjoin an infringer unless and until the mark holder actually penetrates the infringer’s market (zone of market penetration). Apart from recognizing that a zone of natural expansion can lead to a finding of consumer confusion, the court implicitly recognized that mere reputation (zone of reputation) in an infringer’s market could lead to confusion. Nevertheless, some litigants have argued, perhaps unintentionally, that *Dawn Donut* requires actual market penetration for an injunction. *E.g.*, Brothers of the Wheel M.C. Executive Council v. Mollohan, 909 F. Supp. 2d 506 (S.D. W. Va. 2012); *see also* Minnesota Pet Breeders, Inc. v. Schell & Kamper, Inc., 41 F.3d 1242, 1246 (8th Cir. 1994). This is undoubtedly wrong.

2. Second, it is sometimes supposed that *Dawn Donut* is a case that applies only to marks registered before 1989, and that things differ for post-1989 registrations because the registration constitutes constructive *use* rather than merely constructive *notice*. That is not true. To be sure, the mark in *Dawn Donut* was a pre-1989 registration, but because the case is about factors proving or disproving confusion, it applies equally where the mark holder registered their mark after 1989. Thus, whether pre- or post-1989, a registered mark holder cannot enjoin a defendant in a region of
the country where there is no likelihood of confusion (because of lack of market penetration, reputation, or expansion).

a. Similarly, *Dawn Donut* should apply where the plaintiff has *not* federally registered the mark—because, again, it merely sets forth facts that are probative of confusion or lack thereof—but it is less likely to come up where the parties are both relying solely on “common law” unregistered rights.

E. Notably, there is now an additional, very recent, wrinkle, what I would call a fourth approach. It stems from a Second Circuit case called *Guthrie Healthcare Sys. V. ContextMedia*, Inc., 826 F.3d 27 (2d Cir. 2016).

1. There, the court said that after liability is established due to infringement somewhere in the United States, a plaintiff does not have to show a likelihood of confusion for all geographic areas in which it hopes to enjoin the defendant. “It is not as if the senior user must prove a new claim of infringement for each geographic area in which it seeks injunctive relief.” *Id.* at 46.

2. But the court then went on to say that, “[o]f course, if the junior user demonstrates that in a particular geographic area there is no likelihood of confusion, ordinarily no useful purpose would be served by extending the injunction into that area, potentially inflicting great harm on the junior user without meaningful justification.” *Id.* (citing *Dawn Donut*).

3. So how to reconcile and implement the two statements?

a. First, the court first adopted a standard for extending the geographic reach of an injunction to an area outside of the “main area of injury,” so long as in that other area there is evidence of “plausibly foreseeable confusion.” *Id.* at 49. Whereas probability (likelihood of confusion) was the governing standard for infringement, it was not the governing standard for the scope of injunctions.
b. Second, the court also considered other traditional equitable factors relating to injunctive relief, such as how much harm the plaintiff would suffer without an injunction, and the balance of hardships.

4. Because the case is quite new, I could not find a reported decision addressing this approach, though I’m sure it has come up in litigation somewhere in the district courts of that circuit.

THE INTERWEBBS

VII. Dealing with the Internet

A. So how does the Internet affect all of the various principles, rules, or factors we have just discussed above?

B. For the most part, in a fairly intuitive way.

C. Looking back now at factors that are relevant to both establishing trademark rights and establishing likelihood of confusion:

1. Zone of market penetration (actual sales)

a. Internet sales are consumed by people in the real world, who work or live in particular places.

b. Courts look to see where goods were delivered or downloaded, or where online services were received.

c. A few judges have spoken of the Internet functioning as its own market, without any geographical reference. But most courts don’t seem inclined to consider it that way.

2. Zone of reputation (advertising)
a. Often treated like other forms of national advertising, which we already known can establish a reputation in places where the good or service is not actually offered.

b. The content and duration of an online presence is of course potentially important. Some websites limit their content to targeting particular localities, just as print advertising sometimes does. And some websites have only an ephemeral presence, while others persist for years.

c. Evidence of the number of unique visitors and where they are browsing from is relevant, just as “circulation” numbers and location can be relevant for traditional print media.

3. Zone of natural expansion

a. Internet content is less likely to play a role here, though it is of course possible that online content might be probative of a desire to expand one’s offerings in the future to other parts of the country.

Comment: The stronger the three factors are for a mark holder, the more likely that mark holder will be able to argue that the mark has broad territorial reach and protection. The flipside, however, is that the same high-strength of those factors could make the mark holder more susceptible to personal jurisdiction in cases where named as a defendant.

4. “Good faith” for concurrent uses at common law.

a. The Internet makes obtaining knowledge so much easier today than in 1900 or even 30 years ago.

b. Search engines are much smarter, some even autofill search results or domain names as one types a query or URL.

c. The Internet makes it much harder for users to claim ignorance where a mark is a word mark.
d. Current and future developments of logo or image searches will make non-word mark searches easier as well.

SOME RECENT CASES APPLYING DAWN DONUT

VIII. A number of cases have cited and applied Dawn Donut in the last 10 years or so. The list below is not exhaustive, but it is representative. On the whole, and perhaps not surprisingly, most courts have rejected Dawn Donut arguments.

A. Free Range Presents Dallas, LLC v. Fort Investments LLC, 2018 WL 6441017 (W.D. Wisc. Dec. 7, 2018): Plaintiff was a Texas restaurant doing business as “The Rustic,” a federally registered mark, while the defendant operated a restaurant called “The Rustic Smokehouse + Bar” in Wisconsin. Plaintiff learned of the defendant on social media. Defendant raised Dawn Donut as defense. Plaintiff argued that Dawn Donut was no longer good law because of the Internet, or if still good law, it was inapplicable on the facts. The court held that geographic overlap is relevant in determining confusion, but that there need not be actual overlap to support a confusion claim.

B. Gorgeous Gals, LLC v. Hey Gorgeous! Spa & Wellness, LLC, 2017 WL 5016036, at *8 (W.D. Tex. Nov. 2, 2017): Plaintiff operated a spa in Austin, Texas, and the defendant, the junior user, operated one in San Antonio, Texas. Both used “Hey Gorgeous” as their marks. Plaintiff’s mark was registered under Texas state law only. The spas were only 100 miles apart, and both were in central Texas, so they were not in geographically distinct markets, according to the court. As a consequence, the court ruled that Dawn Donut did not apply on the facts.

C. Baskim Holdings, Inc. v. Two M, Inc., 2017 WL 4248136 (D. Nev. Sept. 25, 2017): Plaintiff licensed its “Babe’s Cabaret” federally registered trademark to strip clubs in New Orleans and New Jersey. Defendant operated a strip club in Las Vegas under that name and a domain name incorporating the name. In denying the defendant’s motion for summary judgment on liability, the court found evidence that the plaintiff had attempted to expand into Las Vegas in the past, and had advertised its New Orleans club on the Internet through its own website, on third-party websites like www.stripclublist.com, and through social media like
Facebook and Twitter. The defendant also advertised its club online, including on Facebook, Twitter, and www.stripclublist.com. There was also some evidence of actual confusion.

D. Boldface Licensing + Branding v. By Lee Tillett, Inc., 940 F. Supp. 2d 1178 (C.D. Cal. 2013): Mark holder had federally registered KROMA for cosmetics. Their opponent, who was doing business with the Kardashians, began using KHROMA BEAUTY BY KOURTNEY, KIM AND KHLOE for a cosmetic line as well. The mark holder had previously sold its products online and in stores in Florida, California, New York, New Jersey, Hawaii, South Carolina, Pennsylvania, and Connecticut. It also advertised by featuring its products at the Oscars and Emmys and at Fashion Week events in New York City and Miami. The Kardashian product could be found in Ulta, Sears, CVS, Fred Meyer stores, among others, as well as online on those retailers’ websites and at other sites like amazon.com, drugstore.com, and beauty.com. They were also planning on offering them at their own website: khromabeauty.com. The district court granted a preliminary injunction to the registered mark holder, and then addressed the scope of the injunction. It rejected the argument that the injunction could only cover markets in which the mark holder was doing business. The court declined to apply Dawn Donut because the mark holder sold its products over the internet and across the country and had promoted them in nationwide media. At the very least this indicated that the mark holder had an intent to expand into areas served by the Kardashian product.

E. Prosperity Bancshares, Inc. v. Town and Country Financial Corp., 2013 WL 442774 (C.D. Ill. 2013): Noting that in the past, courts had applied a per se rule that barred preliminary injunctions in cases involving potential competitors who operated in distinct geographic locations. The court acknowledged that technological advances in media had expanded marketing channels and enhanced information sharing, but that geographic boundaries could still play an important role, depending on the nature of the business. In this case, both parties operated banks in separate states (one in Texas the other in Oklahoma) and also offered online banking services for their customers. But customers had to appear at a physical branch to set up an account in order to access the online banking services. Because customers had to first visit physical locations,
some of which were in Texas, and the other party’s in Oklahoma, there was not likely to be any confusion arising from the concurrent use.

F. Russell Road Food and Beverage, LLC v. Spencer, 2013 WL 321666 (D. Nev. Jan. 28, 2013). Both parties ran strip clubs with the name “Crazy Horse” in the title. The party who held a federal registration operated in Ohio and South Carolina, the other party operated in Las Vegas, Nevada. The mark holder sought a preliminary injunction against the Las Vegas operator. The court denied the motion, partly on the ground that the mark holder was not likely to show a likelihood of confusion. The court stated that the Sleekcraft factors (for likelihood of confusion) favored the mark holder, and thus that the case turned on the Dawn Donut defense. The defendant argued that the two areas were geographically distinct and that there was no likelihood of expansion into Las Vegas. Court said it boiled down to expansion. No evidence shown of this, such as leased premises or otherwise ready to begin sales, or licensing of the mark. No evidence of reputation in Las Vegas either. It also noted that this was a declaratory relief action, so the mark holders were not the first to file, but had only reacted to the other’s move.

G. Brothers of the Wheel M.C. Executive Council v. Mollohan, 909 F. Supp. 2d 506 (S.D. W. Va. 2012): Plaintiff owns the mark BROTHERS OF THE WHEEL, which was federally registered as a collective mark for a motorcycle organization. They sued a former member who was using the mark as part of his own motorcycle club. The defendant used the mark on several social media websites, including on his personal Facebook account. The defendant argued that injunctive relief should be limited to those areas where the plaintiff actually operated, namely Kentucky, Ohio, and West Virginia. Relying on Fourth Circuit precedent, which had in turn relied on Dawn Donut, the court agreed.

H. JL Beverage Co, LLC v. Beam, Inc., 899 F. Supp. 2d 991 (D. Nev. 2012): Plaintiff held federally registered logo marks comprising lips for alcoholic beverages. Defendant Jim Bean also produced alcoholic beverages and one line of vodka had a lip imprint on the bottle. The court walked through the Sleekcraft factors. When discussing the “marketing channels used,” the court addressed a Dawn Donut argument. Defendants argued that any injunction could only apply in those geographic areas where the
plaintiff actively sold its vodkas. The court held that *Dawn Donut* did not apply because the plaintiff distributed its beverages in 20 states, had a Federal Basic Alcohol Permit to sell in all 50 states, and was pursuing expansion of its product nationally.

I. **Wigglebutt Inn, Inc. v. Plan B Enters., LLC, 2012 WL 13098422 (M.D. Fla. July 11, 2012):** Plaintiff ran a boarding and daycare facility for dogs in Napes, Florida. It owned the federally registered mark THE WIGGLEBUTT INN. It also operated a website at [www.wigglebuttin.com](http://www.wigglebuttin.com). Defendant began using Wigglebutt Doghouse as its business name for the same type of services in Indianapolis, Indiana, and used the domain name [www.wigglebuttdoghouse.com](http://www.wigglebuttdoghouse.com). On a motion to dismiss, the defendant raised *Dawn Donut* as a ground for dismissing the complaint (under the rubric of lack of standing). The defendant stressed that the two types of businesses were strictly local and that the businesses depended on customers who lived within a 10-15 mile radius around their respective locations. The court felt that the plaintiff’s allegations in the complaint sufficed to defeat *Dawn Donut* at this stage, but it ultimately granted the motion to dismiss on other grounds.

J. **Rebel Debutante LLC v. Forsythe Cosmetic Group, Ltd., 799 F. Supp. 2d 558, 576 n.12 (M.D.N.C. 2011):** The plaintiff had a federally registered mark REBEL DEBUTANTE for apparel, publicized it nationwide, and had used the Internet to seek and obtain sales nationwide. Defendant used the term for nail polish. The court held the plaintiff’s activities were sufficient for a preliminary injunction. The court addressed *Dawn Donut* while addressing the multi-factors for confusion, specifically proximity of products. The court noted that *Dawn Donut* was a per se rule—that there could never be any likelihood of confusion (and thus any injunction would be inappropriate) so long as the parties operate in separate and distinct geographic markets. It also noted that the rule has been questioned as outdated, and that in some cases inappropriate where the businesses transcend local boundaries such as through use of the Internet.

K. **MetroPCS Wireless, Inc. v. Metro PCS Wireless, Inc., 2009 WL 10705874 (E.D.N.Y. Dec. 7, 2009):** Plaintiff federally registered METROPACS for telecommunications hardware and services, which it
marketed in several U.S. metropolitan areas, and advertised in various media outlets and on the Internet at www.metropcs.com. They had 4.8 million wireless subscribers nationwide, but they did not yet operate in New York, though they later did. Defendant operated a retail store under METRO PCS selling wireless devices and services in Kew Gardens, NY. The court rejected a Dawn Donut argument because evidence indicated that the registered mark holder would likely expand into the New York market.

L. Legacy Academy, Inc. v. LLC Concepts, L.P., 2007 WL 9711570 (N.D. Tex. 2007): Plaintiff federally registered LEGACY ACADEMY FOR CHILDREN for child care and educational centers in Georgia, Tennessee, Florida, and Alabama. They supposedly were interested in expanding by franchising in other states, and to Texas in particular. They had investigated possible properties in Texas. They advertised nationally, including franchise opportunities on Franchise Gator, a major national website on which potential franchisees may obtain information about franchise opportunities. It also advertised on its own website and purchased some tv ads, including in Dallas-Fort Worth. They thus alleged that they had a reputation in Texas. Defendants operated child care centers in Plano, Flower Mound, and Houston, Texas and call themselves Legacy Learning Center. Defendant moved for summary judgment on Dawn Donut grounds, namely that the plaintiff could not establish that they were likely to enter Defendant’s market. The court found there was a material issue of fact.
record disclose, on remand, that appellants are citizens of the same state as plaintiff-appellees, the action should be dismissed by the District Court for want of jurisdiction.

DAWN DONUT COMPANY, Inc., Plaintiff-Appellant,

v.

HART'S FOOD STORES, INC. and Starhart Bakeries, Inc., Defendants-Appellants.

No. 108, Docket 25110.

United States Court of Appeals
Second Circuit.

Argued Dec. 9, 1958.

Decided May 21, 1959.

Plaintiff, which had federally registered trade-marks “Dawn” and “Dawn Donut,” brought action against defendant, which used the mark “Dawn” in connection with a retail sale of doughnuts and baked goods in certain trade area, for infringement of trade-marks, and the defendant filed a counterclaim to cancel plaintiff’s registrations, on ground that plaintiff had abandoned its registrations. The District Court for the Western District of New York, Harold P. Burke, Chief Judge, entered judgment denying injunctive relief and dismissing the counterclaim, and both parties appealed. The Court of Appeals, Lumbar, Circuit Judge, held that plaintiff was not entitled to any relief under the Lanham Trade-Mark Act because there was no present likelihood that plaintiff would expand its retail use of its trade-marks into defendant’s market area, and that evidence sustained finding that there was no abandonment by plaintiff of its registrations, and that therefore defendant was not entitled to have plaintiff’s registrations of trade-marks cancelled.

Judgment affirmed.

Lumbar, Circuit Judge, dissented in part.

1. Trade-Marks and Trade-Names and Unfair Competition 

Failure of plaintiff to license its federally registered trade-marks in trading area of defendant during the 30-odd years that had elapsed since plaintiff licensed them to a third person in the area did not work an abandonment of plaintiff’s rights in the area. Lanham Trade-Mark Act, §§ 15, 22, 33(a, b), 45, 15 U.S.C.A. §§ 1065, 1072, 1115(a, b), 1127.

2. Trade-Marks and Trade-Names and Unfair Competition 

Section of the Lanham Trade-Mark Act, which provides for abandonment of a federally registered trade-mark, in certain cases of nonuse, applies when only registrant fails to use his mark, within the meaning of such section, anywhere in the nation. Lanham Trade-Mark Act, § 45, 15 U.S.C.A. § 1127.

3. Trade-Marks and Trade-Names and Unfair Competition 

Plaintiff, a wholesale distributor of doughnuts and other baked goods under its federally registered trade-marks “Dawn” and “Dawn Donut,” was not prevented by laches from enjoining defendant’s use of the mark “Dawn” on doughnuts and other baked and fried goods because about four years prior to commencement of infringement action plaintiff’s New York sales representative, who also represented several other companies besides plaintiff, called on defendant and observed boxes bearing the label “Dawn” on desk of defendant’s bakery manager, where the sales representative’s contacts with defendant were on behalf of companies other than plaintiff, since knowledge of sales representative would not be imputed to plaintiff. Lanham Trade-Mark Act, §§ 1 et seq., 32, 15 U.S.C.A. §§ 1051 et seq., 1114.
4. Principal and Agent \(\cong 178(1)\)
In order to impute knowledge of agent to principal in particular transaction, it must be shown that agent at some time had some duties to perform on behalf of principal with respect to the transaction, though agent need not have acquired its knowledge in connection with those duties.

5. Trade-Marks and Trade-Names and Unfair Competition \(\cong 97\)
If use of federally registered trade-marks by registrant and unauthorized user by junior user are confined to two sufficiently distinct and geographically separate markets, with no likelihood that registrant will expand his use into market of junior user, so that no public confusion is possible, then registrant is not entitled to enjoin junior user's use of the trade-mark. Lanham Trade-Mark Act, §§ 1 et seq., 32, 15 U.S.C.A. §§ 1051 et seq., 1114.

6. Trade-Marks and Trade-Names and Unfair Competition \(\cong 97\)
To sustain a claim by registrant of federally registered trade-mark for injunctive relief, registrant need not show that marks are actually being used concurrently in same trading area, and it is enough that expansion by registrant into market of junior user is likely in normal course of registrant's business. Lanham Trade-Mark Act, §§ 1 et seq., 32, 15 U.S.C.A. §§ 1051 et seq., 1114.

7. Trade-Marks and Trade-Names and Unfair Competition \(\cong 97\)
Plaintiff, which had federally registered trade-marks "Dawn" and "Dawn Donut," was not entitled under the provisions of the Lanham Trade-Mark Act to enjoin defendant from using the mark "Dawn" in connection with retail sale of doughnuts and baked goods in trading area, into which there was no present prospect that plaintiff would expand its use of its trade-marks at retail level, but plaintiff might later, on proper showing of intent to use trade-marks at retail level in defendant's market area, be entitled to enjoin defendant's use of the mark. Lanham Trade-Mark Act, §§ 1 et seq., 32, 15 U.S.C.A. §§ 1051 et seq., 1114.

8. Commerce \(\cong 8(1)\)
Since Congress clearly has the power under the commerce clause of the federal Constitution to afford protection to trade-marks used in interstate commerce, it is within the necessary and proper power of Congress under the Lanham Trade-Mark Act to preclude a local intra-state user from acquiring any right to the same mark. Lanham Trade-Mark Act, §§ 1 et seq., 32, 15 U.S.C.A. §§ 1051 et seq., 1114.

9. Trade-Marks and Trade-Names and Unfair Competition \(\cong 53\)
Where plaintiff did not register its federally registered trade-marks in New York, plaintiff was not entitled to relief under the section of the New York General Business Law allegedly providing for relief against dilution of a trade-mark, and plaintiff was therefore remitted to his common-law rights. General Business Law N.Y. §§ 368-c, 368-d.

10. Trade-Marks and Trade-Names and Unfair Competition \(\cong 53\)
Where plaintiff failed to introduce any evidence that use of its trade-marks in connection with retail sales had come to mean to retail purchasers in any part of the state that bakery goods were made from plaintiff's mixes, plaintiff was not entitled to common-law relief against dilution of its trade-marks in trade area in which plaintiff was not doing any retail business.

11. Trade-Marks and Trade-Names and Unfair Competition \(\cong 45\frac{1}{2}\)
The Lanham Trade-Mark Act places an affirmative duty on a licensor of a registered trade-mark to take reasonable measures to detect and prevent misleading uses of his trade-mark by his licensees or suffer cancellation of his federal registration. Lanham Trade-Mark Act, §§ 14, 45, 15 U.S.C.A. §§ 1064, 1127.

12. Trade-Marks and Trade-Names and Unfair Competition \(\cong 32\)
Under the Lanham Trade-Mark Act, controlled licensing by registrant of
trade-mark does not work an abandonment of the registration, while a system of naked licensing does work an abandonment. Lanham Trade-Mark Act, §§ 5, 14, 45, 15 U.S.C.A. §§ 1055, 1064, 1127.

13. Trade-Marks and Trade-Names and Unfair Competition

In action for infringement of federally registered trade-marks, wherein defendant filed a counterclaim for cancellation of plaintiff’s registrations, on ground that plaintiff’s method of licensing trade-marks violated the Lanham Trade-Mark Act and resulted in abandonment of the registrations, burden of proving abandonment was on defendants. Lanham Trade-Mark Act, §§ 5, 14, 45, 15 U.S.C.A. §§ 1055, 1064, 1127.

14. Trade-Marks and Trade-Names and Unfair Competition

In action for infringement of federally registered trade-marks, wherein defendant filed a counterclaim for cancellation of plaintiff’s registrations, on ground that plaintiff’s method of licensing trade-marks violated the Lanham Trade-Mark Act and resulted in abandonment of the registrations, evidence sustained finding that plaintiff exercised degree of control over the nature and quality of the products sold by its licensees, as required by the act, and that therefore there had been no abandonment by plaintiff of its registrations. Lanham Trade-Mark Act, §§ 5, 14, 45, 15 U.S.C. A. §§ 1055, 1064, 1127.

Townsend F. Beaman, Jackson, Mich. (Charles Shepard, Rochester, N. Y., on the brief), for plaintiff-appellant.

Justin L. Vigor, Rochester, N. Y. (MacFarlane, Harris, Martin, Kendall & Dutcher, Rochester, N. Y., on the brief), for defendants-appellees.

Before CLARK, Chief Judge, and HINCKS and LUMBARD, Circuit Judges.

LUMBARD, Circuit Judge.

The principal question is whether the plaintiff, a wholesale distributor of doughnuts and other baked goods under its federally registered trademarks “Dawn” and “Dawn Donut,” is entitled under the provisions of the Lanham Trade-Mark Act to enjoin the defendant from using the mark “Dawn” in connection with the retail sale of doughnuts and baked goods entirely within a six county area of New York State surrounding the city of Rochester. The primary difficulty arises from the fact that although plaintiff licenses purchasers of its mixes to use its trademarks in connection with the retail sales of food products made from the mixes, it has not licensed or otherwise exploited the mark at the retail level in defendant’s market area for some thirty years.

We hold that because no likelihood of public confusion arises from the concurrent use of the mark in connection with retail sales of doughnuts and other baked goods in separate trading areas, and because there is no present likelihood that plaintiff will expand its retail use of the mark into defendant’s market area, plaintiff is not now entitled to any relief under the Lanham Act, 15 U.S.C.A. § 1114. Accordingly, we affirm the district court’s dismissal of plaintiff’s complaint.

This is not to say that the defendant has acquired any permanent right to use the mark in its trading area. On the contrary, we hold that because of the effect of the constructive notice provision of the Lanham Act, should the plaintiff expand its retail activities into the six county area, upon a proper application and showing to the district court, it may enjoin defendant’s use of the mark.

With respect to defendant’s counterclaim to cancel plaintiff’s registration on the ground that its method of licensing its trademarks violates the Lanham Act, a majority of the court holds that the district court’s dismissal of defendant’s counterclaim should be affirmed. They conclude that the district court’s finding that the plaintiff exercised the degree of control over the nature and quality of the products sold by its licensees required by the Act was not clearly erroneous, particularly in view of the fact that the
defendant had the burden of proving its claim for cancellation. I dissent from this conclusion because neither the finding of the trial judge nor the undisputed evidence in the record indicates the extent of supervision and control actually exercised by the plaintiff.

We are presented here with cross-appeals from a judgment entered by the District Court for the Western District of New York dismissing both plaintiff's complaint for infringement of its federally registered trademarks and defendant's counterclaim to cancel plaintiff's federal registrations.

Plaintiff, Dawn Donut Co., Inc., of Jackson, Michigan since June 1, 1922 has continuously used the trademark "Dawn" upon 25 to 100 pound bags of doughnut mix which it sells to bakers in various states, including New York, and since 1935 it has similarly marketed a line of sweet dough mixes for use in the baking of coffee cakes, cinnamon rolls and oven goods in general under that mark. In 1950 cake mixes were added to the company's line of products. Dawn's sales representatives call upon bakers to solicit orders for mixes and the orders obtained are filled by shipment to the purchaser either directly from plaintiff's Jackson, Michigan plant, where the mixes are manufactured, or from a local warehouse within the customer's state. For some years plaintiff maintained a warehouse in Jamestown, New York, from which shipments were made, but sometime prior to the commencement of this suit in 1954 it discontinued this warehouse and has since then shipped its mixes to its New York customers directly from Michigan.

Plaintiff furnishes certain buyers of its mixes, principally those who agree to become exclusive Dawn Donut Shops, with advertising and packaging material bearing the trademark "Dawn" and permits these bakers to sell goods made from the mixes to the consuming public under that trademark. These display materials are supplied either as a courtesy or at a moderate price apparently to stimulate and promote the sale of plaintiff's mixes.

The district court found that with the exception of one Dawn Donut Shop operated in the city of Rochester, New York during 1926–27, plaintiff's licensing of its mark in connection with the retail sale of doughnuts in the state of New York has been confined to areas not less than 60 miles from defendant's trading area. The court also found that for the past eighteen years plaintiff's present New York state representative has, without interruption, made regular calls upon bakers in the city of Rochester, N. Y., and in neighboring towns and cities, soliciting orders for plaintiff's mixes and that throughout this period orders have been filled and shipments made of plaintiff's mixes from Jackson, Michigan into the city of Rochester. But it does not appear that any of these purchasers of plaintiff's mixes employed the plaintiff's mark in connection with retail sales.

The defendant, Hart Food Stores, Inc., owns and operates a retail grocery chain within the New York counties of Monroe, Wayne, Livingston, Genesee, Ontario and Wyoming. The products of defendant's bakery, Starhart Bakeries, Inc., a New York corporation of which it is the sole stockholder, are distributed through these stores, thus confining the distribution of defendant's product to an area within a 45 mile radius of Rochester. Its advertising of doughnuts and other baked products over television and radio and in newspapers is also limited to this area. Defendant's bakery corporation was formed on April 13, 1951 and first used the imprint "Dawn" in packaging its products on August 30, 1951. The district court found that the defendant adopted the mark "Dawn" without any actual knowledge of plaintiff's use or federal registration of the mark, selecting it largely because of a slogan "Baked at midnight, delivered at Dawn" which was originated by defendant's president and used by defendant in its bakery opera-
tions from 1929 to 1935. Defendant's president testified, however, that no investigation was made prior to the adoption of the mark to see if anyone else was employing it. Plaintiff's marks were registered federally in 1927, and their registration was renewed in 1947. Therefore by virtue of the Lanham Act, 15 U.S.C.A. § 1072, the defendant had constructive notice of plaintiff's marks as of July 5, 1947, the effective date of the Act.

Defendant's principal contention is that because plaintiff has failed to exploit the mark "Dawn" for some thirty years at the retail level in the Rochester trading area, plaintiff should not be accorded the exclusive right to use the mark in this area.¹

We reject this contention as inconsistent with the scope of protection afforded a federal registrant by the Lanham Act.

Prior to the passage of the Lanham Act courts generally held that the owner of a registered trademark could not sustain an action for infringement against another who, without knowledge of the registration, used the mark in a different trading area from that exploited by the registrant so that public confusion was unlikely. Hanover Star Milling Co. v. Metcalf, 1916, 240 U.S. 403, 36 S.Ct. 357, 60 L.Ed. 713; cf. White Tower System, Inc. v. White Castle System of Eating Houses Corporation, 6 Cir., 1937, 90 F.2d 67, certiorari denied, 1937, 302 U.S. 720, 58 S.Ct. 41, 82 L.Ed. 556; Note, Developments in the Law of Trade-Marks and Unfair Competition, 68 Harv.L.Rev. 814, 857-858 (1955). By being the first to adopt a mark in an area without knowledge of its prior registration, a junior user of a mark could gain the right to exploit the mark exclusively in that market.


That such is the purpose of Congress is further evidenced by 15 U.S.C.A. § 1115(a) and (b) which make the certificate of registration evidence of the registrant's "exclusive right to use the * * * mark in commerce."² "Commerce" is defined in 15 U.S.C.A. § 1127 to include all the commerce which may lawfully be regulated by Congress. These two provisions of the Lanham Act make it plain that the fact that the defendant employed the mark "Dawn," without actual knowledge of plaintiff's registration, at the retail level in a limited geographical area of New York state before the plaintiff used the mark in that market, does not entitle it either to exclude the plaintiff from using the mark in that area or to use the mark concurre-

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¹ Although the district court did not decide whether the marks as used by the parties were confusingly similar, the defendant argues that we should hold as a matter of law that they are not, but, as our opinion discloses, our view is to the contrary.

² 15 U.S.C.A. § 1115(a) provides that the certificate of a registered mark shall be "prima facie" evidence of the right of exclusive use and 15 U.S.C.A. § 1115(b) provides that if the mark has become incontestable, see 15 U.S.C.A. § 1065, the certificate shall be "conclusive" evidence of the right.
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rently once the plaintiff licenses the mark or otherwise exploits it in connection with retail sales in the area.

[1, 2] Plaintiff’s failure to license its trademarks in defendant’s trading area during the thirty odd years that have elapsed since it licensed them to a Rochester baker does not work an abandonment of the rights in that area. We hold that 15 U.S.C.A. § 1127, which provides for abandonment in certain cases of non-use,9 applies only when the registrant fails to use his mark, within the meaning of § 1127, anywhere in the nation. Since the Lanham Act affords a registrant nationwide protection, a contrary holding would create an insoluble problem of measuring the geographical extent of the abandonment. Even prior to the passage of the Lanham Act, when trademark protection flowed from state law and therefore depended on use within the state, no case, as far as we have been able to ascertain, held that a trademark owner abandoned his rights within only part of a state because of his failure to use the mark in that part of the state.


Accordingly, since plaintiff has used its trademark continuously at the retail level, it has not abandoned its federal registration rights even in defendant’s trading area.

[3] We reject defendant’s further claim that plaintiff is prevented by laches from enjoining defendant’s use of the mark “Dawn” upon doughnuts and other baked and fried goods. Defendant argues that plaintiff’s New York sales representative, one Jesse Cohn, who also represented several other companies besides plaintiff, called upon defendant on a monthly basis, and that about four years prior to the commencement of this law suit he observed boxes bearing the label “Dawn” on the desk of one Jack Solomon.

3. 15 U.S.C.A. § 1127 provides: “A mark shall be deemed to be ‘abandoned’—

“(a) When its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. Nonuse for two consecutive years shall be prima facie abandonment.

“(b) When any course of conduct of the registrant, including acts of omission as well as commission, causes the mark to lose its significance as an indication of origin.”
right to use its registered trademarks in defendant's trading area.

Accordingly, we turn to the question of whether on this record plaintiff has made a sufficient showing to warrant the issuance of an injunction against defendant's use of the mark "Dawn" in a trading area in which the plaintiff has for thirty years failed to employ its registered mark.

[5, 6] The Lanham Act, 15 U.S.C.A. § 1114, sets out the standard for awarding a registrant relief against the unauthorized use of his mark by another. It provides that the registrant may enjoin only that concurrent use which creates a likelihood of public confusion as to the origin of the products in connection with which the marks are used. Therefore if the use of the marks by the registrant and the unauthorized user are confined to two sufficiently distinct and geographically separate markets, with no likelihood that the registrant will expand his use into defendant’s market, so that no public confusion is possible, then the registrant is not entitled to enjoin the junior user's use of the mark. See, Fairway Foods, Inc. v. Fairway Markets, Inc., 9 Cir., 1955, 227 F.2d 193; Note, Developments in the Law of Trade-Marks and Unfair Competition, 68 Harv. L.Rev. 814, 857-60 (1955); cf. Sterling Brewery, Inc. v. Cold Springs Brewing Corp., supra.

As long as plaintiff and defendant confine their use of the mark "Dawn" in connection with the retail sale of baked goods to their present separate trading areas it is clear that no public confusion is likely.

The district court took note of what it deemed common knowledge, that "retail purchasers of baked goods, because of the perishable nature of such goods, usually make such purchases reasonably close to their homes, say within about 25 miles, and retail purchases of such goods beyond that distance are for all practical considerations negligible." No objection is made to this finding and nothing appears in the record which contradicts it as applied to this case.

Moreover, we note that it took plaintiff three years to learn of defendant's use of the mark and bring this suit, even though the plaintiff was doing some wholesale business in the Rochester area. This is a strong indication that no confusion arose or is likely to arise either from concurrent use of the marks at the retail level in geographically separate trading areas or from its concurrent use at different market levels, viz. retail and wholesale in the same area.

The decisive question then is whether plaintiff's use of the mark "Dawn" at the retail level is likely to be confined to its current area of use or whether in the normal course of its business, it is likely to expand the retail use of the mark into defendant's trading area. If such expansion were probable, then the concurrent use of the marks would give rise to the conclusion that there was a likelihood of confusion.

The district court found that in view of the plaintiff's inactivity for about 4. To sustain a claim for injunctive relief, the plaintiff need not show that the marks are actually being used concurrently in the same trading area. Since the statutory standard for the invocation of injunctive relief is the likelihood of confusion, it is enough that expansion by the registrant into the defendant's market is likely in the normal course of its business. Even prior to the passage of the Lanham Act the courts held that the second user of a mark was not entitled to exclude the registered owner of the mark from using it in a territory which the latter would probably reach in the normal expansion of his business. See Hanover Star Milling Co. v. Metcalf, 1916, 240 U.S. 403, 36 S.Ct. 357, 60 L.Ed. 713; White Tower System, Inc. v. White Castle System of Eating Houses Corporation, 6 Cir., 1937, 90 F.2d 67, certiorari denied, 1937, 302 U.S. 720, 58 S.Ct. 41, 82 L.Ed. 556; Note, 68 Harv.L.Rev. 814, 837 (1955). Certainly, under the Lanham Act, evincing a congressional purpose to afford a registrant nationwide protection, the subsequent user is not entitled to any greater immunity.
thirty years in exploiting its trademarks in defendant's trading area at the retail level either by advertising directed at retail purchasers or by retail sales through authorized licensed users, there was no reasonable expectation that plaintiff would extend its retail operations into defendant's trading area. There is ample evidence in the record to support this conclusion and we cannot say that it is clearly erroneous.

We note not only that plaintiff has failed to license its mark at the retail level in defendant's trading area for a substantial period of time, but also that the trend of plaintiff's business manifests a striking decrease in the number of licensees employing its mark at the retail level in New York state and throughout the country. In the 1922–1930 period plaintiff had 75 to 80 licensees across the country with 11 located in New York. At the time of the trial plaintiff listed only 16 active licensees not one of which was located in New York.5

The normal likelihood that plaintiff's wholesale operations in the Rochester area would expand to the retail level is fully rebutted and overcome by the decisive fact that plaintiff has in fact not licensed or otherwise exploited its mark at retail in the area for some thirty years.

[7] Accordingly, because plaintiff and defendant use the mark in connection with retail sales in distinct and separate markets and because there is no present prospect that plaintiff will expand its use of the mark at the retail level into defendant's trading area, we conclude that there is no likelihood of public confusion arising from the concurrent use of the marks and therefore the issuance of an injunction is not warranted. A fortiori plaintiff is not entitled to any accounting or damages. However, because of the effect we have attributed to the constructive notice pro-

[8] Since we have held that upon a proper subsequent showing the plaintiff may be entitled to injunctive relief, it is appropriate that we answer here the defendant's argument that such relief is beyond the constitutional reach of Congress because the defendant uses the mark only in intrastate commerce. Clearly Congress has the power under the commerce clause to afford protection to marks used in interstate commerce. That being so, the only relevant question is whether the intrastate activity forbidden by the Act is "sufficiently substantial and adverse to Congress' paramount policy declared in the Act. * * *" Mandeville Island Farms, Inc. v. American Crystal Sugar Co., 1948, 334 U.S. 219, 234, 68 S.Ct. 996, 1005, 92 L.Ed. 1328. The answer to such an inquiry seems plain in this case. If a registrant's right to employ its trademark were subject within every state's borders to preemption or concurrent use by local business, the protection afforded a registrant by the Lanham Act would be rendered virtually meaningless. Therefore we think it is within Congress' "necessary and proper" power to preclude a local intrastate user from acquiring any right to use the same mark. See Lorain Journal Co. v. United States, 1951, 342 U.S. 143, 152, 72 S.Ct. 181, 96 L.Ed. 162; Wickard v. Filburn, 1942, 317 U.S. 111, 63 S.Ct. 82, 87 L.Ed. 122; cf. also, Lyon v. Quality Courts United, Inc., 6 Cir., 1957, 249 F.2d 790, 795; Iowa Farmers Union v. Farmers' Educational & Coop. Union, 8 Cir., 1957, 247 F.2d 809, 815–816; Pure Foods, Inc. v. Minute Maid Corp., 6 Cir., 1954, 214 F.2d 792, 795–796.

Plaintiff also asserts a right to injunctive relief based upon state law.

5. One bakery shop, located in Potsdam, N. Y., which is approximately 200 miles from Rochester, applied for a license franchise after the commencement of this litigation.
Plaintiff maintains that under the law of New York injunctive relief against trademark infringement has been granted to prevent the likelihood of dilution of the distinctive quality of the trademark, even in the absence of competition and confusion. Judge Weinfeld has said that the underlying rationale of this so-called dilution doctrine "is that the gradual diminution or whittling away of the value of a trademark, resulting from extensive use by another of a mark identical or similar to that of the senior user, constitutes an invasion of the senior user's property right in his trademark and gives right to actionable wrong. The wrong, under this theory, is not dependent upon a showing of competitive relationship of the products or the likelihood of confusion." G. B. Kent & Sons, Limited v. P. Lorillard Co., D.C.S.D.N.Y. 1953, 114 F.Supp. 621, 630, affirmed per curiam, 2 Cir., 1954, 210 F.2d 553.

[9] Section 368-c of New York's General Business Law may provide relief against dilution of a trademark but plaintiff has not registered its mark in New York and the first sentence of § 368-c limits protection therein provided to owners of marks registered under New York law. Plaintiff is therefore remitted to his common law rights. Section 368-d of the General Business Law.

Although at common law New York courts on occasion have granted injunctive relief in the absence of direct competition, plaintiff has cited us no New York case which has awarded such relief in a situation comparable to the one presented here. We think that most of the New York decisions which may appear to afford such protection may be distinguished for the reasons advanced in G. B. Kent & Sons, Limited v. P. Lorillard Co., supra, 114 F.Supp. at pages 630-631.

[10] But even if New York common law afforded trademarks protection from the mere fact of concurrent use by another, such relief would be provided only in the case of a mark which has a well established secondary meaning with the consuming public within the state. Cf. Tiffany & Co. v. Tiffany Productions, Inc., 147 Misc. 679, 264 N.Y.S. 459, affirmed 1 Dept., 1932, 237 App.Div. 801, 260 N.Y.S. 821, affirmed 1933, 262 N.Y. 482, 188 N.E. 30. See also Food Fair Stores, Inc. v. Food Fair, Inc., 1 Cir., 1951, 177 F.2d 177, 185. Here plaintiff has failed to introduce any evidence that the use of its mark in connection with retail sales had come to mean to retail purchasers in the Rochester area or in any part of New York State that the goods were made from its mixes. Accordingly, we find no basis for affording plaintiff injunctive relief at this time.

The final issue presented is raised by defendant's appeal from the dismissal of its counterclaim for cancellation of plaintiff's registration on the ground that the plaintiff failed to exercise the control required by the Lanham Act over the nature and quality of the goods sold by its licensees.

[11] We are all agreed that 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. The Act, 15 U.S. C.A. § 1064, provides that a trademark registration may be cancelled because the trademark has been "abandoned." And "abandoned" is defined in 15 U.S. C.A. § 1127 to include any act or omission by the registrant which causes the trademark to lose its significance as an indication of origin.

Prior to the passage of the Lanham Act many courts took the position that the licensing of a trademark separately from the business in connection with which it had been used worked an abandonment. Reddy Kilowatt, Inc. v. Mid-Carolina Electric Cooperative, Inc., 4 Cir., 1957, 240 F.2d 282, 289; American Broadcasting Co. v. Wahl Co., 2 Cir., 1941, 121 F.2d 412, 413; Everett O. Fisk & Co. v. Fisk Teachers' Agency, Inc., 8 Cir., 1924, 3 F.2d 7, 9. The theory of these cases was that:

"A trade-mark is intended to identify the goods of the owner and to
safeguard his good will. The designation if employed by a person other than the one whose business it serves to identify would be misleading. Consequently, 'a right to the use of a trade-mark or a trade-name cannot be transferred in gross.'” American Broadcasting Co. v. Wahl Co., supra, 121 F.2d at page 413.

Other courts were somewhat more liberal and held that a trademark could be licensed separately from the business in connection with which it had been used provided that the licensor retained control over the quality of the goods produced by the licensee. E. I. DuPont de Nemours & Co. v. Celanese Corporation of America, 1948, 167 F.2d 484, 35 CC PA 1061, 3 A.L.R.2d 1213; see also 3 A.L.R.2d 1226, 1277–1282 (1949) and cases there cited. But even in the DuPont case the court was careful to point out that naked licensing, viz. the grant of licenses without the retention of control, was invalid. E. I. DuPont de Nemours & Co. v. Celanese Corporation of America, supra, 167 F.2d at page 489.

[12] The Lanham Act clearly carries forward the view of these latter cases that controlled licensing does not work an abandonment of the licensor’s registration, while a system of naked licensing does. 15 U.S.C.A. § 1055 provides:

"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."

And 15 U.S.C.A. § 1127 defines “related company” to mean “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.”

Without the requirement of control, the right of a trademark owner to license his mark separately from the business in connection with which it has been used would create the danger that products bearing the same trademark might be of diverse qualities. See American Broadcasting Co. v. Wahl Co., supra; Everett O. Fisk & Co. v. Fisk Teachers’ Agency, Inc., supra. If the licensor is not compelled to take some reasonable steps to prevent misuses of his trademark in the hands of others the public will be deprived of its most effective protection against misleading uses of a trademark. The public is hardly in a position to uncover deceptive uses of a trademark before they occur and will be at best slow to detect them after they happen. Thus, unless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly deceived will be increased and this is precisely what the Act is in part designed to prevent. See Sen. Report No. 1333, 79th Cong., 2d Sess. (1946). Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.

[13, 14] The critical question on these facts therefore is whether the plaintiff sufficiently policed and inspected its licensees’ operations to guarantee the quality of the products they sold under its trademarks to the public. The trial court found that: “By reason of its contacts with its licensees, plaintiff exercised legitimate control over the nature and quality of the food products on which plaintiff’s licensees used the trademark ‘Dawn.’ Plaintiff and its licensees are related companies within the meaning of Section 45 of the Trademark Act of 1946.” It is the position of the majority of this court that the trial judge has the same leeway in determining what constitutes a reasonable degree of supervision and control over licensees under the facts and circumstances of the par-
ticular case as he has on other questions of fact; and particularly because it is the defendant who has the burden of proof on this issue they hold the lower court's finding not clearly erroneous.

I dissent from the conclusion of the majority that the district court's findings are not clearly erroneous because while it is true that the trial judge must be given some discretion in determining what constitutes reasonable supervision of licensees under the Lanham Act, it is also true that an appellate court ought not to accept the conclusions of the district court unless they are supported by findings of sufficient facts. It seems to me that the only findings of the district judge regarding supervision are in such general and conclusory terms as to be meaningless. In the absence of supporting findings or of undisputed evidence in the record indicating the kind of supervision and inspection the plaintiff actually made of its licensees, it is impossible for us to pass upon whether there was such supervision as to satisfy the statute. There was evidence before the district court in the matter of supervision, and more detailed findings thereon should have been made.

Plaintiff's licensees fall into two classes: (1) those bakers with whom it made written contracts providing that the baker purchase exclusively plaintiff's mixes and requiring him to adhere to plaintiff's directions in using the mixes; and (2) those bakers whom plaintiff permitted to sell at retail under the "Dawn" label doughnuts and other baked goods made from its mixes although there was no written agreement governing the quality of the food sold under the Dawn mark.

The contracts that plaintiff did conclude, although they provided that the purchaser use the mix as directed and without adulteration, failed to provide for any system of inspection and control. Without such a system plaintiff could not know whether these bakers were adhering to its standards in using the mix or indeed whether they were selling only products made from Dawn mixes under the trademark "Dawn."

The absence, however, of an express contract right to inspect and supervise a licensee's operations does not mean that the plaintiff's method of licensing failed to comply with the requirements of the Lanham Act. Plaintiff may in fact have exercised control in spite of the absence of any express grant by licensees of the right to inspect and supervise.

The question then, with respect to both plaintiff's contract and non-contract licensees, is whether the plaintiff in fact exercised sufficient control.

Here the only evidence in the record relating to the actual supervision of licensees by plaintiff consists of the testimony of two of plaintiff's local sales representatives that they regularly visited their particular customers and the further testimony of one of them, Jesse Cohn, the plaintiff's New York representative, that "in many cases" he did have an opportunity to inspect and observe the

6. On cross-examination plaintiff's president conceded that during 1949 and 1950 the company in some instances, the number of which is not made clear by his testimony, distributed its advertising and packaging material to bakers with whom it had not reached any agreement relating to the quality of the goods sold in packages bearing the name "Dawn." It also appears from plaintiff's list of the 16 bakers who were operating as exclusive Dawn shops at the time of the trial that plaintiff's contract with 3 of these shops had expired and had not been renewed and that in the case of 2 other such shops the contract had been renewed only after a substantial period of time had elapsed since the expiration of the original agreement. The record indicates that these latter 2 bakers continued to operate under the name "Dawn" and purchase "Dawn" mixes during the period following the expiration of their respective franchise agreements with the plaintiff. Particularly damaging to plaintiff is the fact that one of the 2 bakers whose franchise contracts plaintiff allowed to lapse for a substantial period of time has also been permitted by plaintiff to sell doughnuts made from a mix other than plaintiff's in packaging labeled with plaintiff's trademark.
operations of his customers. The record does not indicate whether plaintiff's other sales representatives made any similar efforts to observe the operations of licensees.

Moreover, Cohn's testimony fails to make clear the nature of the inspection he made or how often he made one. His testimony indicates that his opportunity to observe a licensee's operations was limited to "those cases where I am able to get into the shop" and even casts some doubt on whether he actually had sufficient technical knowledge in the use of plaintiff's mix to make an adequate inspection of a licensee's operations.

The fact that it was Cohn who failed to report the defendant's use of the mark "Dawn" to the plaintiff casts still further doubt about the extent of the supervision Cohn exercised over the operations of plaintiff's New York licensees.

Thus I do not believe that we can fairly determine on this record whether plaintiff subjected its licensees to periodic and thorough inspections by trained personnel or whether its policing consisted only of chance, cursory examinations of licensees' operations by technically untrained salesmen. The latter system of inspection hardly constitutes a sufficient program of supervision to satisfy the requirements of the Act.

Therefore it is appropriate to remand the counterclaim for more extensive findings on the relevant issues rather than hazard a determination on this incomplete and uncertain record. I would direct the district court to order the cancellation of plaintiff's registrations if it should find that the plaintiff did not adequately police the operations of its licensees.

But unless the district court finds some evidence of misuse of the mark by plaintiff in its sales of mixes to bakers at the wholesale level, the cancellation of plaintiff's registration should be limited to the use of the mark in connection with sale of the finished food products to the consuming public. Such a limited cancellation is within the power of the court. Section 1119 of 15 U.S.C.A. specifically provides that "In any action involving a registered mark the court may order the cancellation of registrations, in whole or in part, Moreover, partial cancellation is consistent with § 1051(a) (1) of 15 U.S.C.A., governing the initial registration of trademarks which requires the applicant to specify "the goods in connection with which the mark is used and the mode or manner in which the mark is used in connection with such goods"

The district court's denial of an injunction restraining defendant's use of the mark "Dawn" on baked and fried goods and its dismissal of defendant's counterclaim are affirmed.

Gertrude SMITH, Petitioner,

v.

RAILROAD RETIREMENT BOARD,

Respondent.

No. 17498.

United States Court of Appeals
Fifth Circuit.
May 19, 1959.

Petition for review of a decision of the Railroad Retirement Board determining that the petitioner was ineligible for a widow's annuity under the Railroad Retirement Act. The United States Court of Appeals, Jones, Circuit Judge, held that the evidence sustained the decision of the Board on the ground that the widow was not living with the deceased at the time of his death.

Affirmed.