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UP TO PAR: GUARANTEEING THE RIGHT OF QUALITY CONTROL IN THE GOLF BALL REFURBISHMENT INDUSTRY

James Karins*

I. INTRODUCTION

From knockoff Rolexes to Chanel bags, New York City's Canal Street has been the home of counterfeit goods since the 1980's.¹ Merchants who pass these products off as genuine are often subject to criminal penalties.² A loophole in the law, however, has given a subtler practice of trademark infringement for refurbishment the stamp of judicial approval.³ Suppose the "100% authentic" watches had once been a genuine Rolex, but the exterior was scratched and the interior machinery needed tuning. To avoid the expense of tuning the watch up to Rolex's standards, the street vendor replaces the interior machinery with that of a far inferior watch. The street vendor then sells the final product as a "used" Rolex with Rolex's trademarks affixed. They tell customers that the watch has been refurbished. Assuming the vendor means that the exterior has been cleaned and polished, the customer purchases the watch under the assumption that it will still function as a used Rolex should. To the customer's dismay, it is impossible to see the watch's true defects and its performance woefully disappoints. Once Rolex discovers what the vendor has been doing, they sue to enjoin this practice. After litigating their case, the judge finds no issue with what the vendor has been doing.

Unfortunately, high-end golf ball manufacturers have found themselves in this exact situation.⁴ They have honed their craft for decades, producing the highest quality products, only to have their trademark rights judicially stripped.⁵ This note will highlight trademark rights issues that have arisen in the golf ball refurbishment industry. Refurbishment companies, also referred to as remanufacturing companies,⁶ have been violating original manufacturer's trademark rights for years.⁷ To illustrate this phenomenon, this note centers upon the Federal Circuit decision *Nitro Leisure Products, L.L.C. v. Acushnet*.⁸ The court

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¹ Alice Hines, *Knockoff: Another Day at the Office – on Canal Street with Counterfeit Vendors*, THE VILLAGE VOICE (May 18, 2016), <https://www.villagevoice.com/2016/05/18/knockoff-another-day-at-the-office-on-canal-street-with-counterfeit-vendors/>.

² *Id.* (Nine hundred and sixty-seven people were arrested for misdemeanor trademark counterfeiting in the precincts surrounding Canal Street in 2008 alone, with 257 arrests more recently in 2015).

³ *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356, 1362 (F. Cir. 2003).

⁴ *Id.* at 1358-59.

⁵ *See id.* at 1365, 1369-70; *see also* ACUSHNET HOLDINGS CORP., <https://www.acushnetholdingscorp.com> (last visited Sept. 7, 2019).

⁶ REMANUFACTURING INDUSTRIES COUNCIL, <http://www.remanouncil.org/> (last visited Sept. 10, 2019).

⁷ Third Amended Complaint, *Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356 (F. Cir. 2003) (No. 02-14008) (explaining that the business of recycling and refurbishing golf balls has existed within the United States for decades).

⁸ *Nitro Leisure Products*, 341 F.3d 1356.

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adopted the improper *Champion* standard as opposed to the *Davidoff* standard.⁹ The case was wrongly decided against the principles of trademark law. It eviscerates a trademark's value, and thus sets dangerous precedent for the refurbishment industry as a whole.¹⁰ The *Nitro* decision allows refurbishment companies to profit off of the good will cultivated by trademark owners.¹¹ Its legal and financial ramifications affect other remanufacturing industries.¹² The Federal Circuit erroneously relied on an outdated Supreme Court decision, *Champion*, despite defendant Nitro's clear violation of the rule set forth in that case.¹³ The Court should have relied on the rule set forth in *Davidoff* which more adequately addresses the issues presented by the modern refurbishing industry.¹⁴

The *Davidoff* rule comports with the principles of trademark law more neatly than *Champion*.¹⁵ This rule was most applicable to the *Nitro* case, because the existing *Champion* rule does not protect the right to quality control. Therefore, an amendment to the Lanham Act is necessary.¹⁶ My proposed amendment will be twofold: first, it will follow *Davidoff's* rule specifying when a trademark may remain affixed to a refurbished product using the material difference test.¹⁷ Second, it will require refurbishment companies to obtain a licensing agreement before re-affixing the original trademarks to remanufactured products that are materially different.¹⁸

⁹ See *id.* at 1366, 1369 (Newman J. dissenting); see also Michael A. Goldstein, *Time for A Mulligan? How A Questionable 2003 Federal Circuit Decision Has Prompted A Need for Reform in the Refurbishing Industry*, 22 FED. CIRCUIT B.J. 245, 260-261 (2012).

¹⁰ See Goldstein, *supra* note 9, at 259-260.

¹¹ See 1 J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition*, §§ 2:15, 2:22 (5th ed. 2019) (McCarthy finds that trademarks are a symbol of good will. This good will is inseparable from the mark, and trademark remedies are designed to protect the mark as well as the good will attached to it). See J. Thomas McCarthy, *McCarthy on Trademarks and Unfair Competition, About the Author* (5th ed.) (J. Thomas McCarthy is a Professor Emeritus at the University of San Francisco School of Law, has written and taught in the field of trademarks and unfair competition for over 50 years, and was a member of the A.L.I. Advisory Committee involved in drafting the 1995 Restatement of the Law of Unfair Competition).

¹² See REMANUFACTURING INDUSTRIES COUNCIL, *supra* note 6 (estimating that the United States produces more than 45 billion dollars of remanufactured goods per year and that remanufacturing could generate £75 billion by 2030); see also John Chalifoux, *Remanufacturing Industry Briefing*, U.S. DEPARTMENT OF COMMERCE AND THE STANDARDS ALLIANCE (Dec. 7, 2016) https://share.ansi.org/Shared%20Documents/Standards%20Activities/International%20Standardization/Standards%20Alliance/ANDEAN_Mexican%20Delegation%20Visit/Powerpoints/Day%203/MEMA/Remanufacturing%20Industry%20Briefing_12-07-2016.pdf ("U.S. production of remanufactured goods...totaled at least USD 43.0 billion in 2011.").

¹³ *Champion Spark Plug Co. v. Sanders*, 331 U.S. 125, 129 (1947); see also *Brief for Defendant-Appellant, Nitro Leisure Products, L.L.C. v. Acushnet Co.*, 341 F.3d 1356 (F. Cir. 2003) (No. 02-1572) (Acushnet correctly argued in its brief for the Federal Circuit that the exceptions from the *Champion* rule were met).

¹⁴ *Davidoff & CIE, S.A. v. PLD Intern. Corp.*, 263 F.3d 1297 (11th Cir. 2001).

¹⁵ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356 (Newman, J. dissenting).

¹⁶ See Lanham Act, 15 U.S.C.A. §§ 1051-1127 (West 2018) (The Lanham Act governs trademark law in the United States).

¹⁷ See *Davidoff*, 263 F.3d 1297.

¹⁸ Part of the amendment should include a provision by which refurbishment companies may obtain a compulsory license from the trademark holder to further the licensor and licensee's business interests.

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II. BACKGROUND ON GOLF BALL REFURBISHMENT AND TRADEMARK LAW PRINCIPLES

A. Background on Refurbishing

Approximately 100 million golf balls are lost around golf courses every year.¹⁹ These golf balls are salvaged by golf ball divers or collectors,²⁰ and then the balls are either cleaned or refurbished.²¹ Major golf ball manufacturers have no issue with washing and reselling used golf balls; their concern arises with the refurbishing process.²² Secondhand companies, such as Nitro, use chemicals to strip away the outer layers of the golf ball.²³ Then, without the original manufacturer's permission or oversight, they refinish the ball with paint and clear coat before re-affixing the original trademark on the golf ball.²⁴ Golf ball manufacturers know that their products are carefully crafted goods, so even slight alterations to the exterior of the balls create "vastly different goods."²⁵

After cleaning or reconstruction, the balls are typically sorted by brand or condition then resold.²⁶ Some ball collectors sell wholesale to large refurbishment companies, while others resell the golf balls themselves on auction websites like eBay.²⁷ Other refurbishing companies refurbish golf balls and sell them online in greater quantities.²⁸ In an industry that generates \$200 million annually, refurbishment companies stand to tremendously profit.²⁹ However, high-end golf ball producers like Acushnet, the owner of Titleist, are particularly vulnerable.³⁰ Their products typically retail for \$2 each after refurbishment,³¹ whereas average golf balls retail for about 70 cents.³²

¹⁹ See Josh Sens, *Diving for Used Golf Balls, the Most Dangerous Job in Golf*, GOLF.COM (Jan. 21, 2013), <https://www.golf.com/tour-and-news/divers-make-living-diving-used-golf-balls-golf-courses/2/>.

²⁰ *Id.* (Sens follows a golf ball collector who uses scuba gear to collect balls lost in water hazards. This type of collector is often referred to as a "diver." Divers can even earn a six-figure salary).

²¹ See *Brief for Defendant-Appellant, Nitro Leisure Products, L.L.C.*, 341 F.3d 1356 (F. Cir. 2003) (No. 02-1572) 2002 WL 34579558.

²² *Id.*

²³ *Id.*

²⁴ *Id.*

²⁵ *Id.* (Nitro's processes for refurbishing golf balls was "wholly unacceptable under Acushnet's established quality standards," and "Nitro's process imparts characteristics Acushnet never gave the balls and never intended the balls to have.").

²⁶ See Steve Gillman, *You Won't Believe How Much Money You Can Earn by Collecting Used Golf Balls*, THE PENNY HOARDER (June 17, 2014), <https://www.thepennyhoarder.com/make-money/side-gigs/wont-believe-much-can-earn-collecting-lost-golf-balls/>.

²⁷ *Id.*

²⁸ See LOSTGOLFBALLS.COM, <https://www.lostgolfballs.com/> (last visited Oct. 1, 2018); see also ROCKBOTTOMGOLF.COM, <https://www.rockbottomgolf.com/> (last visited Oct. 1, 2018).

²⁹ Gillman, *supra* note 26, at 1.

³⁰ See TITLEIST, <https://www.titleist.com/my-titleist/golf-balls> (last visited Sept. 7, 2019).

³¹ Sens, *supra* note 19, at 2.

³² Gillman, *supra* note 26, at 2.

B. Trademark Law Principles and The Lanham Act

Trademarks are a universal legal phenomenon because almost every nation in the world recognizes some form of identification of the source and quality of goods.³³ Unlike patents and copyrights, federal trademark law does not preempt state law.³⁴ Lanham Act governs trademark law in the United States, which provides a wealth of substantive and procedural rights.³⁵ It defines trademarks as any words, names, symbols, or devices used in commerce to identify the source of the goods and to distinguish their goods from those sold or manufactured by others.³⁶ The Act has two basic goals.³⁷ First, to inspire consumer confidence in the reputation of a mark.³⁸ Second, to protect the owner's property rights in a mark from misappropriation when they spend time, energy and money on developing the mark and the quality of the product for which it stands.³⁹

In order to register with the United States Patent and Trademark Office ("PTO"), the following five criteria must be met:⁴⁰ (1) The mark must qualify as a trademark under the Lanham Act's definition,⁴¹ (2) the mark must have been "used in commerce,"⁴² (3) the mark must have been attached to or included with the goods,⁴³ (4) the applicant must provide the PTO with certain facts,⁴⁴ and (5) the mark cannot fall within one of the statutory bars.⁴⁵ Because trademarks must be distinguishable from others, marks must be categorized by their strength to determine the appropriate level of protection.⁴⁶ Stronger marks are entitled to a greater degree of legal protection.⁴⁷ Marks are classified as generic, descriptive, suggestive, arbitrary or fanciful.⁴⁸ Suggestive, arbitrary and fanciful marks are inherently distinctive.⁴⁹ Fanciful marks are created for the sole purpose of functioning as a trademark, and have no

³³ 1 McCarthy, *supra* note 11, § 2:6.

³⁴ 3 McCarthy, *supra* note 11, § 22:1.

³⁵ 15 U.S.C.A. §§ 1051-1127.

³⁶ *Id.*, § 1127.

³⁷ *See* 1 McCarthy, *supra* note 11, §§ 2:2, 11:27.

³⁸ *See* 1 McCarthy, *supra* note 11, § 2:2.

³⁹ *Id.*

⁴⁰ *See* 3 McCarthy, *supra* note 11, § 19:10.

⁴¹ *Id.*

⁴² *Id.* § 19:108 ("Used in commerce" means the goods were part of a bona fide sale in interstate commerce. The sale cannot be a "token" sale made with the intent to reserve trademark rights).

⁴³ *Id.* (The mark may also be included on a display near the goods).

⁴⁴ *See id.* § 19:10 (These facts include but are not limited to: the mark's first date of use, the goods it is used on, and a drawing of the mark); *see also* 15 U.S.C.A. § 1051(a)(2).

⁴⁵ 15 U.S.C.A. § 1052 (Statutory bars are listed). Parts of subsection (a) have been held unconstitutional; *see* *Matal v. Tam* 137 S.Ct. 1744 (2017) (invalidating subsection (a)'s disparagement clause).

⁴⁶ *See* *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (1992).

⁴⁷ *See* 2 McCarthy, *supra* note 11, §§ 11:4, 11:73 (The stronger the mark, the more likely encroachment on the mark will constitute infringement).

⁴⁸ *See* *Two Pesos*, 505 U.S. at 774 (Generic marks, which refer to the "genus of which the particular product is a species," are not registerable. Descriptive marks are generally not entitled to protection but may qualify if they acquire distinctiveness).

⁴⁹ *See* 2 McCarthy, *supra* note 11, § 11:4 (An "arbitrary mark" is a word that is commonly used in the language but does not suggest the quality of the goods (i.e. "Apple" for computers). "Suggestive" marks are those which suggest, but do not directly describe the goods).

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meaning aside from acting as the mark.⁵⁰ They are entitled to the highest degree of legal protection.⁵¹ Owners of trademarks that fail to protect their mark from infringement run the risk of losing future protection because courts deem unprotected marks as “abandoned.”⁵² Abandoned marks are not protected because their use is deemed generic.⁵³

Trademarks symbolize the good will attached to a product by the mark’s owner.⁵⁴ This good will is inseparable from the mark, and trademark remedies are designed to protect the mark as well as the good will attached to it.⁵⁵ Further, the presence of a trademark ordinarily indicates to consumers that the mark owner has concluded the goods are of sufficient quality to bear the mark.⁵⁶

One of the most valuable and important protections afforded by the Lanham Act is the right to control the quality of the goods manufactured and sold under the holder’s trademark. For this purpose[,] the actual quality of the goods is irrelevant; it is the control of quality that a trademark holder is entitled to maintain.⁵⁷

A trademark is one of the most essential sticks in the bundle of property because it is the right to exclude others from using the mark.⁵⁸ In fact, one of the Lanham Act’s fundamental goals is to prevent mark owners from losing control over goods bearing their trademark.⁵⁹

C. Types of Infringement

In the remanufacturing context, refurbishment companies are subject to liability for goods bearing the original manufacturer’s trademark, if the goods are (1) refurbished and do not comport with the original manufacturer’s standards, and (2) are likely to confuse consumers about whether the original manufacturer approved of the good’s quality.⁶⁰ The Restatement (Third) of Unfair Competition (the “Restatement”) refers to these products as “counterfeit goods.”⁶¹

⁵⁰ See *Strength of Trademarks*, BITLAW, <https://www.bitlaw.com/trademark/degrees.html> (last visited Sep. 14, 2018).

⁵¹ See *John H. Harland Co. v. Clark Checks, Inc.*, 711 F.2d 966 (11th Cir. 1983).

⁵² See *Pilates, Inc. v. Current Concepts, Inc.*, 120 F. Supp. 2d 286 (S.D. N.Y. 2000).

⁵³ *Id.*; see also *Murphy Door Bed Co., v. Interior Sleep Systems, Inc.*, 874 F.2d 95 (2d Cir. 1989).

⁵⁴ See 1 McCarthy, *supra* note 11, §§ 2:15, 2:22, 6:3.

⁵⁵ *Id.*

⁵⁶ See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. C (AM. LAW. INST. 1995).

⁵⁷ *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*, 806 F.2d 392 (2d Cir. 1986).

⁵⁸ 5 McCarthy, *supra* note 11, § 30:1.

⁵⁹ See *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 636 (1st Cir. 1992).

⁶⁰ RESTATEMENT (THIRD) OF UNFAIR COMPETITION, *supra* note 56, § 24.

⁶¹ *Id.* Compare Professor McCarthy’s definition of counterfeit: goods bearing a false mark that is identical with the genuine mark; 2 McCarthy, *supra* note 11, § 11:73.

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Mark filers enforce their rights by filing a trademark infringement claim against a party they believe is misappropriating their mark.⁶² The plaintiff must show that the mark was used in commerce without the registrant's consent, as well as a likelihood of consumer confusion, deception, or mistake to prove a *prima facie* case of trademark infringement.⁶³ Consumers may be confused about whether the original manufacturer and the infringer's business are associated, whether the infringer's goods are certified by the original manufacturer, or whether the infringer has certified the original manufacturer's goods.⁶⁴ Confusion can be found at the time of sale or post-sale.⁶⁵ As a general rule, confusion may be established by first impressions, luring of consumers or overall impressions.⁶⁶ Confusion should be measured based on an initial understanding, rather than an understanding after reading the package.⁶⁷ Although evidence of confusion is often difficult to acquire, it takes little evidence to establish this factor.⁶⁸ In fact, evidence of actual confusion is instrumental in satisfying the likelihood of confusion element and is ordinarily decisive.⁶⁹

When deciding whether there is a likelihood of confusion, the United States Court of Appeals for the Eleventh Circuit looks at seven factors: (1) type of mark, (2) similarity of mark, (3) similarity of products the marks represent, (4) similarity of parties' retail outlets, trade channels and customers, (5) similarity of advertising media, (6) defendant's intent, and (7) actual confusion.⁷⁰ The most important factors are the nature of the mark and the defendant's intent.⁷¹ The plaintiff does not need to show all seven elements to establish a *prima facie* claim.⁷²

Infringement is a popular cause of action for mark owners, but mark owners may also file a claim for dilution.⁷³ Dilution occurs when a famous mark is used in commerce and that use is likely to cause blurring or tarnishment, regardless of consumer confusion or

⁶² 15 U.S.C.A. § 1117 (West 2018).

⁶³ RESTATEMENT (THIRD) OF UNFAIR COMPETITION, *supra* note 56, § 20 cmt. D; *see also* McDonald's Corp. v. Robinson, 147 F.3d 1301, 1307 (11th Cir. 1998).

⁶⁴ RESTATEMENT (THIRD) OF UNFAIR COMPETITION, *supra* note 56, § 20 cmt. D; *see also* Opticians Ass'n of Am. v. Indep. Opticians of Am., 920 F.2d 187 (3d Cir. 1990) (Courts have found likelihood of confusion to be inevitable when an identical mark is used concurrently by unrelated entities).

⁶⁵ Charles E. McKinney & George F. Long III, FEDERAL UNFAIR COMPETITION: LANHAM ACT 43(A) § 3:9 (2019) (When there are no distinguishing indicia present after the product has been removed from its packaging, labels or tags the likelihood of confusion test should be made under such post-sale conditions. Notably, it is highly likely that Nitro's refurbished golf balls will fall victim to an errant tee shot and be found by other golfers. Under these conditions, the golfer finding the refurbished product will assign blame for Nitro's subpar quality goods to Acushnet).

⁶⁶ *Id.* at § 3:11.

⁶⁷ Foxworthy v. Custom Tees, Inc., 879 F. Supp. 1200, 1215 (N.D. Ga. 1995).

⁶⁸ *Id.* at 1216.

⁶⁹ *See* Nailtiques Cosmetic Corp. v. Salon Sci. Corp., No. 96-2709-CIV-NESBITT, 1997 WL 244746 at *4 (S.D. Fla. 1997) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 20 cmt. B (AM. LAW. INST. 1995)).

⁷⁰ *See* Frehling Enter., Inc. v. Int'l Select Grp., Inc., 192 F.3d 1330, 1335 (11th Cir. 1999).

⁷¹ *See* E.R. Squibb & Sons, Inc. v. Princeton Pharm., Inc., No. 88-6527, 1990 WL 272707 at *6 (S.D. Fla. 1990).

⁷² *Id.*

⁷³ 15 U.S.C.A. § 1125(c).

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economic injury.⁷⁴ Dilution is different from infringement because dilution does not require a showing of consumer confusion.⁷⁵ Professor J. Thomas McCarthy, an expert in trademark law, found that dilution occurs when there is a weakening or reduction in the ability of a mark to clearly distinguish only one source.⁷⁶

“Blurring” is defined as an association that arises from the similarity of a mark and a famous mark that impairs the distinctiveness of the famous mark.⁷⁷ The plaintiff must show the following to prove a “dilution by blurring” claim: (1) their mark is famous; (2) the defendant registered its mark after the plaintiff; (3) the defendant diluted the plaintiff’s mark; and (4) the defendant’s use is commercial and in commerce.⁷⁸

“Famous” means that the mark must contain a degree of distinctiveness and strength beyond that of a normal trademark, it must be truly prominent and renowned.⁷⁹ Dilution itself may be proven by examining any relevant factor, including the following: the degree of similarity between the mark and the famous mark; the degree of inherent or acquired distinctiveness of the famous mark; the degree in which the famous mark’s owner is using the mark exclusively; whether the user of the mark intended to create an association with the famous mark; and any actual association between the mark and the famous mark.⁸⁰

The other variety of dilution is called “tarnishment.”⁸¹ A claim of tarnishment requires evidence of an association arising from a similarity between a mark and a famous mark that harms the reputation of the famous mark.⁸²

In the United States, dilution is bound to two categories: blurring or tarnishment.⁸³ However, speculation exists that there may be another variety of dilution.⁸⁴ Judge Posner

⁷⁴ *Id.*; see also *Moseley v. Victoria’s Secret Catalogue, Inc.*, 537 U.S. 418 (2003) (Prior to the 2006 amendment, the Supreme Court read the Lanham Act to require proof of actual dilution, not just likelihood of dilution. After that case was decided, the Lanham Act was amended to require *likelihood* of dilution and affirmed); see *Levi Strauss & Co., v. Abercrombie & Fitch Trading Co.*, 633 F.3d 1158 (9th Cir. 2011); see also *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356 (The *Victoria’s Secret* decision affected the Federal Circuit’s decision in *Nitro* because the *Victoria’s Secret* case was decided during the pendency of *Nitro*, and *Acushnet* could not show actual dilution).

⁷⁵ See 4 McCarthy, *supra* note 11, at §24:67.

⁷⁶ *Id.*

⁷⁷ *Id.*; see also 15 U.S.C.A. § 1125(c)(2)(B) (“The legal theory of dilution by blurring says that if customers or prospective customers see the plaintiff’s famous mark used by other persons in a non-confusing way to identify other sources for many different goods and services, then the ability of the famous mark to clearly identify and distinguish only one source might be “diluted” or weakened.”).

⁷⁸ *Carnival Corp. v. SeaEscape Casino Cruises, Inc.*, 74 F. Supp. 2d 1261, 1269 (S.D. Fla. 1999).

⁷⁹ *Id.*; see also 15 U.S.C.A. § 1125(c)(2)(A) (The Lanham Act gives four factors to consider when determining whether the mark is famous: (i) The duration, extent, and geographic reach of advertising and publicity of the mark, whether advertised or publicized by the owner or third parties. (ii) The amount, volume, and geographic extent of sales of goods or services offered under the mark. (iii) The extent of actual recognition of the mark. (iv) Whether the mark was registered under the Act of March 3, 1881, or the Act of February 20, 1905, or on the principal register. Courts have simplified this to mean: “To be inherently distinctive, a mark must ‘clearly be more than just distinctive in a trademark sense’ and must rise to the level of ‘Buick’ or ‘Kodak’; see also *Michael Caruso & Co., Inc. v. Estefan Enterprises, Inc.*, 994 F.Supp. 1454, 1463 (S.D. Fla. 1998) (quoting 4 McCarthy, *supra* note 11, § 24:92).

⁸⁰ 15 U.S.C.A. § 1125(c)(2)(B).

⁸¹ *Id.* at § 1125(c)(2)(C).

⁸² *Id.* at § 1125(c)(2)(C).

speculated there may be a residual form of dilution apart from blurring and tarnishment that is triggered by a junior user taking a free ride on a famous trademark.⁸⁵ Posner argued that there are good economic reasons for banning this kind of free riding.⁸⁶ Free Riding is not about the damage to the famous mark, rather, it is the unjust enrichment of the defendant.⁸⁷ European law expressly prohibits dilution and free riding, whereas the Lanham Act only prohibits dilution: where injury to the plaintiff's famous mark is required.⁸⁸

D. Trademark Infringement Remedies

Trademark owners who enforce their rights are entitled to damages and injunctive relief.⁸⁹ However, the standard remedy for infringement and dilution is an injunction because monetary relief is inadequate.⁹⁰ To issue a permanent injunction, a plaintiff must demonstrate: (1) it has suffered irreparable injury; (2) monetary damages are inadequate relief; (3) that, considering a balance of hardship between plaintiff and defendant, an injunction is warranted; and (4) the injunction will not be a disservice to the public's interest.⁹¹ However, while a trademark infringement case is pending, a plaintiff may seek a preliminary injunction.⁹² Although the standards vary significantly from circuit to circuit, McCarthy finds five factors that the plaintiff must show which generally warrant preliminary injunction: (1) likelihood of success on the merits, (2) irreparable injury pending full trial on the merits, (3) preliminary injunction will preserve the status quo preceding the dispute, (4) the balance of hardships favor the plaintiff, and (5) preliminary injunction is necessary to protect third parties.⁹³

E. Filing and Appealing a Trademark Infringement Claim

Both Federal and State courts have jurisdiction to hear trademark infringement cases and both use the "likelihood of confusion" standard for infringement cases.⁹⁴ State courts

⁸³ *Id.* at § 1125(c)(1)-(2)(B), (2)(C).

⁸⁴ *See* 4 McCarthy, *supra* note 11, §24:67, n.8.

⁸⁵ *Id.* (citing *Ty Inc. v. Perryman*, 306 F.3d 509, 64 U.S.P.Q.2d 1689 (7th Cir. 2002)) (This rationale for antidilution law has not yet been articulated in or even implied by the by the case law. However, Posner referred to this third type as "pure dilution," exemplified by the sidewalk peanut vendor who adopts the mark ROLLS ROYCE as a joke. Posner assumed that this use neither tarnishes the famous mark nor injures it by blurring).

⁸⁶ *Id.*

⁸⁷ *Id.*

⁸⁸ *Id.* at n.10 (The very label "dilution" means that the gist of the U.S. federal anti-dilution law is all about looking to probable dilutive damage or injury to the plaintiff's famous mark).

⁸⁹ 15 U.S.C.A. § § 1116-1117(a).

⁹⁰ 5 McCarthy, *supra* note 11, § 30:1 (explaining that monetary damages would not protect the mark holder's right to control the quality of the goods associated with the mark, therefore, monetary relief for injuries would not be an adequate remedy); *see also id.* at 1125(c).

⁹¹ 5 McCarthy, *supra* note 11, § 30:1.

⁹² 15 U.S.C.A. § 1116.

⁹³ 5 McCarthy, *supra* note 11, § 30:1.

⁹⁴ 4 McCarthy, *supra* note 11, § 23:1.50 (noting that federal trademarks law does not preempt its state law counterparts).

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even rely on federal precedent.⁹⁵ However, the vast majority of Federal Lanham Act claims are brought in Federal court.⁹⁶ Claims brought in State court on federally registered marks are removable to Federal courts by the defendant.⁹⁷ Claims regarding the registrability of a trademark may be brought to the Trademark Trial and Appeal Board (the “TTAB”).⁹⁸ The TTAB hears and decides adversary proceedings, namely oppositions and cancellations.⁹⁹ The TTAB also handles interference and concurrent use proceedings, as well as appeals of final refusals issued by the United States Patent and Trademark Office (“USPTO”) Trademark Examining Attorneys within the course of the prosecution of trademark applications.¹⁰⁰ This administrative tribunal has limited jurisdiction.¹⁰¹ Appeals on its decisions may be brought to the Federal Circuit or in Federal District court.¹⁰²

III. THE *NITRO* DECISION

A. Nitro and Acushnet

Both Nitro and Acushnet were engaged in the golf ball sales business.¹⁰³ Acushnet was the largest golf ball distributor in the world, and owns the “Titleist” and “Pro-V1” trademarks.¹⁰⁴ It manufactured, marketed and sold golf balls under this mark.¹⁰⁵ Acushnet spent a tremendous amount of resources marketing, selling and researching ways to improve the ball’s design.¹⁰⁶ Its designs were carefully laid out for a specific performance level of “distance, spin, feel, dispersion, control, flight qualities, roll characteristics, durability, performance and appearance.”¹⁰⁷

Nitro was in the business of recycling and refurbishing used golf balls, many of which were Acushnet’s models, then selling the balls at a discount rate.¹⁰⁸ Nitro dealt with a substantial consumer demand for recycled and refurbished golf balls.¹⁰⁹ In 2001, Nitro derived \$4.8 million of its approximate \$10 million in annual sales from refurbished golf

⁹⁵ *Id.*

⁹⁶ 6 McCarthy, *supra* note 11, § 32:1.

⁹⁷ *Id.* at § 32.7.

⁹⁸ 3 McCarthy, *supra* note 11, at §§ 20:99, 21:1 (explaining T.T.A.B. claims include *inter partes* proceedings and *ex parte* proceedings).

⁹⁹ *Trademark Trial and Appeal Board*, UNITED STATES PAT. AND TRADEMARK OFF., <https://www.uspto.gov/trademarks-application-process/trademark-trial-and-appeal-board> (last visited Sept. 12, 2019).

¹⁰⁰ *Id.*

¹⁰¹ 3 McCarthy, *supra* note 11, § 20:99.

¹⁰² *Id.* at § 20:106.

¹⁰³ *In re Nitro Leisure Products, L.L.C.*, 2002 WL 32344948, at *1.

¹⁰⁴ *Id.*

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*; see also *Brief for Defendant-Appellant, Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, at *5.

¹⁰⁸ *In re Nitro Leisure Prods., L.L.C.*, 2002 WL 32344948.

¹⁰⁹ *Id.*

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balls.¹¹⁰ The recycling process was far less intrusive on the balls than the refurbishing process.¹¹¹ As the used balls often had scuffs and marks, they were stripped of their base coat, clear coat, and markings, then repainted, recoated, and stamped with Acushnet's original marks during the refurbishing process.¹¹² Acushnet took no issue with Nitro's recycling process; rather it alleged that the refurbishing process constituted trademark infringement, counterfeiting, and dilution.¹¹³ At the start of the action, the golf balls were marked "REFURBISHED BY SECOND CHANCE" or "REFURBISHED BY GOLFBALLSDIRECT.COM."¹¹⁴

B. Procedural History at the District Court

Nitro filed this case in the Southern District of Florida, where it alleged that Acushnet violated the Lanham Act, the Sherman Act, and Florida common law.¹¹⁵ Acushnet answered with several counterclaims, alleging patent infringement and other violations of Federal and State trademark law.¹¹⁶ During the pendency of the case, Acushnet moved for a preliminary injunction to enjoin Nitro from continuing refurbishment of Acushnet products.¹¹⁷

C. The District Court's Denial of Preliminary Injunction

The Southern District of Florida, which sits in the Eleventh Circuit, weighs the four following factors when deciding whether to issue a preliminary injunction: (1) Plaintiff's substantial likelihood of success on the merits, (2) substantial threat of irreparable injury, (3) the movant's own injury outweighs injury to non-movant, and (4) that injunction would not disserve public interest.¹¹⁸ Although the court recognized that preliminary injunction is "an extraordinary and drastic relief," it went on to acknowledge that there had been numerous other cases that granted preliminary injunctions.¹¹⁹ The most disputed aspect of the District

¹¹⁰ *Id.*

¹¹¹ *Id.* (Recycled golf balls were only washed and recoated before being packaged for sale).

¹¹² *Id.*; see also *Brief for Defendant-Appellant, Nitro Leisure Prods., L.L.C.*, 341 F.3d 1356 (Acushnet even provided evidence that Nitro intentionally applied "Pro-V1" to models that were not, in fact, this top-of-the-line model. Nitro sold different models of golf balls in the same package, creating greater uncertainty as to the level of performance. Further, Nitro made no effort to repair cuts, gashes, scuffs and abrasions on the used balls. Nitro's "thick and irregular" application of paint affected the ball's performance, and tests showed that nearly all balls that Nitro refurbished performed weaker than Acushnet's originals and even used, but washed, Acushnet products). See Goldstein, *supra* note 9 (Perhaps most concerning, the Court ignored evidence that the refurbished golf balls often failed to meet USGA requirements, and Nitro had re-applied the name of other golf ball manufacturers to products originally produced by Acushnet).

¹¹³ *In re Nitro Leisure Prods., L.L.C.*, 2002 WL 32344948.

¹¹⁴ *Id.*

¹¹⁵ *Id.* at *1 (Specifically, Nitro alleged that Acushnet had "sought to destroy its used golf ball business by engaging in false advertising, product disparagement, unfair competition and by attempting to eliminate Nitro as a competitor.").

¹¹⁶ *Id.*

¹¹⁷ *Id.*

¹¹⁸ *Id.*

¹¹⁹ *Id.*, at *2 (quoting *Davidoff*, 263 F.3d 1297, 1300).

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Court's denial was over the first factor: Acushnet's likelihood of success on the merits.¹²⁰ For Acushnet to succeed on the merits of its trademark infringement and counterfeiting claims, it needed to prove that (1) its marks had priority, (2) Nitro used its marks in commerce without Acushnet's consent, and (3) that this use was likely to cause consumer confusion. The court concluded that the "likelihood of confusion" was the dominant factor.¹²¹

The District Court relied heavily on the standard established in *Champion* for the resale of refurbished goods.¹²² *Champion* involved the sale of refurbished spark plugs with the logo of the original manufacturer, "Champion," still affixed to the reconditioned product.¹²³ The court held that a seller of used products may place the original manufacturer's mark on a reconditioned item so long as the item was also clearly marked as used or reconditioned.¹²⁴ However, the court carved out a notable exception which has been the subject of considerable debate and a litany of litigation:

Cases may be imagined where the reconditioning or repair would be so extensive or so basic that it would be a misnomer to call the article by its original name, even though the words "used" or "repaired" were added. . . . [t]he repair or reconditioning of the plugs does not give them a new design. It is no more than a restoration, so far as possible, of their original condition.¹²⁵

Acushnet argued that Nitro's refurbished golf balls met this "extensive repair" exception.¹²⁶

In support of its claims, Acushnet offered evidence of a study conducted on three golf ball models that Nitro refinished.¹²⁷ The study concluded that Nitro's refurbished products fell short of Acushnet's in distance, trajectory, weight, and appearance, among other features.¹²⁸ The refurbished products fell approximately three percent short of Acushnet's products.¹²⁹ In an industry which heavily advertises distance as a key selling point of its

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.* at *4; see also *Champion Spark Plug Co.*, 331 U.S. 125.

¹²³ *In re Nitro Leisure Prods., L.L.C.*, 2002 WL 32344948, at *4.

¹²⁴ *Id.* (In doing so, the court reasoned: "[a] trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth . . . inferiority is immaterial so long as the article is clearly and distinctively sold as repaired or reconditioned rather than as new . . . [and] so long as the manufacturer is not identified with the inferior qualities of the product resulting from wear and tear or the reconditioning by the [refurbisher].").

¹²⁵ *Id.*

¹²⁶ *Id.*

¹²⁷ *Id.* (The study was comprised of various performance tests done on Pro-V1, DT-2-Piece, and DT 100 balls. As a control, the study used Acushnet's used golf balls, not brand-new ones. Because both sets of balls were used, the only factor that could affect performance was Nitro's refurbishing process. Nitro rebutted Acushnet's study with a survey of their own that claimed there was no appreciable difference between the products.)

¹²⁸ *Id.*

¹²⁹ *Id.*; see also *A Review of Driving Distance*, USGA, <http://www.usga.org/content/dam/usga/pdf/2018/2017-distance-report-final.pdf> (last visited Oct. 22, 2018) (detailing average driving distances yearly since 1996); see also Daniel Wilco, *How driving distance has changed over the past 40 years on the PGA Tour*, PGA.COM, <https://www.pga.com/news/pga-tour/how-driving-distance-has-changed-over-past-40-years-pga-tour> (last

products, a three percent difference matters tremendously.¹³⁰ To prove consumer confusion, Acushnet submitted evidence of (1) *actual* consumer confusion about the processes used to refurbish the balls, (2) whether Nitro was associated with Acushnet, (3) who actually made the refurbished golf balls, and (4) that customers were disappointed with the products' performance.¹³¹

Acushnet also relied on *Rolex Watch v. Michel Co.*, finding that Rolex could enjoin the seller of modified watches with new bezels and exterior changes bearing the Rolex trademark, because the watches could not be properly called a Rolex.¹³² Rolex argued that the reason the watches could not bear the original mark was because the new bezel and exterior parts affected the functionality of the watch.¹³³ Similarly, Acushnet argued that Nitro's substitute parts affected the functionality of Acushnet's products, so calling them "Titleists" was a misnomer.¹³⁴ The Court ultimately refused to issue a preliminary injunction, relying on the disclaimer Nitro printed on its packaging.¹³⁵

The District Court also refused to enjoin Nitro's practices in regard to Acushnet's dilution claim.¹³⁶ The Court agreed that Acushnet's mark was famous.¹³⁷ After all, the marks have been in use for over 70 years on the industry-leading golf ball.¹³⁸ Nevertheless, the Court summarily decided that the relief sought was too drastic and refused to issue an injunction.¹³⁹ Acushnet appealed the decision to the Federal Circuit.¹⁴⁰

D. The Federal Circuit's Standard of Review and Acushnet's Contentions

On review, the Federal Circuit defers to the substantive and procedural law of the circuit from which cases originate.¹⁴¹ The case originated in the Eleventh Circuit, which

visited Oct. 22, 2018) (A three percent difference might not sound like much, but that equates to drives ranging from almost 19 feet shorter (for the *average* golfer's 210-yard drive in 2002), to fifty-five feet shorter (for the *average* tour player's ~280-yard drive in 2002)).

¹³⁰ See, e.g., Titleist, *Pro V1 and Pro V1x Comparison*, YOUTUBE (Apr. 12, 2017) <https://www.youtube.com/watch?v=g6eu9T7EIoE>; see also Marc Solomon, *In Golf, Distance is Important!*, GOLF MADE SIMPLE (Oct. 14, 2016), <https://golfmadesimple.com/blog/golf-distance-important/>.

¹³¹ *In re Nitro Leisure Prods., L.L.C.*, 2002 WL 32344948 at *6 (Actual customer confusion is "ordinarily decisive" of the issue of confusion); see also *Nailtiques Cosmetic Corp.*, 1997 WL 244746 at *4 (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 20 cmt. B (AM. LAW. INST. 1995)).

¹³² *Rolex Watch U.S.A., Inc. v. Michel Co.*, 179 F.3d 704 (9th Cir. 1999).

¹³³ *Id.*

¹³⁴ *In re Nitro Leisure Prods., L.L.C.*, 2002 WL 32344948, at *4.

¹³⁵ *Id.* at *7 (The warning printed on the packaging read as follows: "ATTENTION USED/REFURBISHED GOLF BALLS. The enclosed contents of used/refurbished golf balls are USED GOLF BALLS. Used/refurbished golf balls are subject to performance variations from new ones. These used/refurbished balls were processed via one or more of the following steps: stripping, painting, stamping and/or clear coating in our factory. This product has NOT been endorsed or approved by the original manufacturer and the balls DO NOT fall under the original manufacturer's warranty.").

¹³⁶ *Id.* (The Court noted that Acushnet had to show the following: "[I]ts marks are famous and that Nitro's actions have lessened the capacity of the marks to identify and distinguish Acushnet's goods.").

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

¹⁴⁰ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁴¹ *Payless Shoesource, Inc. v. Reebok Int'l Ltd.*, 998 F.2d 985, 987 (F. Cir. 1993).

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reviews a district court's decision on a preliminary injunction for abuse of discretion.¹⁴² Under this standard, a reviewing court must affirm unless it at least determines that the District Court has made a clear error of judgment or has applied an incorrect legal standard.¹⁴³ Acushnet contended that the District Court erroneously relied upon a non-precedential consent judgment and applied an erroneous legal standard.¹⁴⁴ Specifically, Acushnet took issue with the District Court's use of a prior consent decree between Acushnet and an unrelated used golf ball vendor, Birdie Golf Ball Co., Inc.,¹⁴⁵ and the court's failure to apply the "material difference" test set forth by *Davidoff*.¹⁴⁶

E. The Majority's Trademark Infringement Decision

Acushnet first argued that the *Champion* test was the improper legal standard for the facts of the case, and that *Davidoff's* "material difference test" was proper.¹⁴⁷ The material difference test is an exemption to the exhaustion doctrine.¹⁴⁸ Under the exhaustion doctrine, a trademark owner's authorized initial sale of its product into the stream of commerce extinguishes the trademark owner's rights to maintain control over who buys, sells, and uses the product in its authorized form.¹⁴⁹ *Davidoff* held that the unauthorized resale of materially different product containing the trademark can constitute infringement.¹⁵⁰ At the time the Federal Circuit decided *Nitro*, the material difference test had been adopted by five circuits.¹⁵¹ The test finds its footing in the Lanham Act, which is based upon the notion that materially different products that have the same trademark may confuse consumers and erode consumer goodwill toward the mark.¹⁵²

Both *Champion* and *Davidoff* sought to define the boundaries of when the use of a trademark on genuine trademarked goods is no longer permitted.¹⁵³ When deciding *Nitro*, the majority noted that the dispute centered around the differences between the new and the

¹⁴² *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356; *Davidoff*, 263 F.3d 1297.

¹⁴³ *CBS Broadcasting, Inc. v. EchoStar Communications Corp.*, 265 F.3d 1193 (11th Cir. 2001).

¹⁴⁴ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁴⁵ *Id.* (referencing *Acushnet v. Birdie Golf Ball Co., Inc.*, Case No. 95-7030-Civ.).

¹⁴⁶ *Davidoff*, 263 F.3d 1297 (This case involved a fragrance manufacturer, *Davidoff*, that discovered the defendant had been stripping *Davidoff's* batch codes from the bottles. Even though the defendant was selling genuine *Davidoff* products, the mere removal of the batch codes was deemed a material alteration which created a likelihood of consumer confusion).

¹⁴⁷ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁴⁸ *Davidoff*, 263 F.3d 1297 (Also called the "first sale doctrine", the exhaustion doctrine provides that resale by the first purchaser of the original trademarked item is generally neither trademark infringement nor unfair competition); see also *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368-69 (1924).

¹⁴⁹ *Iberia Foods Corp. v. Romeo*, 150 F.3d 298 (3rd Cir. 1998).

¹⁵⁰ *Davidoff*, 263 F.3d 1297.

¹⁵¹ See *Societe Des Produits Nestle, S.A.*, 982 F.2d 633, 644; *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987); *Iberia Foods Corp.*, 150 F.3d 298, 301; *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1301 (5th Cir. 1997); *Enesco Corp. v. Price/Costco Inc.*, 146 F.3d 1083, 1086 (9th Cir. 1998).

¹⁵² See *Davidoff*, 263 F.3d 1297.

¹⁵³ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

refurbished golf balls.¹⁵⁴ Yet, the court did not apply the material differences test.¹⁵⁵ Instead, the majority relied on *Champion* and found no issue with the standard applied by the District Court.¹⁵⁶ In doing so, the majority narrowly focused on the factual distinctions drawn between *Champion* and *Davidoff*.¹⁵⁷ It reasoned that *Davidoff* only applied to new goods, while *Champion* applied to used goods.¹⁵⁸ The court found that the material differences test should not apply to used goods because consumers have lower expectations from used products and the material differences test may not accurately measure consumer confusion.¹⁵⁹ The court did not consider the possibility that Nitro was refinishing Acushnet's products so extensively that the refurbished golf balls were in fact new products. After all, Nitro was applying their own finishing techniques that materially affected the golf ball's performance.¹⁶⁰ Were that the case, the *Davidoff* test would be the most applicable.

After determining that the *Champion* test was the proper standard for confusion, the majority considered the District Court's application of the rule.¹⁶¹ Acushnet argued that *Champion* was inapplicable because "Nitro did not restore 'so far as possible' the used balls to their original condition, but rather mask[ed] the balls' condition, and second, that by masking rather than restoring, Nitro ma[de] it more likely that customers will associate inferior performance with Acushnet."¹⁶² Acushnet further contended that Nitro's process was responsible for the degraded quality, not normal wear and tear.¹⁶³

The majority disagreed.¹⁶⁴ They reasoned that there was no proof of whether the inferior qualities stemmed from normal wear and tear or from the refurbishing process.¹⁶⁵ This exact reasoning is what led the *Champion* court to its decision. Therefore, the Federal Circuit upheld the District Court's reliance on *Champion*.¹⁶⁶

Next, the majority pushed aside Acushnet's concerns that the District Court relied on *Birdie*.¹⁶⁷ Acushnet argued that the District Court relied on this non-precedential decision,

¹⁵⁴ *Id.*

¹⁵⁵ *Id.*

¹⁵⁶ *Id.*

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*; see also *Davidoff*, 263 F.3d 1297 (The text of *Davidoff* never limited its application strictly to new products).

¹⁵⁹ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁶⁰ See *In re Nitro Leisure Products, L.L.C.*, 2002 WL 32344948.

¹⁶¹ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁶² *Id.*

¹⁶³ *Id.*

¹⁶⁴ *Id.* (The majority apparently ignored or discounted Acushnet's study which compared used Acushnet golf balls and Nitro's refurbished ones. The study found that the refurbished balls performed at a noticeably lower level).

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*; see also *Champion Spark Plug Co.*, 331 U.S. 125 (In *Champion* there was no way to prove whether the deficiency in quality between new and refurbished spark plugs was attributable to the refurbishment process itself or normal wear and tear).

¹⁶⁷ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356 (A refurbishing process similar to that used by Nitro was at issue. *Birdie* was permitted by Acushnet to continue so long as the balls were clearly marked "USED/REFINISHED BY BIRDIE GOLF." Acushnet argued that the *Birdie* consent decree predated the *Davidoff* case, was based on a substantially different record from the facts in this case, and was not controlling on the District Court).

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and thus abused its discretion.¹⁶⁸ The majority dismissed this claim because there was no indication that the District Court in fact relied on *Birdie* when determining the likelihood of consumer confusion in the Nitro action, despite the fact that *Birdie* was cited in its decision.¹⁶⁹

The majority conceded that the application of the *Champion* standard results in the second-hand dealer gaining some advantage from the trademark.¹⁷⁰ They passed this off as permissible, so long as the manufacturer's product is not identified with the inferior qualities pursuant to *Champion's* exception for excessively restored products.¹⁷¹

F. The Majority's Dilution Decision

The majority reaffirmed that Acushnet's mark is indeed famous.¹⁷² However, it upheld the District Court's denial of preliminary injunction due to Acushnet's inability to demonstrate actual dilution of the mark.¹⁷³ During the pendency of Acushnet's appeal, the Supreme Court held that the Lanham Act "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."¹⁷⁴ To Acushnet's dismay, the Lanham Act was amended three years later to only require a likelihood of dilution.¹⁷⁵ Ultimately, the Federal Circuit majority affirmed the District Court's preliminary injunction decision.¹⁷⁶

G. Judge Newman's Dissent

Judge Newman begins her dissent with a scolding disagreement with the majority.¹⁷⁷ The following underscores Judge Newman's disdain for the court's unwise choice to apply the *Champion* rule:

I can think of nothing more destructive of the value of a famous trademark than for the law to permit unauthorized persons to re-affix the mark to a product that is so badly cut, scarred, dented, discolored, and bruised that its defects have to be concealed before it can be resold as "used"—and then, with the scars hidden and the surface repainted to look new, the product is resold with the benefit of the re-affixed trademark and its reputation for quality and performance.¹⁷⁸

¹⁶⁸ *See id.*

¹⁶⁹ *Id.*; see also *In re Nitro Leisure Products, L.L.C.*, 2002 WL 32344948.

¹⁷⁰ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356.

¹⁷¹ *Id.*

¹⁷² *Id.*

¹⁷³ *Id.*

¹⁷⁴ *Moseley*, 537 U.S. 418.

¹⁷⁵ *Levi Strauss & Co.*, 633 F.3d 1158.

¹⁷⁶ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, 1366.

¹⁷⁷ *Id.*

¹⁷⁸ *Id.*

Her apprehension towards the rule is well-founded since the majority's decision removes the trademark owner's ability to control the quality of the products associated with the mark.¹⁷⁹ In fact, "the law requires the holder of the trademark to control both the use of the mark and the quality of the goods to which it is affixed, on pain of losing the mark as a trademark."¹⁸⁰ In the past, the Federal Circuit has determined that a trademark owner who failed to police the quality of goods associated with their mark permitted the generic use of its mark.¹⁸¹ Once the mark is generic, the owners of the mark lose their power to police the mark's use.¹⁸² Judge Newman foresaw grave consequences for Acushnet and similar mark owners who now risk losing the right to control the quality of goods bearing their marks.¹⁸³

Judge Newman noted that the balls lost their ability to be uniquely identified with Acushnet.¹⁸⁴ The source identification function of trademarks is just as important as, and in fact pre-dates, the quality assurance function.¹⁸⁵

The dissent highlighted a key difference: the products at issue in *Champion* were indeed refurbished, but they did not have any *concealed* defects.¹⁸⁶ Nitro was refurbishing golf balls with scuff, cart path, and tree marks, no clear coat, discoloration, and other defects that materially affect the ball's performance.¹⁸⁷ Instead of disclosing the severity of the defects to consumers, Nitro painted over the damage to make the product appear new.¹⁸⁸ In addition to affecting performance, Nitro's re-painting encumbered the all-important dimples on the exterior of the ball.¹⁸⁹ The dissent argued that the used/refurbished notice to consumers was inadequate.¹⁹⁰ Further, the dissent highlighted, even if *Champion* was the proper standard to apply to this case, the court's application was erroneous.¹⁹¹ *Champion* requires disclosure of the nature of the product to consumers and "concealment [of defects] is the antithesis of disclosure."¹⁹²

Judge Newman emphasized that trademark law grants Acushnet the absolute right to prevent the re-application of their mark.¹⁹³ She maintained that this was a case of

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ *Id.* (quoting 2 McCarthy, *supra* note 11, § 17:8, at 17–10).

¹⁸⁶ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, 1366 (Newman, J. dissenting) (The dissent noted that "the nature of the refurbishment of a used spark plug is visible; the nature of the damage to a repainted golf ball is invisible, and any performance-deteriorating defects are permanently removed from view.").

¹⁸⁷ *Id.*

¹⁸⁸ *Id.*

¹⁸⁹ *Id.*

¹⁹⁰ *Id.* (Judge Newman found that the "used/refurbished notice" does not protect the public so it may be confident that, in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get).

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

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counterfeiting because Nitro violated Acushnet's right to quality control and further benefitted from an unauthorized exploitation of the mark.¹⁹⁴

IV. THE FEDERAL CIRCUIT'S DANGEROUS PRECEDENT

A. Why the *Champion* Test Was Unwise to Apply

Champion was predicated on an exemption to the exhaustion doctrine which extinguishes a trademark owner's rights to protect its mark after the product's initial sale.¹⁹⁵ Under *Champion*, the only way to prove infringement for refurbished products is to show that they have been repaired so extensively that it would be a misnomer to use their original mark.¹⁹⁶ The *Champion* rule was intended for application to used products so that full disclosure of refurbishment would be enough to prevent consumer confusion.¹⁹⁷ However, the evidence Acushnet introduced clearly demonstrates that consumers were still confused.¹⁹⁸ Remember, though, the *Champion* rule cannot find likelihood of confusion unless the refurbished goods are so different that it would be a misnomer to use the original trademark.¹⁹⁹ Notably, the *Champion* test does not look for actual confusion.²⁰⁰ Instead, it assumes that disclosure sufficiently protects trademark rights because consumers presumably read the warnings, disclosures, and labels on every product they purchase in order to not be deceived by refurbished products.²⁰¹ However, a 2016 study conducted by Harvard and Vanderbilt revealed that consumer warnings are resoundingly ineffective.²⁰² A Pew Research poll found that only 40 percent of consumers always or almost always read online reviews before purchasing a product.²⁰³

Because of Nitro's repainting and recoating, the refurbished balls looked like genuine Acushnet products but poorly performed.²⁰⁴ As Judge Newman's dissent and other scholars have noted, *Champion*'s protection for trademark owners simply does not go far enough.²⁰⁵ Consumers often purchase products without fully informing themselves, so the

¹⁹⁴ *Id.* (Because this appeared to be a counterfeiting case, the dissent did not address the merits of Acushnet's dilution claim).

¹⁹⁵ See *Iberia Foods Corp.*, 150 F.3d 298, 301 n.4.

¹⁹⁶ See *Champion Spark Plug Co.*, 331 U.S. 125, 129.

¹⁹⁷ *Id.* at 128.

¹⁹⁸ See *In re Nitro Leisure Products, L.L.C.*, 2002 WL 32344948 at *6 (mentioning how Acushnet submitted testimony of two consumers, Vickie and Andrew Hasenstaub, who were confused and misled, despite the warning on Nitro's refurbished products).

¹⁹⁹ See *Champion Spark Plus Co.*, 331 U.S. at 129.

²⁰⁰ *Id.* at 130 ("Full disclosure gives the manufacturer all the protection to which he is entitled.").

²⁰¹ *Id.*

²⁰² Lisa A. Robinson et al., *Consumer Warning Labels Aren't Working*, HARV. BUS. REV. (Nov. 30, 2016), <https://hbr.org/2016/11/consumer-warning-labels-arent-working>.

²⁰³ Aaron Smith & Monica Anderson, *Online Reviews*, PEW RESEARCH CENTER (December 19, 2016), <http://www.pewinternet.org/2016/12/19/online-reviews/> (finding that this percentage drops to 34% for consumers aged 50-64 and 23% for consumers over 65 and that the average golfer's age is 63).

²⁰⁴ *In re Nitro Leisure Products, L.L.C.*, 2002 WL 32344948, at *6.

²⁰⁵ See *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, 1359 (Newman, J., dissenting) (noting that the basic tenets of the Lanham Act demonstrate that trademark owners need greater control over the use of their marks).

Champion test's reliance on consumer disclosure is ill-founded and unwise for refurbished products with concealed defects.²⁰⁶ The bar for likelihood of confusion between new products and refurbished products with concealed defects must be lowered to properly conform with the Lanham Act. To accomplish this necessary objective, the *Nitro* court should have tested for consumer confusion using the material differences test.²⁰⁷

B. Why the *Davidoff* Material Differences Test Was Proper

The underlying value in the material differences test is that trademark owners and consumers alike may rest assured that goods bearing the trademark will have the attributes that the original manufacturer supplies them.²⁰⁸ This test lowers the bar for trademark owners to show infringement because it does not require the refurbished product to be vastly different from the original.²⁰⁹ The standard is as follows: "[t]he unauthorized resale of a materially different product constitutes infringement."²¹⁰ A material difference is one that consumers consider relevant to a decision about whether to purchase a product.²¹¹ The material difference test has been recognized amongst a many circuits.²¹²

The material difference test assures that trademark owners have a greater degree of control over products bearing their mark because any difference that may dissuade a customer from purchasing such a product gives the mark owner power to prevent the continued use of their mark in trade.²¹³ The material difference test comports more neatly with the aims of the Lanham Act and the history of trademark law than the *Champion* test.²¹⁴

The Federal Circuit chose not to apply the material differences standard in *Nitro* because it interpreted *Davidoff* narrowly, so as to only apply to new products not refurbished

than what *Champion* provides); see also Goldstein, *supra* note 9 (arguing that the Federal Circuit should have applied the material differences test); see also 4 McCarthy, *supra* note 11, §25:39 (noting that the majority made some generalizations about consumers' expectations when purchasing a refurbished product); see also 4 McCarthy, *supra* note 11, at §25:39 n.7 (citing Newman's dissent in its contention that the *Champion* rule should not apply).

²⁰⁶ The *Champion* test is still proper for refurbished goods with open and obvious defects. So long as the defects are visible to the consumer prior to purchase (in other words not covered by packaging) consumers cannot purchase a product without knowledge of the potential deficiency in quality because they can see the deficiency.

²⁰⁷ See *Davidoff*, 263 F.3d 1297, 1300.

²⁰⁸ *Id.* (The theory behind this test is that if the refurbishment imparts any qualities that materially depart from the original manufacturer's product, the original manufacturer has the right to prevent the sale of goods those infringing goods).

²⁰⁹ *Id.*

²¹⁰ *Id.*

²¹¹ *Id.* at 1302 (This standard is indeed lower: "[b]ecause a myriad of considerations may influence consumer preferences, the threshold of materiality must be kept low to include even subtle differences between products.").

²¹² See, e.g. *Brilliance Audio, Inc. v. Hights Cross Communications, Inc.*, 474 F.3d 365 (6th Cir. 2007); *Beltronics USA, Inc. v. Midwest Inventory Distribution, LLC*, 562 F.3d 1067 (10th Cir. 2009).

²¹³ See *Enesco Corp.*, 146 F.3d 1083, 1087 (In fact, the material differences test is often referred to as the "quality control" exception to the exhaustion doctrine. This name was largely developed by the Second Circuit).

²¹⁴ 1 McCarthy, *supra* note 11, § 3:11. (Here, McCarthy outlines some historical purposes of trademarks and how they were codified in the Lanham Act).

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products.²¹⁵ However, the *Davidoff* court never limited the material differences test to new products.²¹⁶ In fact, the *Davidoff* court emphasized that the material differences test was broader.²¹⁷ Because the test is applicable to new and refurbished products, the Federal Circuit improperly interpreted Eleventh Circuit law and stripped trademark owners of valuable judicial remedies.

C. *Rolex*, an Analogous Case

In some instances where a refurbisher has altered the integral and necessary parts of a used product, the result is a new product.²¹⁸ In *Rolex*, a refurbishing company was engaged in reconditioning Rolex watches and substituting its own parts for genuine Rolex parts.²¹⁹ Rolex never gave the refurbishing company permission to leave the signature crown trademark affixed to the final product, and the replacement parts affected aspects of the watch's performance such as hand movement, water-proofing, durability, and overall longevity.²²⁰ Although the infringing parts were visible to consumers, they had no way to know that a watch's performance would be affected by the concealed substitute components.²²¹ The Court found that the resulting watches were in fact new products altogether.²²² Acushnet's case ran factually parallel to Rolex's, except the product involved was golf balls, not watches.²²³ Given the identical circumstances between *Rolex* and *Nitro*, it is even clearer that refurbished goods with hidden defects should be treated like new products. The material differences test, applied in *Davidoff* to new goods, finds proper application to altered used goods with hidden defects because they are essentially new goods.

D. The Federal Circuit's Decision Presents Hazardous Implications

Trademarks not only serve to protect consumers' expectations about products, they serve a number of important functions at the microeconomic level.²²⁴ Trademarks promote economic efficiency by reducing the costs of customer's shopping and purchasing decisions.²²⁵ Consumers regularly and rationally rely upon brands to reduce their cost of

²¹⁵ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, 1362, 69.

²¹⁶ See *Davidoff & CIE, S.A.*, 263 F.3d 1297, 1302.

²¹⁷ *Id.* (In doing so, the court rejected the appellant's argument that the material difference test only applies to gray market goods. The court noted that other Circuits used the material difference test for regular infringement cases).

²¹⁸ *Rolex Watch U.S.A., Inc.*, 179 F.3d 704.

²¹⁹ *Id.* at 706 (Michel Co. sold used Rolex watches with reconditioned, non-Rolex parts, replacement parts, or generic parts that fit Rolex watches. They replaced the watch bezel, dials, and bracelets. Some of these replacement parts even had crown logos which imitated Rolex's trademark).

²²⁰ *Id.* at 709.

²²¹ *Id.* at 713.

²²² *Id.* at 710.

²²³ *Nitro Leisure Products, L.L.C.*, 341 F.3d 1356, 1358.

²²⁴ 1 McCarthy, *supra* note 11, § 2:3.

²²⁵ *Qualitex Co. v. Jacobson Products Co., Inc.*, 514 U.S. 159 (1995) (quoting 1 McCarthy, *supra* note 11, § 2.01[2], p. 2-3).

acquiring information about products and services.²²⁶ Nitro introduced uncertainty as to the quality of Acushnet's products into consumers' minds. That uncertainty makes consumers less likely to purchase Acushnet products for fear of unreliability and higher information-gathering cost.

E. International Trademark Protection

Professor McCarthy notes that “[i]n free market economies, trademarks are legally recognized and protected as an inherent feature of the marketplace and of consumer protection. Even in the formerly highly socialized economies of Eastern Europe and the USSR, trademarks were legally recognized as contributing to the improvement of quality in goods.”²²⁷ In 2007, the European Court of Human Rights recognized a fundamental, proprietary property interest in one's trademark.²²⁸ Chinese trademark law expressly prohibits the exact conduct in which Nitro was engaging. Article 57 makes the following conduct an infringement on the right to exclusive use of a trademark: “[u]sing a trademark that is identical with a registered trademark on the same kind of goods without obtaining licensing from the registrant of the registered trademark.”²²⁹ By placing a Titleist logo on non-Acushnet approved products without a license, Nitro was in violation of Chinese Trademark law. Chinese law also establishes a preliminary extrajudicial dispute resolution body that resolves infringement disputes.²³⁰ This tribunal hears disputes before they reach a court of law, provides much-needed judicial economy, and allows decision makers to specialize in the field.

In the context of dilution claims, European law expressly prohibits dilution and free riding.²³¹ European Trademark Directive Article 5(2) prohibits unpermitted use of the plaintiff's mark “where use of that sign without due cause takes unfair advantage of, [free riding] or is detrimental to, [dilution] the distinctive character or the repute of the trade mark.”²³² Some scholars believe that the United States' anti-dilution law has free-riding prevention impulses.²³³ David J. Franklyn argues that judges are eager to protect trademarks under an anti-free-riding theory even when there is no proof of actual or likely harm.²³⁴

²²⁶ 1 McCarthy, *supra* note 11, § 2:5 (Obtaining information about products has costs for consumers. “[A]s labeling has become cheaper and shoppers' time has become more valuable, branding has increased as a cheaper means of indicating quality.”).

²²⁷ *Id.* at § 2:6.

²²⁸ Burkhart Goebel, *Trademarks as Fundamental Rights—Europe*, 99 TRADEMARK RPTR. 931, 939 (2009) (citing *Anheuser-Busch v. Portugal*, Case No. 73049/01 (11 January 2007) (European Court of Human Rights, Grand Chamber)).

²²⁹ Zhōngguó zhuānlì shāngbiāo (中國專利和商標) [Trademark Law of the People's Republic of China] (Promulgated by Standing Comm. Nat'l People's Cong., Aug. 23, 1982, effective Mar. 1, 1983) art. 57 CHINA PAT. & TRADEMARKS.

²³⁰ *Id.* at art. 60 (If dispute resolution is unsuccessful, parties to the dispute may bring suit to the appropriate court or administrative body).

²³¹ 4 McCarthy, *supra* note 11, § 24:67.

²³² *Id.*

²³³ See, e.g., David J. Franklyn, *Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law*, 56 HASTINGS L.J. 117 (2004) (discussing why American trademark law should adopt a new cause of action for free-riding based upon an unfair competition theory).

²³⁴ *Id.* at 117, 119.

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V. **BALANCING INTERESTS: A SOLUTION TO PROTECT TRADEMARKS AND PROMOTE
BUSINESS**

A. **Introduction**

In the interest of mark owner and consumer protection, “interior refurbishment” companies should be required to obtain a license from the trademark owner.²³⁵ To do so, an amendment to the Lanham Act is necessary. The amendment should borrow from patent and copyright law and allow interior refurbishment companies to obtain compulsory licenses from trademark owners in some limited circumstances. This amendment is necessary in a world where refurbished goods currently have no quality assurance from the mark owner, and the market for refurbished goods is so expansive that the practice should not be restricted altogether by traditional licensing.

B. **Traditional Trademark Licensing**

Trademarks may be validly licensed to another, but only if the licensor exercises control over the nature and quality of the goods sold by the licensee.²³⁶ If the licensor fails to police the mark’s use amongst licensees, it may lose some or all rights in the mark.²³⁷ Licensors are required to control quality because the trademarked product is not truly “genuine” unless it has been manufactured and distributed under quality control standards established by the trademark owner.²³⁸ Trademarks convey an inherent message that the owner is controlling the goods’ quality, so without control the resulting deception forfeits some rights in the mark’s use.²³⁹

It remains uncertain what extent of control over quality is sufficient to retain legal protection of the mark.²⁴⁰ According to the Seventh Circuit, “[h]ow much authority is enough can’t be answered generally; the nature of the business, and customers’ expectations, both matter.”²⁴¹ To illustrate, the level of control “retained over children’s television program on a plush doll toy will probably be much less than the extensive regulation system needed for the license of a famous mark on a system of quick-serve food restaurants.”²⁴² The issue of whether a licensor has adequately controlled the quality of a licensee’s goods is ultimately a question of fact, which a majority of courts resolve by determining “whether [the licensor has] control in fact, not whether the licensor possesses the mere right to control.”²⁴³

²³⁵ Goldstein, *supra* note 9 at 246-47 (Michael Goldstein refers to companies that refurbish goods that will contain concealed defects as “interior refurbishment” companies).

²³⁶ McCarthy, *supra* note 11, § 18:38.

²³⁷ *Id.*

²³⁸ *Id.*

²³⁹ *Id.*

²⁴⁰ *Id.* at § 18:55 (McCarthy notes that licensors must retain enough control so as to meet consumers’ reasonable expectations when they see the licensed mark appear in the marketplace).

²⁴¹ *Eva’s Bridal Ltd. V. Halanick Enterprises, Inc.*, 639 F.3d 788, 791 (7th Cir. 2011).

²⁴² McCarthy, *supra* note 11, § 18:55.

²⁴³ *See id.* at § 18:58 (for discussion on which specific means of quality control have been deemed adequate).

However, the licensor may not control the quality of a licensee's products so extensively that the conduct becomes a violation of federal antitrust laws.²⁴⁴

C. Compulsory Licensing

United States patent law allows compulsory licensing of patents under narrowly tailored circumstances.²⁴⁵ One of the most common criticisms against granting compulsory licenses is that doing so prevents the patent holder from excluding others from financially benefitting from the holder's intellectual achievements and labor, thus discouraging invention.²⁴⁶ However, the United States allows considerably less compulsory patent licensing than other industrialized nations.²⁴⁷ Similarly, copyright law allows certain individuals to obtain "statutory" or "compulsory" licenses in specific ways, subject to the obligation to pay royalties.²⁴⁸

Compulsory licensing is reasonable in trademark law because the concerns underscoring disdain for forced licenses in patent law do not have the same weight as applied to trademarks. The concern that patent holders will be discouraged from invention has no application to trademarks. Compulsory licenses will allow the original trademark holder to retain all rights to the creation and innovation of their products, while refurbishment companies would simply adhere to the enumerated quality requirements. Further, so long as mark holders are granted an adequate percentage of proceeds from the sale of their licensed products, they have an incentive to grant more licenses, which will result in more profits.

D. A Compulsory Licensing Solution

The Lanham Act should be narrowly amended to create a cause of action that allows interior refurbishing companies to obtain a compulsory license using specific guidelines. It is crucial that mark holders be afforded an opportunity to argue why the license should not be granted. Certain factors should determine whether a compulsory license is issued, such as: financial burden on the mark holder to monitor quality of the refurbished goods; potential infringement or dilution that may arise if the license is granted; and any other relevant factors specific to the mark and the market in which it used.²⁴⁹ A compulsory license should not be issued unless the royalties the licensor stands to gain substantially outweigh their cost and burden to monitor the licensee's product quality. Further, the final product should still include a warning to consumers that the goods are refurbished. If the parties cannot agree on the terms of their license once it has been determined that one should be issued, the presiding judge should decide the nature and scope of the license. The bar for obtaining a compulsory

²⁴⁴ *Id.* at §§ 18:53, 18:62.

²⁴⁵ See Richard T. Jackson, *A Lockean Approach to the Compulsory Patent Licensing Controversy*, 9 J. TECH. L. & POL'Y 117, 121 (2004) (Most commonly, compulsory patents are granted where the patent holder has not utilized its patent, or the licensee makes a significant improvement to the original patent).

²⁴⁶ *Id.*

²⁴⁷ *Id.*

²⁴⁸ See 17 U.S.C.A. §§ 111, 112(e), 114-119, 1003-04; 18 C.J.S. *Copyrights* § 34 (2018).

²⁴⁹ Naturally, a number of important considerations must be included in the amendment. This list of factors simply reflects the most vital considerations and is by no means exhaustive.

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license, as well as its scope, should be very high and narrow to preserve traditional trademark ownership rights.

Additionally, the Lanham Act should be amended to expand the TTAB's jurisdiction to hear disputes over compulsory licensing. Because the TTAB currently hears similar disputes, it is the most aptly equipped tribunal to handle this new type of claim.²⁵⁰

E. Drawbacks to Compulsory Licensing

Compulsory licensing currently does not have precedent in trademark law, and limited precedent elsewhere.²⁵¹ Its disadvantage is apparent—the trademark owner would have some loss of ownership over their mark. Compulsory licenses would prevent owners from fully controlling the use of their mark, but the advantages of this proposal dwarf its downfalls. First, trademark owners are better served by sacrificing a fraction of their rights than by the current legal precedent, which allows judges to make a trademark generic, thus stripping an owner's rights entirely. In addition, the amendment must include adequate safeguards so as to account for trademark owners' concerns regarding the use, future profitability of their products, and maintenance of good will associated with the mark.

VI. CONCLUSION

This proposed amendment is necessary because *Nitro* has not been overturned in nearly two decades. *Nitro*'s continuing erosion of trademark law must be legislatively remedied, and this proposed solution resolves the competing interests presented by the decision, such as the interest in preserving the trademark owner's right to quality control, and the refurbishment company's interest in operating a profitable business. Upholding traditional trademark rights in the interior refurbishment context would kill businesses like *Nitro*'s. Allowing current refurbishment practices to continue will lead to judicial stripping of trademark ownership. Not only does this solution uphold the trademark holder's right to oversee the quality of products associated with its mark, as required by trademark law, it presents an opportunity for financial gain for licensees and licensors alike.

²⁵⁰ Decisions from the TTAB should still be appealable to a Federal Circuit or District Court.

²⁵¹ See Jackson, *supra* note 245.