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Barksdale Hortenstine

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NOTES

Alyeska Pipeline Service Co. v. The Wilderness Society: The Dismissal of the Private Attorney General

Plaintiff, The Wilderness Society, obtained a preliminary injunction barring the Secretary of the Interior from issuing right-of-way permits to the Alyeska Pipeline Service Company for the portion of the Alaska pipeline which would traverse land owned by the United States.¹ After the Court of Appeals for the District of Columbia reversed the trial court's decision to dissolve the injunction and dismiss the complaint,² Congress enacted legislation authorizing construction of the pipeline.³ Consequently, the sole issue requiring judicial resolution was plaintiff's request for an award of attorney's fees. While statutory authorization for an award was absent, and the present exceptions to the American rule against fee shifting were inapplicable, the court of appeals held plaintiff was entitled to one-half the full award from Alyeska for fulfilling the role of a private attorney general.⁴ The United States Supreme Court granted certiorari.⁵ *Held, reversed*: Federal courts lack the equitable power to award attorney's fees when the plaintiff acts as a private attorney general in vindicating rights conferred by the laws of the United States. Such an award is a policy determination reserved to the discretion of Congress, and absent statutory authorization an award of attorney's fees is impermissible. *Alyeska Pipeline Service Co. v. The Wilderness Society*, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975).

I. THE RULE AGAINST FEE SHIFTING AND ITS EXCEPTIONS

The traditional American rule precludes the taxing of attorney's fees;⁶ however, pursuant to statutory authorization and the courts' equitable powers,⁷ exceptions have developed. Federal statutes authorizing fee awards are

1. *Wilderness Soc'y v. Hickel*, 325 F. Supp. 422 (D.D.C. 1970). For a detailed narrative of this litigation see Dominick & Brody, *The Alaska Pipeline: Wilderness Society v. Morton and the Trans-Alaska Pipeline Authorization Act*, 23 AM. U.L. REV. 337 (1973).

2. *The Wilderness Soc'y v. Morton*, 479 F.2d 842 (D.C. Cir.) (en banc), cert. denied, 411 U.S. 917 (1973).

3. Act of Nov. 16, 1973, Pub. L. No. 93-153, 87 Stat. 576.

4. *The Wilderness Soc'y v. Morton*, 495 F.2d 1026 (D.C. Cir. 1974). Because of 28 U.S.C. § 2412 (1970), the United States could not be compelled to contribute the other one-half of the fee award.

5. *Alyeska Pipeline Serv. Co. v. The Wilderness Soc'y*, 419 U.S. 823 (1974).

6. For a history of the development of the rule in America, see, e.g., Falcon, *Award of Attorney's Fees in Civil Rights and Constitutional Litigation*, 33 MD. L. REV. 379 (1973); Stoebuck, *Counsel Fees Included in Costs: A Logical Development*, 38 U. COLO. L. REV. 202 (1966); Note, *Attorney's Fees: Where Shall the Ultimate Burden Lie?*, 20 VAND. L. REV. 1216 (1967).

7. *Guardian Trust Co. v. Kansas City S. Ry.*, 28 F.2d 233 (8th Cir. 1928), rev'd on other grounds, 281 U.S. 1 (1929). See notes 15-31 *infra* and accompanying text.

both mandatory⁸ and discretionary.⁹ Judicially created exceptions originally fell into the categories of groundless litigation¹⁰ and the common fund theory.¹¹

In applying the groundless litigation, or bad faith rule, courts originally examined the nature of the defendant's conduct to determine whether a fee award was proper.¹² However, the courts recognized that the aggrieved plaintiff's rights were being ignored and liberalization of the rule would be required as an additional sanction.¹³ Emphasis shifted from the examination of the defendant's misconduct to the need to alleviate the plaintiff's financial burden of litigation intended to vindicate constitutional rights.¹⁴

A second exception to the American rule, the common fund theory, prevents the unjust enrichment of a class of individuals entitled to a fund created or protected at the expense of the actual litigant.¹⁵ The strict application of the common fund theory was relaxed in *Sprague v. Ticonic National Bank*,¹⁶ where the plaintiff's failure to allege that she represented a class, or established a fund, or both, was not dispositive.¹⁷ The Court found an award of fees proper because plaintiff by establishing her own claim to the fund necessarily established the claims of other individuals to the same fund.¹⁸ While the trend of decisions indicated a relaxed approach to the application of the fund theory,¹⁹ the Supreme Court nearly halted thirty

8. See, e.g., Clayton Act, § 4, 15 U.S.C. § 15 (1970); Railway Labor Act, § 3, 45 U.S.C. § 153(p) (1970); Communications Act of 1934, § 206, 47 U.S.C. § 206 (1970); Interstate Commerce Act, § 16, 49 U.S.C. § 16(2) (1970).

9. See, e.g., Privacy Act of 1974, § 2(g)(2)(B), 5 U.S.C.A. § 552a(g)(2)(B) (Supp. I, 1975); Securities Act of 1933, 15 U.S.C. § 77k(e) (1970); Civil Rights Act of 1964, §§ 204(b), 706(k), 42 U.S.C. §§ 2000a-3(b), 2000e-5(k) (1970).

10. *Guardian Trust Co. v. Kansas City S. Ry.*, 28 F.2d 233 (8th Cir. 1928), *rev'd on other grounds*, 281 U.S. 1 (1929); 6 J. MOORE, *FEDERAL PRACTICE* ¶ 94.77[2], at 1709 (2d ed. 1974, as supplemented). The purpose of the fee award in this instance is to protect honest litigants and discourage abuse of the courts. See Comment, *Court Awarded Attorney's Fees and Equal Access to the Courts*, 122 U. PA. L. REV. 636, 660 (1974).

11. *Trustees v. Greenough*, 105 U.S. 527 (1882). For a discussion of the fund theory in the context of litigation serving private interests see Dawson, *Lawyers and Involuntary Clients: Attorney Fees From Funds*, 87 HARV. L. REV. 1597 (1974).

12. *Bell v. School Bd.*, 321 F.2d 494 (4th Cir. 1963). See generally Dawson, *Lawyers and Involuntary Clients in Public Interest Litigation*, 88 HARV. L. REV. 849 (1975); Comment, *Allowance of Attorney Fees in Civil Rights Litigation Where the Action is Not Based on a Statute Providing for an Award of Attorney Fees*, 41 U. CIN. L. REV. 405 (1972); Note, *Awarding Attorneys' Fees to the "Private Attorney General": Judicial Green Light to Private Litigation in the Public Interest*, 24 HAST. L.J. 733 (1973).

13. *Clark v. Board of Educ.*, 369 F.2d 661 (8th Cir. 1966).

14. *Cato v. Parham*, 293 F. Supp. 1375 (E.D. Ark.), *aff'd*, 403 F.2d 12 (8th Cir. 1968).

15. *Trustees v. Greenough*, 105 U.S. 527 (1882); Comment, *The Changing American Rule Against Attorney Fee Shifting: Mills v. Electric Auto-Lite Co. and Hall v. Cole*, 28 Sw. L.J. 542 (1974). See also Dawson, *supra* note 12.

16. 307 U.S. 161 (1939); Comment, *supra* note 15, at 545. In *Sprague* plaintiff established a lien on bonds securing a trust deposit. 307 U.S. at 163.

17. 307 U.S. at 166-67.

18. *Id.* This conclusion was predicated upon the application of the doctrine of stare decisis.

19. See, e.g., *Sprague v. Ticonic Nat'l Bank*, 307 U.S. 161 (1939); *Smolowe v. Delendo Corp.*, 136 F.2d 231 (2d Cir.), *cert. denied*, 320 U.S. 751 (1943); *Bosch v. Meeker Cooperative Light & Power Ass'n*, 257 Minn. 362, 101 N.W.2d 423 (1960); *Abrams v. Textile Realty Corp.*, 97 N.Y.S.2d 492 (Sup. Ct. 1949). See also Comment, *supra* note 15, at 544-47.

years of growth in *Fleischmann Distilling Corp. v. Maier Brewing Co.*²⁰ After establishing a deliberate infringement of trademark rights protected by the Lanham Act,²¹ plaintiff requested an award of attorney's fees. In rejecting the request, the Court distinguished *Sprague*,²² found the recognized exceptions inapplicable, and the equitable power of the courts circumscribed.²³ The decision was predicated on the finding that Congress provided meticulously detailed remedies in the Act²⁴ and failed to authorize a fee award.²⁵

In *Mills v. Electric Auto-Lite Co.*²⁶ plaintiffs brought a derivative action and proved the defendant made materially misleading statements in a proxy solicitation.²⁷ Addressing plaintiff's prayer for attorney's fees, the Supreme Court distinguished *Fleischmann* because, unlike the Lanham Act, the Securities Act of 1934 did not provide meticulously detailed remedies.²⁸ The *Fleischmann* holding that statutory silence indicated congressional intent to deny fee shifting was assessed in *Mills* as mandating the use of court-created exceptions.²⁹ The Court found the traditional fund exception inapposite, stating that the lack of monetary recovery from which the fees could be paid did not prevent an award,³⁰ and the vindication of statutory policy conferred a "substantial benefit" justifying an award of fees.³¹

The leading decision involving the shifting of attorney's fees pursuant to the private attorney general theory was rendered per curiam in *Newman v. Piggie Park Enterprises*.³² Plaintiff sought to enjoin racial discrimination in

20. 386 U.S. 714 (1967); Comment, *supra* note 15, at 549.

21. Lanham Act, §§ 1-50, 15 U.S.C. §§ 1051-1127 (1970).

22. The Court stated: "[N]one of the considerations which supported the exception recognized in *Sprague* are present here." 386 U.S. at 720.

23. *Id.* at 719-20.

24. *Id.* at 719. Section 35 of the Lanham Act, 15 U.S.C. § 1117 (1970), as amended, 15 U.S.C.A. § 1117 (Supp. I, 1975), provides that the plaintiff may recover the defendant's profits, any damages sustained by the plaintiff, and costs of the action. In assessing the damages sustained, the court may enter judgment for such amount of actual damage not to exceed three times the amount of the award.

25. 386 U.S. at 720-21.

26. 396 U.S. 375 (1970).

27. The complaint alleged defendant's actions violated section 14(a) of the Securities Exchange Act of 1934, 15 U.S.C. § 78n(a) (1970), formerly ch. 404, § 14a, 48 Stat. 895 (1934) and SEC Rule 14a-9, 17 C.F.R. § 240.14a-9 (1974).

28. 396 U.S. at 391.

29. *Id.* at 390-91.

30. *Id.* at 392.

31. *Id.* at 396. In *Hall v. Cole*, 412 U.S. 1 (1973), the Supreme Court followed *Mills*, by awarding fees for the violation of plaintiff's right to free speech secured by the Labor-Management Reporting and Disclosure Act, § 101(a)(2), 29 U.S.C. § 411(a)(2) (1970). The vindication of plaintiff's right to free speech conferred a "substantial benefit" on fellow union members whose rights were similarly threatened. 412 U.S. at 11. As in *Mills*, the Court distinguished the *Fleischmann* interpretation of congressional silence by holding that section 102 did not provide meticulously detailed remedies. *Id.* Moreover, the inclusion of fee provisions in sections 201(c) and 501(b) of the Act, 29 U.S.C. §§ 431(c), 501(b) (1970), did not indicate congressional intent to restrict a fee award to those situations.

32. 390 U.S. 400 (1968); see authorities cited in Brief for Respondent at 67 n.91, *Alyeska Pipeline Serv. Co. v. The Wilderness Soc'y*, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975) [hereinafter cited as Brief for Respondent]; *id.* at 71, citing Derfner, *Attorneys' Fees in Pro Bono Publico Cases* reprinted in *Hearings on the Effect of Legal Fees on the Adequacy of Representation Before the Subcomm. on Representation of Citizen Interests of the Senate Judiciary Comm.*, 93d Cong., 1st Sess., pts. 3 and 4, at 862 (1973); Comment, *supra* note 12, at 410-19; Comment, *supra* note 10, at 666-74; Note, *supra* note 12, at 742-55.

the operation of restaurants in violation of the Civil Rights Act of 1964.³³ The Supreme Court held that under the Act a successful plaintiff should ordinarily recover attorney's fees unless special circumstances dictated otherwise.³⁴ The decision was justified upon the finding that enforcement of the Act would be relegated to private individuals unable to recover damages who would act as "private attorney[s] general," vindicating a policy that Congress considered of the highest priority."³⁵

The decisions indicated that the Court did not consider itself confined by the strict fund theory. So long as meticulously detailed remedies were absent, the ability to utilize the courts' equitable powers for awarding fees was present. Despite absence of a monetary fund, vindication of statutory rights was a sufficient benefit to justify the award of fees.

II. ALYESKA PIPELINE SERVICE CO. v. THE WILDERNESS SOCIETY

In *Alyeska* the Supreme Court rejected plaintiff's request for attorney's fees, noting that the use of the private attorney general theory in *Newman*³⁶ did not constitute a general grant of authority to apply the exception whenever the courts deemed public policy to be furthered.³⁷ Rather, congressional silence should be interpreted as proscribing the equitable powers of the courts to award fees despite plaintiffs' acting as private attorneys general.³⁸ The Court's decision is predicated upon the inability, absent legislative guidance, to make determinations that only certain statutes satisfy the criteria of public importance.³⁹ In addition, the function of private citizens calling the Government to account is at odds with federal law⁴⁰ precluding an award of fees against the United States.⁴¹

The Court determined that since Congress has neither repudiated the judicially created exceptions to the American rule, nor altered the statutory fee provision contained in section 1923,⁴² an award of fees would invade the legislative sphere.⁴³ The Court's argument is not compelling. In light of the judicially created exceptions to the traditional rule,⁴⁴ congressional silence might reasonably be interpreted as congressional acceptance or even authorization of the courts' initiative in shifting fees.⁴⁵ Moreover, while the Court admitted that previous exceptions to the rule were fashioned through its inherent equitable powers,⁴⁶ the Court was unwilling to exercise those same

33. Civil Rights Act of 1964, § 204(a), 42 U.S.C. § 2000a-3(a) (1970).

34. 390 U.S. at 402, *construing* Civil Rights Act of 1964, § 204(b), 42 U.S.C. § 2000a-3(b) (1970).

35. 390 U.S. at 401-02 (footnote omitted).

36. *Id.* at 400.

37. 95 S. Ct. at 1624-25, 44 L. Ed. 2d at 156-57.

38. *Id.* at 1627, 44 L. Ed. 2d at 156-57.

39. *Id.* at 1625, 44 L. Ed. 2d at 157.

40. 28 U.S.C. § 2412 (1970).

41. 95 S. Ct. at 1626, 44 L. Ed. 2d at 158-59.

42. Fee Bill Statute, 28 U.S.C. § 1923 (1970), provides a schedule of docket fees for attorneys in the United States courts, admiralty appellate cases, and the manner of payment of docket fees by the United States Attorney.

43. 95 S. Ct. at 1623, 44 L. Ed. 2d at 154-55.

44. *See* notes 6-11 *supra* and accompanying text.

45. 95 S. Ct. at 1633, 44 L. Ed. 2d at 167 (Marshall, J., dissenting); *Hall v. Cole*, 412 U.S. 1 (1973); *Mills v. Electric Auto-Lite Co.*, 396 U.S. 375, 390-91 (1970).

46. 95 S. Ct. at 1627, 44 L. Ed. 2d at 159.

powers here. This failure to act contradicts previous statements that the existence of a right implies all necessary and appropriate remedies.⁴⁷ When Congress enacts legislation without providing detailed remedies, a suggestion that the courts may not exercise their inherent equitable powers leads to the untenable conclusion that Congress has created a right without a remedy. The failure of Congress to amend the statutory fee provision is irrelevant, for as Justice Marshall, dissenting,⁴⁸ pointed out, even in *Fleischmann*⁴⁹ the Court did not support its decision with this statute.⁵⁰ In fact, the Court denominated the fee statute a "general exception" to the traditional rule.⁵¹ To support the application of a rule with one of its exceptions is a contradiction in terms.

The Court suggested that acceptance of the private attorney general exception would result in a judicial guessing game on the application of the exception.⁵² This fear is unfounded. Despite the Court's belittlement of litigation on right-of-way permits, the Mineral Leasing Act of 1920 was enacted as a landmark conservation measure designed to permit the reassertion of control over the use of public lands and to correct prior abuses.⁵³ Certain other rights, for example those protected by the Constitution, clearly establish policies of the highest priority.⁵⁴ It would seem the Court would permit an award of fees under the Open Housing Act of 1968,⁵⁵ which provides for fees,⁵⁶ but would deny an award when suit was brought under the Civil Rights Act of 1866.⁵⁷ Yet the acts are essentially identical. The gravamen of either action is racial discrimination, and the existence of congressional and constitutional priorities is obvious.⁵⁸ Courts make case-by-case determinations on the applications of rules; such a procedure could be used in this situation. Even if the Court rejected this approach, Justice Marshall has suggested guidelines worthy of adoption.⁵⁹ To justify an award of fees, the courts should determine that the right conferred is shared by the public at large or a segment thereof; the plaintiff's financial interest in the outcome normally would not justify incurring the expense of counsel; and the

47. *Sullivan v. Little Hunting Park Inc.*, 396 U.S. 229, 239 (1969); see Brief of the Lawyers' Committee for Civil Rights Under Law Amicus Curiae in Support of the Decision Below, at 17, *Alyeska Pipeline Serv. Co. v. The Wilderness Soc'y*, 95 S. Ct. 1612, 44 L. Ed. 2d 141 (1975); accord, *Jones v. Alfred Mayer Co.*, 392 U.S. 409, 414 n.13 (1968); *Bell v. Hood*, 327 U.S. 678, 684 (1946).

48. 95 S. Ct. at 1629, 44 L. Ed. 2d at 161.

49. 386 U.S. 714 (1967).

50. 95 S. Ct. at 1633, 44 L. Ed. 2d at 166.

51. 386 U.S. at 718 n.11; see notes 6-11 *supra* and accompanying text.

52. 95 S. Ct. at 1627, 44 L. Ed. 2d at 159-60; see Comment, *The Allocation of Attorney's Fees After Mills v. Electric Auto-Lite Co.*, 38 U. CHI. L. REV. 316, 334 (1971).

53. Brief for Respondent 40.

54. Falcon, *supra* note 6, at 418.

55. Open Housing Act of 1968, §§ 801-901, 42 U.S.C. §§ 3601-19 (1970).

56. 42 U.S.C. § 3612(c). This section states in relevant part: "The court may grant as relief, as it deems appropriate . . . reasonable attorney fees in the case of a prevailing plaintiff: *Provided*, That the said plaintiff in the opinion of the court is not financially able to assume said attorney's fees."

57. Civil Rights Act of 1866, § 1, 42 U.S.C. § 1982 (1970). This section makes no provision for attorney's fees.

58. Falcon, *supra* note 6, at 412.

59. 95 S. Ct. at 1635, 44 L. Ed. 2d at 169.

defendant is capable of spreading the cost to the class benefitting from the litigation.⁶⁰

In applying these criteria to *Alyeska*, Justice Marshall concluded that significant public benefits were derived from the revision of the Mineral Leasing Act and a more thorough analysis of the environmental impact of the pipeline.⁶¹ The second criterion was clearly met, since the only remedy available was an injunction and the direct monetary benefits to the plaintiff were "dwarfed" by the cost of litigation.⁶² The discussion by Justice Marshall of the third criterion was accurate and correct within the confines of *Alyeska* but lacked forcefulness in its general applicability. He suggested Alyeska Pipeline Service Company was the proper party to assume the cost because it adopted the position of the Secretary of the Interior, and received an economic benefit from improved protection of the physical integrity of the pipeline.⁶³ The decision to bypass Congress by not seeking new legislation and to secure the permits despite statutory restrictions was made originally by Alyeska, not the Secretary.⁶⁴ Moreover, Alyeska was a real party in interest with a substantial economic stake in the pipeline and attempted to protect this stake by actively participating in the litigation.⁶⁵ As Justice Marshall suggested, Alyeska is in an ideal position to distribute the costs to the oil consuming public.⁶⁶

While the inability to assess the fee against the federal government is not dispositive in this case, no adequate answer is provided for situations where the federal government is the proper party to bear the costs. Justice Marshall's discussion is not persuasive on this point because in many instances private citizens may challenge actions taken by the Government. He dismissed the issue because respondent failed to challenge the conclusion of the court of appeals.⁶⁷ Assuming a response to the majority exists, the dissent should not have felt restricted by institutional constraints⁶⁸ to decide only those matters actually before the Court.

The decision in *Alyeska* may result in a decrease of public interest litigation and in severe restrictions on the application of the "substantial benefits" doctrine.⁶⁹ In our society, the necessity for having adequate representation cannot be overstated;⁷⁰ nevertheless, the threshold question of whether to initiate litigation and the ability to obtain adequate representation

60. *Id.*

61. *Id.* The original environmental impact statement consisted of seven pages, while the resulting statements constituted more than three thousand pages.

62. *Id.* at 1636, 44 L. Ed. 2d at 170.

63. *Id.* at 1636, 44 L. Ed. 2d at 170-71.

64. Brief for Respondent 73-74.

65. *Id.* at 73-74, 77.

66. 95 S. Ct. at 1637, 44 L. Ed. 2d at 171; see Brief for Respondent 80-81.

67. 95 S. Ct. at 1636, 44 L. Ed. 2d at 170.

68. One of the primary constraints is the effect of stare decisis. The courts are aware that the judicial system functions by previous decisions affecting the outcome of future decisions. Therefore, attempts are made to assure the *ratio decidendi* of a case is narrowly drawn. When the courts are required to decide a case on the basis of stare decisis, maximum flexibility is retained.

69. See notes 26-31 *supra* and accompanying text.

70. Kuenzel, *The Attorney's Fee: Why Not a Cost of Litigation*, 49 IOWA L. REV. 75, 82 (1963).

is dependent upon the distribution of litigation costs.⁷¹ Under the present system, many potential litigants are denied access to the courts because the expense of litigation is greater than any possible recovery.⁷² Application of the private attorney general theory would alleviate this problem by preserving class assets,⁷³ promoting class action suits,⁷⁴ and thereby equalizing access to the courts for groups seeking to litigate significant issues.⁷⁵ However, with rejection of this theory, the cost of correcting the result of disobedience to constitutional or statutory command falls on those seeking obedience, not those who disobeyed.⁷⁶ A wealthy defendant may participate in costly dilatory tactics aimed at forcing his less fortunate opponent to accept an unfavorable settlement or to abandon a valid claim.⁷⁷ Plaintiffs will be deterred⁷⁸ when only injunctive relief is sought because the litigation cost is high⁷⁹ and the cases are not particularly attractive to many attorneys.⁸⁰ Private enforcement of pollution laws⁸¹ and protection of the consumer⁸² may become beyond reach. In essence, whether or not it was the Court's intention, *Alyeska* creates a system designed to forestall litigation.⁸³

Implicit in the rejection of the fee request in *Alyeska* was the severely circumscribed future application of the "substantial benefits" doctrine established in *Mills*.⁸⁴ As in *Mills*, no meticulously detailed remedies were present⁸⁵ which would indicate congressional intent to preclude the courts from exercising their equitable powers.⁸⁶ Additionally, while no monetary recovery from which fees could be paid was obtained, the decisions in *Sprague* and *Mills* indicate that whether the award came from a fund or from assessment against the losing party was not controlling.⁸⁷ Finally, there

71. Note, *supra* note 6, at 1230.

72. *NAACP v. Button*, 371 U.S. 415, 443 (1963); *Allowance of Attorney Fees in Civil Rights Actions*, 7 COLUM. J.L. & SOC. PROB. 381, 382 (1971); Note, *supra* note 6, at 1230.

73. Hornstein, *Legal Therapeutics: The "Salvage" Factor in Counsel Fee Awards*, 69 HARV. L. REV. 658, 682 (1956). When a class of individuals vindicates its statutory rights, its financial resources are not depleted by counsel fees when the fees are taxed to the losing party.

74. *Id.* Because plaintiff's financial resources will not be depleted, the likelihood of litigating an issue is greater; see notes 70-73 *supra* and accompanying text; notes 78-80 *infra* and accompanying text.

75. Comment, *supra* note 10, at 657. See also Falcon, *supra* note 6, at 409.

76. Falcon, *supra* note 6, at 387.

77. Ehrenzweig, *Shall Counsel Fees Be Allowed*, 26 CALIF. ST. B.J. 107 (1951); Hornstein, *supra* note 73, at 658; Note, *supra* note 6, at 1222.

78. Kuenzel, *supra* note 70, at 84; see Note, *Civil Actions for Damages Under the Federal Civil Rights Statutes*, 45 TEXAS L. REV. 1015, 1035 (1967); note 72 *supra*.

79. *NAACP v. Button*, 371 U.S. 415, 443 (1963); *Allowance of Attorney Fees in Civil Rights Actions*, *supra* note 72, at 381. A trial in the district court with an appeal to the circuit court and a petition for certiorari may cost between \$15,000 and \$18,000. *Id.*

80. See note 72 *supra*.

81. Comment, *supra* note 15, at 555. In *The Wilderness Soc'y v. Morton*, 495 F.2d 1026 (D.C. Cir. 1974), the court recognized that the plaintiff might not have undertaken the litigation unless the fees were taxed because the bill of costs indicated that plaintiff's counsel had spent in excess of 4,500 hours since the original complaint was dismissed in the district court. 495 F.2d at 1032.

82. Comment, *supra* note 52, at 330; see note 81 *supra*.

83. Cf. Falcon, *supra* note 6, at 387; see notes 70-80 *supra* and accompanying text.

84. 396 U.S. 375 (1970).

85. See notes 26-31 *supra*.

86. See notes 24 *supra*.

87. 95 S. Ct. at 1632, 44 L. Ed. 2d at 165-66 (Marshall, J., dissenting), citing

was a "substantial benefit" derived in *Alyeska*, namely, the vindication of statutory rights,⁸⁸ the prevention of an environmental and economic disaster,⁸⁹ and the imposition of significant new requirements by Congress which protected the public interest and reflected the environmental, technological, and other concerns which prompted the original litigation.⁹⁰ The sole significant distinction between the two cases rests in the nature of the parties—in *Mills* the plaintiffs were private individuals, while in *Alyeska* the plaintiffs were environmental groups litigating in the public rather than their own private interests. Because *Alyeska* appears to fulfill the criteria established in *Mills*, and the Court did not apply this holding,⁹¹ the conclusion is inevitable that *Mills* must be restricted to its facts.

III. CONCLUSION

The exceptions to the American rule against fee shifting have been keeping pace with and encouraging litigation essential to our national well-being. With *Alyeska* the Court may have adversely affected that prosperity. While the traditional exceptions to the American rule appear viable, the principles in *Mills* have been forsaken and the "substantial benefits" doctrine has been severely restricted. With the high cost of litigation—a very real consideration in determining whether or not to litigate—the Court has indicated a desire to prevent an influx of public interest suits.

Neal B. Shniderman

Expanding Protection for Permissible Trademark Uses: Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc.

Dallas Cap & Emblem, a manufacturer of embroidered cloth emblems, sought an exclusive license from National Hockey League Service, Inc., for the manufacture and sale of embroidered emblems depicting trademarks of the National Hockey League and its member teams.¹ Failing in its attempt

Sprague v. Ticonic Nat'l Bank, 307 U.S. 161, 166-67 (1939) and *Mills v. Electric Auto-Lite Co.*, 396 U.S. 375, 392-94 (1970).

88. Mineral Leasing Act of 1920, § 28, 30 U.S.C. § 185 (1970); National Environmental Protection Act of 1969, 42 U.S.C. §§ 4321-47 (1970).

89. Brief for Respondent 46-47 n.64, citing *The Alaska Pipeline*, SMITHSONIAN, Oct. 1974, at 38, 42 (statement by Russell E. Train, former Administrator of the Environmental Protection Agency).

90. Brief for Respondent 50-51, citing *The Wilderness Soc'y v. Morton*, 495 F.2d 1026, 1033 (D.C. Cir. 1974).

91. See notes 26-31 *supra* and accompanying text.

1. A trademark is defined by the Lanham Act as "any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." 15

to obtain the license, Dallas Cap & Emblem proceeded to manufacture the emblems, which constituted substantial duplications of the trademark symbols and were not connected with any goods or services. The finished product was sold to sporting goods stores without prior authorization by the NHL or its teams. None of the marks was copyrighted.²

The NHL and thirteen of its teams brought suit for damages and injunctive relief, alleging violations of section 32³ and section 43(a)⁴ of the Lanham Act,⁵ and additionally asserting a common law cause of action for unfair competition. The district court denied injunctive relief under sections 32 and 43(a), but found that the sale and manufacture of the emblems constituted unfair competition and enjoined further sale of the emblems without appropriate disclaimers stating that the emblems were not authorized by the plaintiffs.⁶ The court denied all claims for damages. An appeal was taken by all plaintiffs. *Held, affirmed in part, reversed in part, and remanded:* The NHL and each of its teams are entitled to protection against the unauthorized, intentional duplication of their trademarks on embroidered cloth emblems to be sold to the public as a patch for attachment to wearing

U.S.C. § 1127 (1970). A service mark is "a mark used in the sale or advertising of services to identify the services of one person and distinguish them from the services of others." *Id.* The terms "trademark" and "service mark" are used interchangeably and the standards for the protection of each are identical. *Mr. Travel, Inc. v. V.I.P. Travel Serv., Inc.*, 268 F. Supp. 958 (N.D. Ill. 1966). The term "trademark" shall be used herein to designate both trademarks and service marks.

2. U.S. CONST. art. I, § 8 grants to Congress the power to enact legislation for copyright protection; trademarks are protected by common law and state and federal statutes. The test for infringement in the use of copyrighted materials is whether the material has been copied, whereas the test for alleged trademark infringement requires more than a mere showing of reproduction of the protected mark. *See Hollywood Jewelry Mfg. Co. v. Dushkin*, 136 F. Supp. 738, 739 (S.D.N.Y. 1955); 17 U.S.C. §§ 1, 2, 12 (1970); note 22 *infra* and accompanying text. Because the burden of proof for alleged trademark infringement is greater than that for copyright infringement, the degree of protection is correspondingly less than that provided under a copyright. However, trademarks retain their protected status so long as they are used in connection with a business or trade, while 17 U.S.C. § 24 (1970) provides copyright protection for 28 years with renewal available for an additional 28 years only. Copyright protects artistic, literary, and scientific works while the recognition of trademarks serves an entirely different function. *See* 17 U.S.C. § 5 (1970); note 1 *supra*.

3. 15 U.S.C. § 1114 (1970) provides in part that:

(1) Any person who shall, without the consent of the registrant—

(a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive;

shall be liable in a civil action by the registrant for the remedies herein-after provided.

4. 15 U.S.C. § 1125(a) (1970) provides in part:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce . . . shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or in the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

5. 15 U.S.C. §§ 1051-1127 (1970).

6. *Boston Professional Hockey Ass'n v. Dallas Cap & Emblem Mfg., Inc.*, 360 F. Supp. 459 (N.D. Tex. 1973).

apparel. Plaintiffs are entitled to an injunction prohibiting further manufacture and sale of the emblems, and authorization disclaimers suggested by the district court are insufficient to remedy the wrong. *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing, Inc.*, 510 F.2d 1004 (5th Cir. 1975), *petition for cert. filed*, 44 U.S.L.W. 3069 (U.S. Aug. 5, 1975) (No. 75-156).

I. ELEMENTS OF TRADEMARK PROTECTION AND INFRINGEMENT

In medieval Europe merchants found it necessary to attach a proprietary mark to their goods to signify ownership should the goods be recovered after being stolen or lost at sea. Because trade and production were usually local in nature, the consumer was generally acquainted with the manufacturer of the goods he purchased. In time, purchasers came to rely on the proprietary mark as a designation of the origin of the goods.⁷ However, due to modern business techniques⁸ such as franchising, component manufacturing, and wholesaling, today's consumer seldom knows or cares about the particular source of the goods.⁹ Rather, he is more concerned that they come from the same source or reach the market through the same channels of trade as goods which previously bore the same trademark.¹⁰ The mark is also a representation that goods bearing the same mark are or should be of similar quality.¹¹

The trademark is used by the manufacturer to identify his goods and to distinguish them from those of others.¹² It also serves as a symbol of the merchant's goodwill¹³ and as a vehicle for advertising.¹⁴ The trademark is a valuable asset to its owner—in some instances the most valuable asset his business may possess.

Although early cases of trademark infringement were based on the com-

7. For a definitive treatment of the history of trademark law see F. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS* (1925) [hereinafter cited as SCHECHTER]. See generally R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES* (3d ed. 1967); Treece & Stephenson, *A Look at American Trademark Law*, 29 SW. L.J. 547 (1975).

8. See Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 814 (1927). The law does not require the owner of the trademark to be the manufacturer of the goods to which it is attached. *Rouss, Inc. v. Winchester Co.*, 300 F. 706, 722-23 (2d Cir. 1924).

9. See *Family Circle, Inc. v. Family Circle Associates*, 332 F.2d 534, 539 (3d Cir. 1964); SCHECHTER 149-50.

10. The distinction between the consumer knowing the *specific* source of goods and merely being conscious that the goods emanate from the *same* source appears tenuous until one recognizes that infringers have sought to defend their actions on the ground that the consumer was not deceived into buying defendant's goods because the consumer never actually knew the true source of the products. See, e.g., *Coca-Cola Co. v. Koke Co.*, 254 U.S. 143 (1920); *Walter Baker & Co. v. Slack*, 130 F. 514 (7th Cir. 1904); SCHECHTER 150. See also *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 963 (2d Cir. 1918); Schechter, *supra* note 8, at 816.

11. See, e.g., *Coca-Cola Co. v. State*, 225 S.W. 791, 794 (Tex. Civ. App.—Austin 1920, no writ); Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210, 1220 (1931).

12. See note 1 *supra*. See also *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *McLean v. Fleming*, 96 U.S. 245 (1877).

13. See, e.g., *Beech-Nut Packing Co. v. P. Lorillard Co.*, 273 U.S. 629 (1927); *Makara, Good Will, Ill Will and Trademarks*, 39 J. PAT. OFF. SOC'Y 78 (1957).

14. See, e.g., *Mishawaka Rubber & Woolen Co. v. S.S. Kresge Co.*, 316 U.S. 203 (1942); Schechter, *supra* note 8, at 831.

mon law actions of deceit and fraud,¹⁵ contemporary infringement actions in state and federal courts are governed by statute and the law of unfair competition. The Lanham Act,¹⁶ the federal statute dealing with trademarks, provides for registration of trademarks¹⁷ as well as remedies for infringement of an owner's rights to the exclusive use of his mark.¹⁸ The protection provided by the Lanham Act is supplemented by the common law action for alleged unfair competition.¹⁹ Although the Lanham Act's protection is not coextensive with the law of unfair competition,²⁰ the facts that support an action for infringement under the Lanham Act are substantially identical to those in a suit for unfair competition.²¹ Regardless of the form of action chosen by the plaintiff, whether it be grounded in statute or based on the law of unfair competition, the test for trademark infringement is reminiscent of the older common law actions for deceit and fraud.

The test for trademark infringement is whether the use of the alleged infringing mark is likely to cause confusion or mistake or to deceive.²² The rule is sometimes stated as "whether ordinary purchasers, buying under the usual conditions in the trade and exercising ordinary care, would likely be induced to purchase the article to which the accused trade-mark is affixed, believing it to be the plaintiff's article."²³ There need not be a finding of

15. See *Crawshay v. Thompson*, 134 Eng. Rep. 146 (C.P. 1842); *SCHUCHTER* 142-43. Reluctantly, the courts came to recognize a trademark as a species of property. Such recognition by the courts allowed equity to intervene and grant injunctive relief instead of damages, which had been the only remedy provided for an action in deceit or fraud. *Millington v. Fox*, 40 Eng. Rep. 956 (Ch. 1838). In the *Trademark Cases*, 100 U.S. 82 (1879), the Supreme Court characterized a trademark as property, but failed to express its opinion on the scope of the right appurtenant to this form of property. In *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918), the Court backed away from the expansive language in the *Trademark Cases*, indicating that a trademark is only a right to the exclusive use of the mark in certain instances and is not property except in connection with an existing business. See also *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916); Callmann, *Unfair Competition Without Competition? The Importance of the Property Concept in the Law of Trademarks*, 95 U. Pa. L. Rev. 443 (1947).

16. 15 U.S.C. §§ 1051-1127 (1970).

17. *Id.* §§ 1051-52, 1113, 1127.

18. *Id.* §§ 1114(1)(a), 1125(a).

19. The issue in a suit for unfair competition in the use of another's trademark is whether the defendant is "passing off" his goods as those of the plaintiff. *Volkswagenwerk Aktiengesellschaft v. Rickard*, 492 F.2d 474, 478 (5th Cir. 1974).

20. The law of unfair competition is not limited to trademark infringement. More precisely, unfair competition could be termed "unfair trading." See *Witherow Steel Corp. v. Donner Steel Co.*, 31 F.2d 157, 183 (W.D.N.Y. 1929); Callmann, *What is Unfair Competition?*, 28 GEO. L.J. 585 (1940). Other acts which do not constitute trademark infringement but are considered unfair competition include the false representation and disparagement of another's goods. Nims, *Unfair Competition by False Statements or Disparagement*, 19 CORNELL L.Q. 63 (1933).

21. See *Armstrong Paint & Varnish Works v. Nu-Enamel Corp.*, 305 U.S. 315, 325 (1938). Trademark law is but a part of the broader field of the law of unfair competition. *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 413 (1916).

22. See 15 U.S.C. §§ 1052(d), 1114, 1125(a) (1970); *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918); *McLean v. Fleming*, 96 U.S. 245 (1877); *American Foods, Inc. v. Golden Flake, Inc.*, 312 F.2d 619 (5th Cir. 1963) (interpreting 15 U.S.C. § 1114 (1970)); *Safeway Stores, Inc. v. Safeway Properties, Inc.*, 307 F.2d 495 (2d Cir. 1962). See generally Comment, *The Trademark Confusion Test—Good or Bad; Weak or Strong?*, 5 B.C. IND. & COM. L. REV. 401 (1964).

23. *Seven Up Co. v. Cheer Up Sales Co.*, 148 F.2d 909, 911 (8th Cir.), cert. denied, 326 U.S. 727 (1945).

actual confusion but only that such confusion is likely.²⁴ However, the mere possibility of confusion is insufficient to support a claim for relief.²⁵ Confusion may exist between the protected mark and a similar mark²⁶ or, if the marks are identical, between goods of similar descriptive properties.²⁷

A trademark exists only insofar as it is appurtenant to an existing trade or business and is protected only if used in such capacity.²⁸ When a trademark is employed by others in a business unrelated to that of the mark's owner it becomes more difficult to find a likelihood of confusion. To determine the reach of trademark protection in such cases, the courts must first determine the scope of the business activities of the mark's owner.²⁹ The use of an alleged infringing mark violates the owner's right to its exclusive use if it invades this area of protection, so that the purchaser is likely to be induced to believe that the source of the goods is the owner of the mark.

If the scope of trademark protection is expanded to include such "collateral" uses³⁰—the use of a trademark on products and in businesses dissimilar to those to which the trademark is customarily affixed—it will approach the broad protection provided for copyrighted material.³¹ Yet, trademark protection does not reach as far as that provided for copyright.³² Ownership of a trademark does not prohibit its use by others for all purposes. Use of the mark is not limited so long as its use does not deceive the public or jeopardize the owner's goodwill.³³

The scope of trademark protection is inversely proportional to a court's interpretation and application of the confusion test. The less required by a

24. See, e.g., *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609 (7th Cir. 1965), where the court reversed the district court's finding of negligible evidence of actual confusion, emphasizing that confusion need only be likely and that such likelihood may be proved without any actual evidence of confusion. The test for likelihood of confusion is to determine a patron's state of mind and his possible reaction when confronted with plaintiff's and defendant's marks. See also *World Carpets, Inc. v. Dick Littrell's New World Carpets*, 438 F.2d 482 (5th Cir. 1971); *Harold F. Ritchie, Inc. v. Chesebrough-Pond's, Inc.*, 281 F.2d 755 (2d Cir. 1960); *G.D. Searle & Co. v. Charles Pfizer & Co.*, 265 F.2d 385 (7th Cir.), cert. denied, 361 U.S. 819 (1959).

25. See, e.g., *Carter-Wallace, Inc. v. Procter & Gamble Co.*, 434 F.2d 794 (9th Cir. 1970).

26. See, e.g., *Jerry Finn v. Cooper's, Inc.*, 292 F.2d 555 (C.C.P.A. 1961) (picture of a jockey on underwear); *International Harvester Co. v. Howard Worthington, Inc.*, 175 U.S.P.Q. 378 (T.T.A.B. 1972) (the letters IH and HW arranged in similar configurations).

27. See, e.g., *Wall v. Rolls-Royce of America, Inc.*, 4 F.2d 333 (3d Cir. 1925) (use of the name "Rolls-Royce" on automobiles and radio tubes); *HMH Publishing Co. v. Playboy Records, Inc.*, 161 F. Supp. 540 (N.D. Ill. 1958) (use of the word "Playboy" on magazines and records). But see *John Walker & Sons v. Modern Shoe Co.*, 213 F.2d 322 (C.C.P.A. 1954) (same name on whiskey and shoes not likely to confuse); *General Motors Corp. v. Cadillac Marine & Boat Co.*, 226 F. Supp. 716 (W.D. Mich. 1964) (no confusion where the name "Cadillac" appeared on automobiles and boats).

28. See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 96 (1918).

29. The mere registration of a trademark for particular use does not restrict the mark's use on other goods or in other trades. See *Knapp-Monarch Co.*, 296 F.2d 230 (C.C.P.A. 1961); 37 C.F.R. § 2.85(g) (1974).

30. See J. GILSON, *TRADEMARK PROTECTION AND PRACTICE* § 5.05[10] (1974).

31. See note 2 *supra*.

32. In *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90 (1918), the Court said: "In truth, a trade-mark confers no monopoly whatever in a proper sense, but is merely a convenient means for facilitating the protection of one's good-will in trade by placing a distinguishing mark or symbol—a commercial signature—upon the merchandise or the package in which it is sold." *Id.* at 98.

33. See *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924).

court for showing of a likelihood of confusion will correspondingly widen the ambit of protection for a particular trademark. Any such expansion of protection will necessarily involve a broadening of the acceptable uses to which a trademark owner may apply his mark.

II. BOSTON PROFESSIONAL HOCKEY ASSOCIATION V. DALLAS CAP & EMBLEM MANUFACTURING, INC.

The principal business of a professional sports organization is the preparation for and participation in sporting events. However, a seemingly unrelated activity, such as the sale of sweaters, caps, pennants, and similar paraphernalia bearing a team's trademark, is big business, and teams have fought successfully to protect the exclusive right to affix their trademarks to such items.³⁴ The novel situation presented in *Dallas Cap & Emblem* was that a reproduction of the trademark itself had been manufactured and sold unattached to any goods or services.³⁵ Plaintiffs conclusively established three of the elements necessary for a section 1114 cause of action³⁶ in that the emblems were substantial duplications of plaintiffs' marks, the sale of the emblems was unauthorized, and the emblems were sold in interstate commerce. The significant issues which demanded the court's attention were whether the plaintiffs' trademarks were used in connection with the sale of goods and whether such use was likely to cause confusion.³⁷

Trademark law contemplates that a mark will obtain the status of a protected property right only when it is affixed to goods or services.³⁸ Without the designs embroidered on the cloth patches defendant's product would be valueless to hockey fans desiring to purchase emblems depicting the marks of their favorite teams. This identification with the plaintiffs' trademarks is, of course, one of the functions a trademark was intended to serve. A trademark sells the goods to which it is affixed. The plaintiffs' marks were, in essence, the product being sold and the embroidered cloth emblems were the "goods" to which the trademark was attached even though the motif covered the entire face of the product. The court found, therefore, that the trade-

34. See *National Football League Properties, Inc. v. Consumer Enterprises, Inc.*, 180 U.S.P.Q. 90 (Ill. Ct. App. 1973), where the court found the manufacture and sale of embroidered cloth emblems similar to those manufactured by Dallas Cap & Emblem created a likelihood of confusion sufficient to uphold the injunction granted by the lower court pending trial. See also *Boston Professional Hockey Ass'n v. Reliable Knitting Works, Inc.*, 178 U.S.P.Q. 274 (E.D. Wis. 1973) (injunction prohibiting sale and manufacture of knitted caps with emblems bearing team's trademark attached thereto).

35. 510 F.2d 1004, 1010 (5th Cir. 1975), *petition for cert. filed*, 44 U.S.L.W. 3069 (U.S. Aug. 5, 1975) (No. 75-156).

36. 15 U.S.C. § 1114 (1970); see note 3 *supra*.

37. In 1962 Congress rewrote § 1114(1)(a) and deleted the phrase "purchasers as to the source of origin of such goods or services" following the words "likely to cause confusion, or to cause mistake, or to deceive." 15 U.S.C. § 1114(1)(a) (1952), *as amended*, (1970). Courts have interpreted this as an attempt to "outlaw the use of trademarks which are likely to cause confusion, mistake, or deception of any kind, not merely of purchasers nor simply as to source of origin." *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2d Cir. 1971). *But see Redken Laboratories, Inc. v. Clairol, Inc.*, 350 F. Supp. 1301, 1305 n.10 (C.D. Cal. 1972); S. REP. No. 2107, 87th Cong., 2d Sess. 7 (1962).

38. See *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918).

marks were used "in connection with" the sale of goods³⁹ no less than if the emblems had been attached to knitted caps.⁴⁰

The defendant was correct in claiming that the cloth emblems were copies of an ornament produced by the plaintiffs. However, the fact that a product is capable of being sold as ornamentation does not preclude protection for the trademark owner.⁴¹ *Olin Corp.*⁴² concerned the defendant's unauthorized use of plaintiff's trademark displayed on the front of t-shirts. The Trademark Trial and Appeal Board held that plaintiff would be denied registration of its mark only if the value of the symbol was derived solely from its use as ornamentation, but noted that if the mark could serve in any capacity as a representation of source it qualified for registration as a trademark.⁴³

The purchaser seldom knows the actual source of the goods he purchases.⁴⁴ The court recognized the fact that a typical purchaser might know that the trademarks emanated from the teams and would not be deceived in that respect.⁴⁵ However, the confusion test is no longer restricted in scope to deception as to the source of origin⁴⁶ and the court refused to so limit the confines of its inquiry.⁴⁷

If the purchaser relies on the mark as a symbol of something other than the particular source of the goods,⁴⁸ he is nonetheless being deceived. The degree to which plaintiff must show a likelihood of confusion will depend upon the strength and notoriety of his mark and the extent to which a typical purchaser is likely to rely upon the mark when buying the goods.⁴⁹ The likelihood of confusion, therefore, lies in the fact the hockey fan would rely on the mark as the "official" trademark of the teams when purchasing the emblems.⁵⁰

39. 510 F.2d at 1011.

40. See *Boston Professional Hockey Ass'n v. Reliable Knitting Works, Inc.*, 178 U.S.P.Q. 274 (E.D. Wis. 1973), wherein the court enjoined defendant's use of plaintiff's mark on knitted caps.

41. Compare *Wyatt Earp Enterprises, Inc. v. Sachman, Inc.*, 157 F. Supp. 621 (S.D.N.Y. 1958), with *Eagle-Freedman-Roedelheim Co. v. Allison Mfg. Co.*, 204 F. Supp. 679 (E.D. Pa. 1962).

42. 181 U.S.P.Q. 182 (T.T.A.B. 1973).

43. Closely related are those cases in which the aesthetic characteristics of a product and not the trademark itself triggered the sale. Such characteristics are considered "functional" and not subject to trademark protection. See *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Pagliero v. Wallace China Co.*, 198 F.2d 339 (9th Cir. 1952). Commentators, although in agreement with the results, have criticized the reasoning in the *Sears* and *Compco* decisions. See Leeds, *The Impact of Sears and Compco*, 55 TRADEMARK REP. 188 (1965). The court in *Dallas Cap & Emblem* found the principles of the functional product doctrine to be inapplicable where the "design or symbol has no demonstrated value other than its significance as the trademark of a hockey team." 510 F.2d at 1013.

44. See note 9 *supra* and accompanying text.

45. See, e.g., *Girl Scouts of the United States v. Personality Posters Mfg. Co.*, 304 F. Supp. 1228 (S.D.N.Y. 1969), where the court found that posters depicting a pregnant Girl Scout would not lead supporters of the organization to believe the posters emanated from the Girl Scouts.

46. See note 37 *supra*.

47. 510 F.2d at 1012.

48. *Id.*

49. See notes 10, 11 *supra*.

50. The scope of the protection afforded a mark will depend in part upon the strength of the mark. *Sunbeam Furniture Corp. v. Sunbeam Corp.*, 191 F.2d 141, 144-45 (9th Cir. 1951). See also *Pease v. Scott County Milling Co.*, 5 F.2d 524, 526 (E.D.

It is unlikely that a potential purchaser of defendant's emblems would be anyone other than a person familiar with the teams' trademarks. A consumer in the market for embroidered emblems would not be led to believe that the source of the trademark was someone other than the plaintiffs. The deception lies in the fact that the defendant intentionally manufactured and sold the emblems knowing that potential purchasers would identify plaintiffs' trademarks on defendant's product and buy them on the basis of such identification.⁵¹ Confusion, the court stated, was "self-evident from the nature of defendant's use of plaintiffs' marks."⁵² The plaintiffs' satisfactory showing of a likelihood of confusion was also sufficient to support a claim of "false representation of origin" under section 1125.⁵³

The court found the disclaimer of authorization ordered by the district court insufficient to remedy the confusion and harm created by defendant's use of plaintiffs' marks.⁵⁴ This aspect of the case is significant when considered in light of the fact that such disclaimers are usually adequate to remedy the confusion.⁵⁵ The court, however, was referring only to the inadequacy of disclaimers when an exact duplication covers the entire face of the product. A disclaimer might be adequate if applied to an emblem which constitutes an exact duplication because the application of such a disclaimer would alter the motif which previously covered the face of the product. This, in itself, would create substantial dissimilarity between the marks and be adequate to alleviate any misconception as to the emblems being an "official" team product. Should a court favor this reasoning, however, the infringer's victory might be a hollow one. Consumers seeking an "official" product would probably be unwilling to purchase emblems which boldly disclaimed any authorization by the teams. A disclaimer applied to the face of emblems covered solely by plaintiffs' trademarks would likely defeat the defendant's primary purpose of trading on the goodwill and sales appeal generated by the plaintiffs' trademarks.

Finally, the district court was worried lest it create a monopoly similar to a copyright monopoly by granting injunctive relief to the plaintiffs.⁵⁶ The circuit court was correct when it pointed out that such would not be the case.⁵⁷ Admittedly, the plaintiffs could not expect protection for the exclusive use of their trademarks on every conceivable product or service.

Mo. 1925). In *Polaroid Corp. v. Polarad Electronics Corp.*, 287 F.2d 492, 495 (2d Cir. 1961), the court noted variables which a court might utilize in finding a likelihood of confusion: "[T]he strength of his mark, the degree of similarity between the two marks, the proximity of the products . . . the quality of defendant's product, and the sophistication of the buyers."

51. See *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 314 F.2d 149 (9th Cir. 1963); *Northam Warren Corp. v. Universal Cosmetic Co.*, 18 F.2d 774 (7th Cir. 1927).

52. 510 F.2d at 1012.

53. *Id.* at 1012-13; see note 4 *supra*. The court found substantial evidence to support a claim for unfair competition and affirmed the district court on this point.

54. 510 F.2d at 1013.

55. In *Societe Comptoir de L'Industrie Cotonniere Etablissements Boussac v. Alexander's Dep't Stores, Inc.*, 299 F.2d 33 (2d Cir. 1962), the court found no confusion where a rival of Christian Dior truthfully labeled his garments as copies of Dior originals. See also *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968); *Livermore, On Uses of a Competitor's Trademark*, 59 TRADEMARK REP. 30, 40 (1969).

56. 360 F. Supp. at 464.

57. 510 F.2d at 1014.

The court found persuasive the fact that the sale of embroidered cloth emblems bearing the teams' trademarks was within the scope of the business activities of a professional sports organization.⁵⁸ The teams had, in fact, either engaged in or authorized the sale of similar embroidered cloth emblems as well as other products bearing their trademarks.⁵⁹ Through their use of the marks, plaintiffs had acquired a property right in them which extended to the reproduction and sale of embroidered cloth emblems bearing their trademarks.

III. CONCLUSION

To keep pace with the competitive demands of business an ever increasing number of entrepreneurs are choosing a more direct route to success by appropriating existing trademarks to their own use. In response, the courts are widening the scope of a trademark owner's right to the exclusive use of his mark. Refusing to confine itself to the strict source of origin test, the court in *Dallas Cap & Emblem* found a likelihood of confusion in the fact that defendant knew the consuming public would rely solely on the plaintiffs' trademarks in purchasing its emblems. The apparent lack of confidence in disclaimers as an adequate remedy for the confusion created by exact trademark duplication is, in all probability, limited to similar fact situations where the trademark symbol covers the entire face of the product. Any future fears of possible monopolies for trademarks similar to copyright monopolies will be alleviated by reasoned application of the likelihood of confusion test. For the present, the traditional tests for trademark infringement seem adaptable to contemporary trademark theory and adequate to aid in coping with situations as unique as that presented in *Dallas Cap & Emblem*.

Steve Amis

58. *Id.* at 1011.

59. In *Boston Professional Hockey Ass'n v. Reliable Knitting Works, Inc.*, 178 U.S.P.Q. 274, 276 (E.D. Wis. 1973), the court made note of the fact that the teams do engage in the business of selling numerous products as souvenirs including emblems bearing their trademark.

Iannelli v. United States— Application of Wharton's Rule

Robert Iannelli and others were indicted in Pennsylvania for conspiring to violate and for violating federal gambling statutes.¹ The defendants moved to dismiss the conspiracy count,² contending that Wharton's Rule prohibited prosecution for both conspiracy and violation of 18 U.S.C. § 1955. The district court dismissed the motion and the defendants were convicted for both conspiracy and the substantive offense.³ The United States Court of Appeals for the Third Circuit, affirming the lower court's decision, found that prosecution for conspiracy and the substantive offense was permitted despite Wharton's Rule, because more than the minimum number of defendants set by the statute were indicted.⁴ The Supreme Court granted certiorari.⁵ *Held, affirmed*: Wharton's Rule is a mere judicial presumption which does not prohibit prosecution for both conspiracy and the substantive offense when legislative history indicates an intent that prosecution for both offenses better serves to accomplish the ends for which the statute was enacted. *Iannelli v. United States*, 95 S. Ct. 1284, 43 L. Ed. 2d 616 (1975).

I. PRIOR APPLICATION OF WHARTON'S RULE

Conspiracy is often said to be an evil which may be prosecuted separately from the evil which is the purpose of the collective agreement.⁶ Wharton's

1. Petitioners were indicted under 18 U.S.C. § 1955 (1970), which provides in part:

(a) Whoever conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business shall be fined not more than \$20,000 or imprisoned not more than five years, or both.

(b) As used in this section—

- (1) "illegal gambling business" means a gambling business which—
 - (i) is a violation of the law of a State or political subdivision in which it is conducted;
 - (ii) involves five or more persons who conduct, finance, manage, supervise, direct, or own all or part of such business; and
 - (iii) has been or remains in substantially continuous operation for a period in excess of thirty days or has a gross revenue of \$20,000 in any single day.

2. The conspiracy indictment was brought under the general conspiracy statute, 18 U.S.C. § 371 (1970), which provides:

If two or more persons conspire either to commit any offense against the United States, or to defraud the United States or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each shall be fined not more than \$10,000 or imprisoned not more than five years, or both.

3. *United States v. Iannelli*, 339 F. Supp. 171 (W.D. Pa. 1972).

4. *Iannelli v. United States*, 477 F.2d 999 (3d Cir. 1974).

5. *Iannelli v. United States*, 417 U.S. 907 (1974).

6. The Supreme Court has consistently recognized that a conspiracy and its completed substantive offense are separate and distinct crimes. See *Callanan v. United States*, 364 U.S. 587, 593 (1961); *Pereira v. United States*, 347 U.S. 1, 11 (1954); *Pinkerton v. United States*, 328 U.S. 640, 644 (1946). This principle is based on the rationale that a conspiracy magnifies the dangers attendant upon a substantive offense. In *United States v. Rabinowich*, 283 U.S. 78, 88 (1915), the Court discussed the dangers of conspiracy as follows:

For two or more to confederate and combine together to commit or cause to be committed a breach of the criminal laws is an offense of the gravest character, sometimes quite outweighing, in injury to the public, the

Rule is an exception to that principle.⁷ The rule has traditionally been applied to bar prosecution for conspiracy under statutes requiring concerted activity.⁸ For the most part, the rule has appeared in the case of two-party crimes,⁹ such as bribery¹⁰ and adultery.¹¹ Application of Wharton's Rule has been justified by the rationale that an agreement to commit a crime requiring concerted activity poses no danger other than that inherent in the substantive offense.¹²

The rule has also been justified as an embodiment of legislative intent.¹³ When enacting a sanction for a crime requiring concerted activity, the legislature presumably has taken into consideration any dangers posed by the necessary agreement. Application of the rule insures that the prosecution will not subvert legislative intent by utilizing a charge for conspiracy to obtain punishment in excess of the statutory limit.¹⁴

While the appealing justifications for Wharton's Rule suggest pervasive application, the courts have employed it only in limited situations. Wharton's Rule will be applied if and only if (1) the substantive offense has been committed,¹⁵ (2) concerted activity is logically necessary for the commission

mere commission of the contemplated crime. It involves deliberate plotting to subvert the laws, educating and preparing conspirators for further and habitual criminal practices. And it is characterized by secrecy, rendering it difficult of detection, requiring more time for its discovery, and adding to the importance of punishing it when discovered.

For a general discussion of this area see *Developments in the Law—Criminal Conspiracy*, 72 HARV. L. REV. 920, 968-71 (1959).

7. The rule, which was first formulated in an early edition of Wharton's text, essentially provides: "An agreement by two persons to commit a particular crime cannot be prosecuted as a conspiracy when the crime is of such a nature as to necessarily require the participation of two persons for its commission." 1 R. ANDERSON, WHARTON'S CRIMINAL LAW & PROCEDURE 191 (1957).

8. An application of the premise upon which the rule was later formulated first appeared in *Shannon v. Commonwealth*, 14 Pa. 226 (1850). In that case a man and a woman were indicted for conspiring to commit adultery. The court held that conspiracy was a necessary ingredient of the substantive offense; therefore, a separate charge of conspiracy could not stand. For a discussion of the various aspects of the rule see *Developments in the Law*, *supra* note 6, at 953-56.

9. The classic Wharton's Rule crimes are bribery, dueling, bigamy, incest, and adultery. 2 F. WHARTON, CRIMINAL LAW 1746 (11th ed. 1912).

10. See *People v. Wettengel*, 18 Colo. 193, 58 P.2d 279 (1935). See also *United States v. Sager*, 49 F.2d 725 (2d Cir. 1931); *United States v. Dietrich*, 126 F. 664 (C.C.D. Neb. 1904).

11. See *Miles v. State*, 58 Ala. 390 (1877). See also *State v. Law*, 189 Iowa 910, 179 N.W. 145 (1920); *Shannon v. Commonwealth*, 14 Pa. 226 (1850).

12. The premise upon which the rule was formulated was originally based on double jeopardy principles. See *Shannon v. Commonwealth*, 14 Pa. 226 (1850). However, following the rationale that prosecution for conspiracy is a sanction for collective agreements posing additional dangers rather than a sanction for attempts, the Supreme Court has held that double jeopardy does not prohibit a conspiracy charge. *Carter v. McLaughlin*, 183 U.S. 365 (1902). See generally *Pinkerton v. United States*, 328 U.S. 640 (1946); *People v. Purcell*, 304 Ill. App. 215, 26 N.E.2d 153 (1940); Ireland, *Double Jeopardy and Conspiracy in the Federal Courts*, 40 J. CRIM. L. & C. 445, 449-50 (1949). It has been suggested that the rule also be justified as a means of protecting a defendant from the disadvantages of a conspiracy prosecution. See Comment, *Gambling Under the Organized Crime Control Act: Wharton's Rule and the Odds on Conspiracy*, 59 IOWA L. REV. 452, 455-57 (1973).

13. See, e.g., *Vannata v. United States*, 289 F. 424 (2d Cir. 1923); *State v. McLaughlin*, 132 Conn. 235, 44 A.2d 116 (1945).

14. *United States v. New York C. & H.R.R.*, 146 F. 298 (C.C.S.D.N.Y. 1906), *aff'd*, 212 U.S. 451 (1909); *United States v. Cogan*, 266 F. Supp. 374 (S.D.N.Y. 1967).

15. 2 F. WHARTON, *supra* note 9, at 1746, stating that "[w]hen the offense is not consummated, and the conspiracy is one which by evil means a combination of persons is employed to effectuate, this combination is of itself indictable." See *United States v. Iannelli*, 339 F. Supp. 171 (W.D. Pa. 1972).

of the substantive offense,¹⁶ (3) every ingredient of the conspiracy is present in the completed crime,¹⁷ (4) the law defining the substantive offense specifies a punishment for all the necessary participants,¹⁸ and (5) the conspiracy does not involve a greater number of participants than the number required to commit the substantive offense, the so-called "third party exception."¹⁹ These limitations restrict application of the rule in order to minimize the dangers²⁰ to society which are magnified by the collective agreement inherent in a conspiracy to engage in criminal conduct.²¹

The narrow policy objectives for Wharton's Rule and the limitations set forth above prevent expeditious application to modern statutes.²² Such a statute is section 1955. In an effort to combat the influx of organized crime, Congress enacted section 1955 to provide federal prosecution for illegal gambling activity.²³ The statute, which requires five participants, is aimed primarily at large-scale gambling activity reaching interstate proportions.²⁴

The federal courts have been at odds with respect to the application of Wharton's Rule to a section 1955 offense.²⁵ In *United States v. Becker*²⁶ the

16. The rule will not be applied where one person could have committed the offense alone. *United States v. Holte*, 236 U.S. 140 (1915); *Heike v. United States*, 227 U.S. 131 (1913). The definition of the offense presented by the statute will be the primary aid for determining the applicability of the rule. *Lisansky v. United States*, 31 F.2d 846 (4th Cir.), *cert. denied*, 279 U.S. 873 (1929); *United States v. Greenberg*, 334 F. Supp. 1092 (N.D. Ohio 1971).

17. In *Pinkerton v. United States*, 328 U.S. 640, 643 (1946), the Court stated: "There are, of course, instances where a conspiracy charge may not be added to the substantive charge. One is where the agreement of two persons is necessary for the completion of the substantive crime, and there is no ingredient in the conspiracy which is not present in the completed crime." See also *United States v. Bobo*, 477 F.2d 974 (4th Cir. 1973); *Old Monastery Co. v. United States*, 147 F.2d 905 (4th Cir. 1945).

18. *Ex parte O'Leary*, 53 F.2d 956 (7th Cir.), *cert. denied*, 283 U.S. 830 (1931); *Vannata v. United States*, 289 F. 424 (2d Cir. 1923).

19. See *State v. Clemson*, 123 Iowa 524, 99 N.W. 139 (1904). The limitation is based on the rationale that additional parties pose dangers greater than those taken into consideration by the legislature when enacting the statute. See *Old Monastery Co. v. United States*, 147 F.2d 905, 907-08 (4th Cir.), *cert. denied*, 326 U.S. 734 (1945). For a discussion of the "third party exception" see *United States v. Figueredo*, 350 F. Supp. 1031, 1035 (M.D. Fla. 1972), *rev'd on other grounds sub nom.* *United States v. Vaglica*, 490 F.2d 799 (5th Cir. 1974); Comment, *supra* note 12, at 460.

20. See note 6 *supra*.

21. The limitations insure that the rule will not be applied when the antisocial effects of an offense reach persons who are not the necessary participants of that offense. See *Lisansky v. United States*, 31 F.2d 846, 849 (4th Cir.), *cert. denied*, 279 U.S. 873 (1929). The rule, therefore, will be consistent with the rationale that a conspiracy may pose additional dangers to society.

22. Courts that have considered the rule have reached a variety of conclusions. See, e.g., *United States v. Holte*, 236 U.S. 140 (1915) (transportation in interstate commerce for purposes of prostitution); *Heike v. United States*, 227 U.S. 131 (1913) (fraud); *United States v. Bobo*, 477 F.2d 974 (4th Cir. 1973) (unlawful gambling); *United States v. Dietrich*, 126 F. 664 (C.C.D. Neb. 1904) (bribing a United States Senator); *United States v. Shevlin*, 212 F. 343 (D. Mass. 1913) (smuggling).

23. This statute was enacted as a part of the Organized Crime Control Act of 1970, 84 Stat. 922 (codified in scattered sections of 18 U.S.C.).

24. *Hearings on S. 30 and Related Proposals Before Subcomm. No. 5 of the House Comm. on the Judiciary*, 91st Cong., 2d Sess., ser. 27, at 93, 194 (1970) [hereinafter cited as *Hearings*]. Small-scale gambling operations which do not meet the requirements set by § 1955 are still prohibited where existing state laws so provide. *Id.* at 194.

25. In this respect, the court in *United States v. Bobo*, 477 F.2d 974, 985-86 (4th Cir. 1973), stated: "The cases decided on the issue of what constitutes an unindictable conspiracy reveal that Wharton's Rule, rather than being a rule, is a concept, the confines of which have been delineated in widely diverse fashion by the courts."

26. 461 F.2d 230, 234 (2d Cir. 1972), *vacated and remanded on other grounds*, 417 U.S. 903 (1974).

court utilized the "third party exception" of Wharton's Rule²⁷ to hold that the rule did not apply to bar an indictment for conspiracy to violate section 1955 where the conspiracy involved a greater number of participants than the number necessary for commission of the substantive offense.²⁸ This reasoning was rejected, however, in *United States v. Figueredo*,²⁹ where a section 1955 conspiracy indictment against eight defendants charged with the substantive offense was dismissed. The court in *Figueredo*, finding that the *Becker* holding rested on a mistaken use of the "third party exception," determined that the number of defendants indicted under section 1955 was irrelevant.³⁰ Rather, application of the rule depended upon the nature of the additional defendants.³¹

The conflict between the holdings of the *Becker* and *Figueredo* courts involved a disagreement regarding the nature of the five-party requirement in section 1955. A further difficulty is posed by the variety of activities prohibited by the statute.³² In *United States v. Bobo*³³ the court stated that Wharton's Rule is applicable to indictments under section 1955 only if the conspiracy and the completed offense are so interrelated as to constitute one single act.³⁴ Reviewing the variety of activities involved in a violation of section 1955, the court determined that participants could each engage in a different number of prohibited activities.³⁵ In addition, each activity could involve separate agreements between some or all of the participants.³⁶ Based upon this reasoning, the court held that the section 1955 conspiracy and the maintenance of the completed offense were separate acts precluding the application of Wharton's Rule to dismiss the conspiracy indictment.³⁷

The justifications for Wharton's Rule indicate that a clear expression of the legislative intent in enacting section 1955 would put the controversy to rest.³⁸

27. See note 19 *supra*.

28. 461 F.2d at 234. The court based its holding on *United States v. Benter*, 457 F.2d 1174 (2d Cir.), *cert. denied*, 409 U.S. 842 (1972).

29. 350 F. Supp. 1031 (M.D. Fla. 1972), *rev'd on other grounds sub nom.* *United States v. Vaglica*, 490 F.2d 799 (5th Cir. 1974).

30. 350 F. Supp. at 1035.

31. *Id.*, *accord*, *United States v. Hunter*, 478 F.2d 1019 (7th Cir.), *cert. denied*, 414 U.S. 857 (1973); *United States v. Greenberg*, 334 F. Supp. 1092 (N.D. Ohio 1971).

32. Section 1955 provides a penalty for those who conduct, finance, manage, supervise, direct, or own all or part of an illegal gambling business. See note 1 *supra*.

33. 477 F.2d 974 (4th Cir. 1973).

34. *Id.* at 987.

35. *Id.*

36. *Id.*

37. The court stated that three elements must co-exist before the rule may apply:

[T]he immediate effect of the act in view, which is the gist of the substantive offense, reaches only the participants therein; the agreement of the participants is necessary for the completion of the substantive offense; and the conspiracy must be in such close connection with the substantive offense as to be inseparable from it.

Id.; *accord*, *United States v. Becker*, 461 F.2d 230 (2d Cir. 1972), *vacated and remanded on other grounds*, 417 U.S. 903 (1974); *United States v. Benter*, 457 F.2d 1174 (2d Cir.), *cert. denied*, 409 U.S. 842 (1972); *United States v. Whitaker*, 372 F. Supp. 154 (M.D. Pa. 1974).

38. The Court in *United States v. Katz*, 271 U.S. 354, 357 (1926), stated:

All laws are to be given a sensible construction; and a literal application of a statute, which would lead to absurd consequences, should be avoided whenever a reasonable application can be given to it, consistent with the legislative purpose In ascertaining that purpose, we may examine the title of the Act . . . the source in previous legislation of the particular

However, few courts have offered such an analysis.³⁹ In an attempt to interpret the legislative history for section 1955, the court in *Figueredo* looked to 18 U.S.C. § 1511.⁴⁰ The court found that Congress, by explicitly providing a penalty for conspiracy in section 1511, had demonstrated an ability to distinguish between a conspiracy and the general dangers posed by organized gambling.⁴¹ Accordingly, the court reasoned, the absence of a similar provision in section 1955 indicates a congressional desire to preclude an indictment for both conspiracy and the completed crime.⁴² While the line of reasoning employed by the court in *Figueredo* is plausible, alternative interpretations have been proposed.⁴³ One such interpretation⁴⁴ emphasizes an attempt by Congress to insure against the infringement of a defendant's rights.⁴⁵ The absence of language explicitly barring conviction for conspiring to violate and violating section 1955 suggests that the policy considerations underlying Wharton's Rule were weighed against the interests of society and rejected.⁴⁶

II. IANNELLI V. UNITED STATES

The Supreme Court in *Iannelli* determined that Wharton's Rule is presumed to apply to prosecutions under statutes requiring concerted activity unless legislative intent is to the contrary.⁴⁷ Based on an examination of the legislative history for section 1955, the Court concluded that the general purpose set by Congress for that statute was to provide a means for

provision in question . . . and the legislative scheme or plan by which the general purpose of the Act is to be carried out.

39. A few courts have offered a cursory analysis. See, e.g., *Callanan v. United States*, 364 U.S. 587, 594 (1961); *United States v. Kohne*, 347 F. Supp. 1178, 1186 (W.D. Pa. 1972).

40. 18 U.S.C. § 1511 (1970) provides in part:

(a) It shall be unlawful for two or more persons to conspire to obstruct the enforcement of the criminal laws of a State or political subdivision thereof, with the intent to facilitate an illegal gambling business if—

(1) one or more of such persons does any act to effect the object of such a conspiracy;

(2) one or more of such persons is an official or employee, elected, appointed, or otherwise, of such State or political subdivision; and

(3) one or more of such persons conducts, finances, manages, supervises, directs, or owns all or part of an illegal gambling business.

41. 350 F. Supp. 1031, 1036 (M.D. Fla. 1972), *rev'd on other grounds sub nom. United States v. Vaglica*, 490 F.2d 799 (5th Cir. 1974).

42. 350 F. Supp. at 1036.

43. In *United States v. Pacheco*, 489 F.2d 554 (5th Cir. 1974), the court reasoned that the concerted activity requirement in §§ 1955 and 1511 was only a jurisdictional requirement unrelated to the criminal character of the prohibited conduct. The court concluded that Congress had not viewed § 1955 as that type of offense to which Wharton's Rule would apply. 489 F.2d at 559. The emphasis placed on the federal jurisdictional aspects of § 1955 by Congress would appear to support this interpretation. See REPORT OF THE COMM. ON THE JUDICIARY, S. REP. NO. 91-617, 91st Cong., 1st Sess. 70-76 (1969).

44. See Note, *Wharton's Rule and Conspiracy To Operate an Illegal Gambling Business*, 30 WASH. & LEE L. REV. 613, 627 (1973).

45. *Id.* See also *Hearings* 94.

46. The legislative history mentions a desire "to produce an appropriate accommodation between the interests of society in controlling crime and the rights of every individual" *Id.*

47. *Iannelli v. United States*, 95 S. Ct. 1284, 43 L. Ed. 2d 616 (1975). The Court determined the rule "has current vitality only as a judicial presumption, to be applied in the absence of legislative intent to the contrary." *Id.* at 1292, 43 L. Ed. 2d at 625.

controlling the increasing magnitude of organized crime.⁴⁸ This conclusion is convincingly supported by a congressional determination that illegal gambling activity provides a large portion of the revenue utilized in organized criminal activity.⁴⁹ The Court additionally found that Congress viewed the conspiracy prosecution as an effective weapon in the combat against organized crime.⁵⁰ These findings clearly indicate that the general purpose attributed to section 1955 by Congress is contrary to a 'presumption that Wharton's Rule should be applied to bar a conspiracy conviction.

The Court made further use of its interpretation of legislative intent to support two arguments. In the first argument the Court reasoned that the dissimilarity between the activity inherent in an illegal gambling operation and the kinds of activity found in traditional Wharton's Rule offenses advised against an application of the rule to section 1955.⁵¹ In an examination of the activities prohibited by section 1955, the Court found that illegal gambling activity involves participants fulfilling a variety of different roles. These roles in turn generate additional agreements aimed at educating and preparing an expanding number of participants to operate a complex gambling organization. The Court emphasized that documented testimony from the legislative history displays clear congressional concern for the antisocial consequences resulting from engagement in this activity.⁵² This emphasis suggests the Court found that individual interests protected by Wharton's Rule are outweighed by society's interest in effective government control of organized crime.⁵³

In its second argument the Court ascertained that the five-party concerted activity requirement in section 1955⁵⁴ was dissimilar from the concerted activity requirement of traditional Wharton's Rule offenses.⁵⁵ Unlike adultery or bribery, the activity prohibited by section 1955 can be main-

48. This method of statutory interpretation is consistent with prior cases holding that the general purpose attributed to a statute by a legislature should be used as a guide to a judicial interpretation of that statute. See *United States v. Katz*, 271 U.S. 354 (1925).

49. See *Hearings on S. 30, S. 974, S. 975, S. 976, S. 1623, S. 1624, S. 1861, S. 2022, S. 2122, S. 2292 Before the Subcomm. on Criminal Laws and Procedures of the Comm. on the Judiciary*, 91st Cong., 1st Sess. 112 (1969).

50. 95 S. Ct. at 1295-96, 43 L. Ed. 2d at 629. The Court is specifically referring to the use of conspiracy by Congress in the language of § 1511. *Id.* The conclusion is also supported by a study which indicates that prosecution for conspiracy "provides an effective substantive tool with which to confront the criminal groups." PRESIDENT'S COMMISSION ON LAW ENFORCEMENT AND ADMINISTRATION OF JUSTICE: *THE CHALLENGE OF CRIME IN A FREE SOCIETY* 466 (1968).

51. The Court made note of the fact that the harm resulting from the commission of a § 1955 offense reaches persons who are not participants in the offense. 95 S. Ct. at 1293, 43 L. Ed. 2d at 627. Traditional application of Wharton's Rule was based on the rationale that the conspiracy posed no additional dangers to society. See *People v. Purcell*, 305 Ill. App. 215, 26 N.E.2d 153 (1940). Therefore, when the legislature has displayed a concern for additional dangers to society posed by a conspiracy to commit a particular crime, application of the rule is questionable. For a discussion see Note, *Wharton's Rule and Conspiracy To Operate an Illegal Gambling Business*, 30 WASH. & LEE L. REV. 613 (1973).

52. Senator McClellan stated that "organized crime supports and promotes unorganized crime." *Hearings* 86. See also PRESIDENT'S COMMISSION, *supra* note 50 at 437-86.

53. See note 46 *supra*.

54. 18 U.S.C. § 1955 (1970) only prohibits gambling activity involving five or more persons.

55. 95 S. Ct. at 1293, 43 L. Ed. 2d at 626-27 (1975).

tained with less than the number of participants required by the statute.⁵⁶ The Court reasoned, therefore, that the requirement was merely for jurisdictional purposes. The Court also pointed out that the requirements for prosecution under section 1955 were designed to insure that only large-scale gambling operations reaching interstate proportions would fall within the purview of federal jurisdiction.⁵⁷ The Court's argument leads to the conclusion that the concerted activity requirement of section 1955 is only functional and does not justify application of Wharton's Rule.⁵⁸

The primary conflict between the majority and the dissent in *Iannelli* involves what the dissent terms the "rule of separability."⁵⁹ Justice Douglas argued that a conspiracy should be separated from its completed offense only when prosecution for conspiracy will provide a sanction for dangers not defined in the substantive crime. This argument suggests that the dissent views merger to be the rule and separability an aid to discernment of legislative intent. Unlike the majority, the dissent would separate a conspiracy only when legislative intent so warrants. Justice Douglas maintained that the elements of conspiracy are inherent in a section 1955 offense. The statute was designed primarily to provide prosecution for "syndicated gambling," which Congress feared to be a forum for agreements to engage in related criminal activities.⁶⁰ In this light, section 1955 is primarily aimed at the dangers posed by conspiracy. Based on this interpretation, the dissenting opinion concluded that conspiracy to violate section 1955 should only be charged as a preparatory offense which will merge with a conviction for the completed crime.⁶¹

It is submitted that the dissent's juxtaposition of the "rule of separability" with the majority's "judicial presumption" is inconsequential to a determination of the applicability of Wharton's Rule to section 1955. Whatever the merits of such an argument, it is apparent that legislative intent must in the end be the controlling factor.⁶² Legislative history for section 1955 demands

56. Most states have laws prohibiting gambling operations. However, Congress felt that large-scale gambling activity could not be effectively controlled by state law enforcement activities. *Hearings* 93.

57. 95 S. Ct. at 1296, 43 L. Ed. 2d at 630. *See also Hearings* 194.

58. This conclusion is contrary to that reached by the court in *United States v. Figueredo*, 350 F. Supp. 1031, 1036 (M.D. Fla. 1972), *rev'd on other grounds sub nom. United States v. Vaglica*, 490 F.2d 799 (5th Cir. 1974); *see note 29 supra* and accompanying text.

59. 95 S. Ct. at 1297-98, 43 L. Ed. 2d at 632. The dissent also argues that the holding of the majority is contrary to the Court's prior holdings regarding interpretation of statutory language. In *Lardner v. United States*, 358 U.S. 169, 177 (1958), the Court declared that congressional silence should be interpreted in favor of lenity. *See also Bell v. United States*, 349 U.S. 81, 83 (1955). On another occasion, the Court stated that attempts to expand the use of prosecutions for conspiracy will be viewed with disfavor. *Grunewald v. United States*, 353 U.S. 391, 404 (1957). Accordingly, the dissent would strictly construe the statutory language of § 1955 in favor of an application of the rule. 95 S. Ct. at 1299-1300, 43 L. Ed. 2d at 634-35.

60. 95 S. Ct. at 1299, 43 L. Ed. 2d at 633. *See also Hearings* 86.

61. The dissent argued that Wharton's Rule is based on principles of double jeopardy. 95 S. Ct. at 1297, 43 L. Ed. 2d at 631-32. The argument is based on the premise that a § 1955 conspiracy is provable by the same evidence used to establish commission of the substantive offense. The dissent views the conspiracy as an attempt which merges with the completed crime. *Id.* at 1299, 43 L. Ed. 2d at 634.

62. Judicial construction of a statute should be consistent with legislative purpose. *United States v. Katz*, 271 U.S. 354, 357 (1925).

the achievement of goals⁶³ which both outweigh the policy considerations underlying Wharton's Rule and distinguish section 1955 from the traditional Wharton's Rule offenses.⁶⁴ The dissenting opinion fails to take into consideration that the variety of activities prohibited by section 1955 include agreements and criminal acts which may be performed by an array of participants.⁶⁵ These participants may be culpable in varying degrees.⁶⁶ To preclude a conviction for conspiracy in all cases would thwart clear legislative intent by shielding the most culpable offenders from appropriate penalties.⁶⁷

III. CONCLUSION

In *Iannelli* the Supreme Court appears to resolve the controversy surrounding the application of Wharton's Rule to a section 1955 prosecution. Despite the fact that both section 1955 and the traditional Wharton's Rule offense require concerted activity, the dangers to society posed by a section 1955 offense and the traditional Wharton's Rule offense are dissimilar. A section 1955 agreement poses dangers to society separate and distinct from those inherent in the substantive offense. It is consistent with sound legal principles that Wharton's Rule should not preclude the use of the conspiracy prosecution to guard against these additional dangers.

Perhaps the most significant feature of the majority's decision in *Iannelli* is its definition of Wharton's Rule as a "judicial presumption." As this definition indicates, the rule will only be invoked when legislative intent is not to the contrary. Accordingly, under the *Iannelli* holding substance is placed before form; the similarity of required concerted activity between a modern statute and traditional Wharton's Rule offenses is not to be controlling. When legislative intent clearly demonstrates that an underlying purpose for a modern statute would be thwarted by the application of Wharton's Rule to that statute, the rule is to be given no effect.

Mark Zvonkovic

63. Federal prohibition of large-scale gambling operations is primarily a weapon against organized crime. In this respect, Congress believed that a goal of § 1955 was to guard against antisocial consequences of a more pervasive nature than the immediate dangers posed by a gambling operation. Prosecution of the leaders of organized crime will only result in a change of command. Accordingly, effective control of organized crime must involve a method of attacking the organization's principal source of revenue. Such revenue is provided by large-scale gambling operations. *Hearings, supra* note 49, at 112.

64. The dangers to society attendant upon a traditional Wharton's Rule offense were limited in comparison to those dangers posed by a violation of § 1955. See Note, *supra* note 51, at 624-25.

65. Two persons may agree to promote an illegal gambling operation. Each of the two persons may then separately contract with a variety of new participants to handle aspects of the operation. These new participants will similarly bring persons into the scheme. The possibilities are endless. The original conspirators could very well be separate from the five persons involved in operation of the business. See *United States v. Bobo*, 477 F.2d 974, 987 (4th Cir. 1973).

66. It is apparent that a coordinator of the various aspects of a complex gambling operation is more culpable than the person maintaining a small segment of the operation by receiving, for example, bets. See Note, *The Conspiracy Dilemma: Prosecution of Group Crime or Protection of Individual Defendants*, 62 HARV. L. REV. 276, 283-84 (1948).

67. Congress was primarily concerned with attacking the leaders of organized crime and the sources of its revenue. See note 63 *supra*.

Liability of Limited Partners

Participating in the Management of the Sole Corporate General Partner—*Delaney v. Fidelity Lease Ltd.*

In February of 1969 Neil G. Delaney and others leased land to Fidelity Lease Ltd., a limited partnership consisting of a corporate general partner and twenty-two limited partners. Three of Fidelity's limited partners were officers, directors, and shareholders of the corporate general partner. The lessors sued for breach of the lease, claiming that the three limited partners who served as corporate officers were personally liable as general partners because of their involvement in the management and control of the partnership business. The trial court held, on motion for summary judgment, that the three limited partners were not personally liable. The court of civil appeals affirmed¹ and the plaintiffs appealed. *Held, reversed and remanded*: A limited partner is liable as a general partner when he participates in the control of the partnership business as an officer, director, and shareholder of the corporate general partner. *Delaney v. Fidelity Lease Ltd.*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975).

I. LIMITED PARTNERS AND THE EXERCISE OF CONTROL

A limited partnership consists of one or more general partners who manage the partnership and have personal liability for partnership debts, and one or more limited partners, who share in partnership profits and whose liability is limited to their capital contributions to the partnership.² Limited liability is lost, however, if a limited partner takes part in the "control" of partnership business.³ The control question presents significant interpretive problems in situations falling between the extremes of the wholly passive investor and the partner who manages the business on a day-to-day basis.⁴

1. *Delaney v. Fidelity Lease Ltd.*, 517 S.W.2d 420 (Tex. Civ. App.—El Paso 1974), *rev'd*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975).

2. J. CRANE & A. BROMBERG, *LAW OF PARTNERSHIP* 143 (1968) [hereinafter cited as CRANE & BROMBERG].

3. TEX. REV. CIV. STAT. ANN. art. 6132a, § 8 (1970). Section 7 of the Uniform Limited Partnership Act has been adopted as section 8 in the Texas Act. The Texas Uniform Partnership Act expressly authorizes the limited partner: (1) to inspect and copy the partnership books; (2) to have, on demand, full information on all things affecting the partnership; (3) to have the partnership dissolved by decree of court; and (4) to receive a share in the profits or other compensation as provided for in the certificate, and to receive the return of his capital contribution. TEX. REV. CIV. STAT. ANN. art. 6132a, § 11 (1970). If his name appears in the name of the partnership in violation of the statute, he will be liable to partnership creditors who extend credit to the partnership without actual knowledge that the limited partner is not a general partner. *Id.* § 6. He may also become liable if the partnership has not substantially complied in good faith with the filing and publication requirements of the statute or if the certificate of limited partnership contains a false statement upon which the creditor relied to his detriment. *Id.* § 7.

4. See Feld, *The "Control" Test for Limited Partnerships*, 82 HARV. L. REV. 1471, 1473 (1968).

Control Prohibition Under Section 8. The Texas Uniform Limited Partnership Act specifically precludes a limited partner from taking an active part in the control of the business.⁵ Unfortunately, the Act does not expressly define "control" and the cases interpreting the term provide minimal guidance.⁶ Rather than establishing general standards for determining when a limited partner has exercised control, the decisions approach each factual situation on its merits, determining as a matter of law the consequences of the partner's act.⁷ However, actual exercise of control rather than the right to participate is necessary for the imposition of general liability.⁸

The courts have allowed the limited partners to exercise some degree of influence in the management of partnership affairs. Limited partners have been allowed to designate the general sales manager of the partnership and to jointly provide, with the general partner, for his financial support.⁹ A limited partner can serve as a managing agent of a department of the firm and deal on the same footing with the partnership as any outsider without becoming liable as a general partner.¹⁰ Limited partners have been permitted to give counsel and advice to general partners without being held liable as general partners.¹¹ However, there is no prior case law specifically

5. TEX. REV. CIV. STAT. ANN. art. 6132a, § 8 (1970) provides: "A limited partner shall not become liable as a general partner unless, in addition to the exercise of his rights and powers as a limited partner, he takes part in the control of the business."

6. See *Plasteel Prods. Corp. v. Helman*, 271 F.2d 354 (1st Cir. 1959); *Bergeson v. Life Ins. Corp. of America*, 170 F. Supp. 150 (D. Utah 1958), *modified on other grounds*, 265 F.2d 227 (10th Cir.), *cert. denied*, 360 U.S. 932 (1959); *Grainger v. Antoyan*, 48 Cal. 2d 805, 313 P.2d 848 (1957); *Silvola v. Rowlett*, 129 Colo. 522, 272 P.2d 287 (1954); *Rathke v. Griffith*, 36 Wash. 2d 394, 218 P.2d 757 (1950); *Strang v. Thomas*, 114 Wis. 599, 91 N.W. 237 (1902). See also *Feld*, *supra* note 4, at 1474. The commentators agree that the biggest drawback of a limited partnership under the ULPA is the ambiguity in the term "control." See, e.g., CRANE & BROMBERG 147; Comment, "Control" in the Limited Partnership, 7 JOHN MARSHALL J. OF PRACTICE & PROCEDURE 416, 419 (1974). Due to the difficulty experienced in interpreting the term "control," California has amended its statute to give the limited partner the right to vote on the election or removal of general partners, termination of the partnership, amendment of the partnership agreement, and sale of all or substantially all of the assets of the partnership. The powers are not exclusive of other powers which a limited partner might enjoy without losing his protection against liability. CAL. CORP. CODE § 15507 (West Supp. 1975).

7. Comment, *supra* note 6, at 430; see *Holtzman v. De Escamilla*, 86 Cal. App. 2d 858, 195 P.2d 833 (1948), where limited partners who determined what crops should be planted in a farming venture and who signed checks on firm bank accounts were participating sufficiently in business to be held liable as general partners. See also *Bergeson v. Life Ins. Corp. of America*, 170 F. Supp. 150 (D. Utah 1958), *modified on other grounds*, 265 F.2d 227 (10th Cir.), *cert. denied*, 360 U.S. 932 (1959), holding that the conduct involved subjected the "limited partners" to general liability. The court said that the partnership's sole business was the organization and operation of the corporation, and all of the partners actively participated in the management of that corporation. They cannot then rely on the corporate form when they have disregarded its spirit; *Strang v. Thomas*, 114 Wis. 599, 91 N.W. 237 (1902), where limited partners were held generally liable when they were empowered to elect three directors to a board of directors which would determine the business policies of the partnership.

8. See *Plasteel Prods. Corp. v. Helman*, 271 F.2d 354 (1st Cir. 1959); *Rathke v. Griffith*, 36 Wash. 2d 394, 218 P.2d 757 (1950).

9. See *Plasteel Prods. Corp. v. Helman*, 271 F.2d 354 (1st Cir. 1959), where the court emphasized the fact that the sales manager could be discharged at the sole discretion of the general partner.

10. *Grainger v. Antoyan*, 48 Cal. 2d 805, 313 P.2d 848 (1957). The limited partner was sales manager of the firm's new car department. He signed checks but had no authority to set sales prices, trade-in values, or hire and fire.

11. See *Silvola v. Rowlett*, 129 Colo. 522, 272 P.2d 287 (1954). In *Silvola* the court stated that by becoming a limited partner, the defendant did not lose his right to

dealing with the issue of general liability where limited partners are serving as officers, directors, and shareholders of the corporate general partner.¹²

The limited partnership would be an extremely advantageous form of business organization if the limited partner did not become liable as a general partner solely because of his participation as an officer, director, or shareholder of the corporate general partner. The use of a corporation as the sole general partner with the limited partners participating in the guidance of the corporation combines the primary advantages of both the partnership and the corporation, allowing direct flow-through of profits and losses to the limited partners for tax purposes, limited liability for general and limited partners, and investor control of the partnership through the corporate entity without loss by the investor of his privileged status.¹³

Piercing the Corporate Veil. Texas courts traditionally regarded limited liability as a highly privileged status, resulting in their holding potential incorporators to the strictest standards and frequently leading to the piercing of the corporate veil.¹⁴ However, the courts have attempted to retreat from this trend, and it is now generally held, subject to certain exceptions, that the corporate entity, along with attendant corporate benefits, will be recognized.¹⁵ Courts sometimes find it necessary to hold the shareholders personally liable for corporate liabilities when the corporate form has been used for a purpose not encompassed by the statutes providing for incorporation.¹⁶ Before the corporate veil will be pierced, the facts of the case must indicate that the equities justify disregard of corporateness.¹⁷ In Texas this requires a substantial identity of interest between the individual shareholders and the corporation, and a likelihood that the corporation is being used to achieve an

advise and counsel the general partner on partnership related transactions, when asked by the general partner.

12. *Delaney v. Fidelity Lease Ltd.*, 517 S.W.2d 420, 424 (Tex. Civ. App.—El Paso 1974), *rev'd*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975). *See also* Rev. Proc. 72-13, 1972-1 CUM. BULL. 735 (1972), where it is stated that the Internal Revenue Service will not issue an opinion letter as to partnership status if the limited partners own, individually or in the aggregate, more than twenty percent of the stock of the corporate general partner.

13. Comment, *supra* note 6, at 428.

14. *Minchen v. Van Trease*, 425 S.W.2d 435, 437 (Tex. Civ. App.—Houston [14th Dist.] 1968, writ *ref'd* n.r.e.), where the court stated: "While Texas courts may be somewhat more lenient than those of other jurisdictions in disregarding the corporate entity, the reasons for so doing have been well enumerated." *See* H. HENN, LAW OF CORPORATIONS § 146 (2d ed. 1970) [hereinafter cited as HENN].

15. *See* HENN 252 n.10.

16. *Id.* *See* *First Nat'l Bank v. Gamble*, 134 Tex. 112, 132 S.W.2d 100 (1939) (corporate entity disregarded for its use as a means to perpetuate a fraud); *Hartnett v. Shirah*, 116 Tex. 164, 287 S.W. 902 (1926) (corporate entity used as a means to avoid punishment for a crime and thus disregarded by the court); *Witherspoon Oil Co. v. State*, 156 S.W.2d 579 (Tex. Civ. App.—Beaumont 1941, no writ) (disregarded due to its use as a means to circumvent a statute); *Bush v. Gaffney*, 84 S.W.2d 759 (Tex. Civ. App.—San Antonio 1935, no writ) (corporate entity disregarded when found to be a mere alter ego of its shareholders); *Gamer Paper Co. v. Tuscany*, 264 S.W. 132 (Tex. Civ. App.—San Antonio 1924, writ *dism'd*) (corporate entity disregarded for its use as a means to evade an existing legal obligation). *See also* *Bell Oil & Gas Co. v. Allied Chem. Corp.*, 431 S.W.2d 336 (Tex. 1968); *Drye v. Eagle Rock Ranch, Inc.*, 364 S.W.2d 196 (Tex. 1962); *Pace Corp. v. Jackson*, 155 Tex. 179, 284 S.W.2d 340 (1955); *Houston-American Life Ins. Co. v. Tate*, 358 S.W.2d 645 (Tex. Civ. App.—Waco 1962, no writ).

17. *See generally* Pelletier, *Corporations, Annual Survey of Texas Law*, 21 Sw. L.J. 134, 141 (1967).

inequitable result so that adherence to the corporate fiction would sanction a fraud or promote injustice.¹⁸ Further, the courts often consider whether corporate formalities have been duly observed¹⁹ and whether the corporation is adequately capitalized.²⁰ Generally, the courts in Texas seem to regard shareholder liability as an exceptional remedy and, as to corporations, limited liability as the rule rather than the exception.²¹

II. DELANEY V. FIDELITY LEASE LTD.

In *Delaney* the plaintiffs contended that the three limited partners should be held personally liable, thus raising two issues: whether the participation by the three limited partners in the corporate general partner falls under section 8 of the Texas Uniform Limited Partnership Act,²² which prohibits management and control of a partnership by limited partners, and whether the corporate veil of the general partner should be pierced due to its use as a means to circumvent a statute.²³

In holding the defendants personally liable, the court found that by participating in the affairs of the partnership through the sole corporate general partner, the limited partners violated the prohibition of section 8.²⁴

18. 1 I. HILDEBRAND, TEXAS CORPORATIONS § 5 (1942). See also *Ross v. Commissioner*, 129 F.2d 310 (5th Cir. 1942); *In re Charles K. Horton, Inc.*, 22 F. Supp. 905 (S.D. Tex. 1938); *First Nat'l Bank v. Gamble*, 134 Tex. 112, 132 S.W.2d 100 (1939). An analogy may be drawn to treatment, for federal income tax purposes, of dummy corporations formed as real estate holding companies. For a discussion of the elements involved in the determination of whether the corporate entity should be disregarded, see Tilley, *Dummy Corporations*, 33 TEX. B.J. 445 (1970); *Moline Properties Inc. v. Commissioner*, 319 U.S. 436 (1943); *Tomlinson v. Miles*, 316 F.2d 710 (5th Cir. 1963); *Jackson v. Commissioner*, 233 F.2d 289 (2d Cir. 1956); *Paymer v. Commissioner*, 150 F.2d 334 (2d Cir. 1945). In all of these cases the courts considered the level of business activity of the corporation and the business purpose it supposedly served in determining whether or not it was a sham to be disregarded for tax purposes.

19. *Skeen v. Glenn Justice Mortgage Co.*, 526 S.W.2d 252 (Tex. Civ. App. — Dallas 1975, no writ).

20. See HENN § 73.

21. *Radio KBUY, Inc. v. Lieurance*, 390 S.W.2d 16 (Tex. Civ. App.—Amarillo 1965, no writ), discussed in 19 R. HAMILTON, BUSINESS ORGANIZATIONS § 234 (1973). [hereinafter cited as HAMILTON].

22. TEX. REV. CIV. STAT. ANN. art. 6132a, § 8 (1970).

23. *Delaney v. Fidelity Lease Ltd.*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975). The court of appeals had also considered the power of the corporation to act as the sole general partner in a limited partnership. *Delaney v. Fidelity Lease Ltd.*, 517 S.W.2d 420 (Tex. Civ. App.—El Paso 1974), *rev'd*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975). The supreme court expressly reserved any decision on this question, indicating that the issue was not properly before the court. 18 Tex. Sup. Ct. J. at 451. Texas case law indicates that absent a charter or statute specifically allowing it, corporations cannot enter into a partnership because to do so would be against public policy. See, e.g., *Port Arthur Trust Co. v. Muldrow*, 155 Tex. 612, 291 S.W.2d 312 (1956); *Luling Oil & Gas Co. v. Humble Oil & Ref. Co.*, 144 Tex. 475, 191 S.W.2d 716 (1945); *J. Robert Neal, Inc. v. McElveen*, 320 S.W.2d 36 (Tex. Civ. App.—Houston 1959, no writ); *Sabine Tram Co. v. Bancroft*, 40 S.W. 837 (Tex. Civ. App. 1897, writ *ref'd*). However, the express grant of power to a corporation to join in a partnership found in article 2.02A(18) of the Texas Business Corporation Act and the implications arising from the application of the UPA's definition of "persons," which includes corporations, to the ULPA suggest that strong support exists for allowing a corporation to serve as the sole general partner in a limited partnership. A unique problem is raised, however, in that the policy of requiring someone in the partnership to be personally liable is easily avoided by having a corporation with its limited liability by virtue of corporate law serve as the sole general partner. See CRANE & BROMBERG 146. No case law or statute deals specifically with this problem; however, there is authority that it is entirely permissible for a corporation to serve as the only general partner in a limited partnership. See HAMILTON § 212.

24. *Delaney v. Fidelity Lease Ltd.*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975).

The court expressly rejected the defendants' contention that the "control" test should be coupled with a determination of whether the plaintiffs relied upon the limited partners' holding themselves out as general partners with unlimited liability.²⁵ The court strictly interpreted section 8 and reasoned that since the section made no mention of any requirement of reliance by third parties, no such finding was necessary to hold the limited partners personally liable.²⁶ The court completely disregarded the facts that the plaintiffs were aware of the corporate nature of the general partner and that the limited partners acted solely in their capacities as officers and directors of the corporate general partner and not in any individual capacity.

A conflict seems to exist between the policy behind section 8, which appears to require unlimited liability for anyone, including limited partners, participating in the management of the partnership,²⁷ and the theory that corporations, with the limited liability of their shareholders,²⁸ officers,²⁹ and directors³⁰ may act as general partners of a limited partnership.³¹ The most effective means of resolving this conflict, as suggested by several authorities and some case law, is to interpret section 8 as providing for personal liability where third party creditors have been misled to believe that the limited partners with whom they are dealing will be personally liable, rather than strictly interpreting section 8 as imposing personal liability upon anyone participating in the management of the firm.³² This approach is similar to that used when corporate officers hold themselves out to be personally liable

25. *Id.* at 450. The court cited *Bergeson v. Life Ins. Corp. of America*, 170 F. Supp. 150 (D. Utah 1958), *modified on other grounds*, 265 F.2d 227 (10th Cir.), *cert. denied*, 360 U.S. 932 (1959), as support for finding the limited partners personally liable under section 8. *Bergeson* can be clearly distinguished from *Delaney* on the ground that fraud was the predominant basis for the decision in *Bergeson* but was not present in *Delaney*. The two cases can also be distinguished on the grounds that in *Bergeson* operation of the corporation was the sole purpose of the partnership, and as officers of that corporation, the limited partners were *directly* involved in the management of the partnership. In *Delaney*, however, the corporation was the general partner, and as directors and officers of that corporation the limited partners were only *indirectly* involved in the management of the partnership.

26. 18 Tex. Sup. Ct. J. at 450.

27. TEX. REV. CIV. STAT. ANN. art. 6132a, § 8 (1970).

28. *Blond Lighting Fixture Supply Co. v. Funk*, 392 S.W.2d 586 (Tex. Civ. App.—San Antonio 1965, no writ); *National Hotel Co. v. Motley*, 123 S.W.2d 461 (Tex. Civ. App.—Eastland 1938, writ dismissed judgment corrected).

29. *Russell v. Edgewood Independent School Dist.*, 406 S.W.2d 249 (Tex. Civ. App.—San Antonio 1966, writ refused n.r.e.).

30. *Id.*

31. No case law specifically holds that a corporation may serve as sole general partner in a limited partnership, and the court in *Delaney* has expressly reserved any opinion on this issue. However, implied and expressed statutory authority exists for such an arrangement and several writers have stated belief in its legality. See note 25 *supra*.

32. Feld, *supra* note 4, at 1479; see UNIFORM LIMITED PARTNERSHIP ACT § 1, Commissioner's Note (Tent. Draft No. 1, 1974); Note, *Business Associations—Uniform Limited Partnership Act—Activities Making a Limited Partner Liable as a General Partner*, 56 MICH. L. REV. 285, 286-87 n.13 (1957); Comment, *supra* note 6, at 428. *Weil v. Diversified Properties*, 319 F. Supp. 778 (D.D.C. 1970); *Grainger v. Antoyan*, 48 Cal. 2d 805, 313 P.2d 848 (1957); *Rathke v. Griffith*, 36 Wash. 2d 394, 218 P.2d 757 (1950). See also Comment, *supra* note 6, at 427, where it is stated that case law interpreting the meaning of "control" under section 8 indicates that limited partners are personally liable only when creditors are led to believe that the limited partners are serving as general partners. Note, *Limited Partnerships—Absent Creditor Reliance, a Limited Partner Who Is a Director of the Corporate General Partner Is Not Personally Liable for Partnership Obligations*, 6 TEX. TECH L. REV. 1171, 1175 (1975).

on debts they incur, but later attempt to use the corporate fiction to shield themselves from personal liability.³³

In finding the limited partners personally liable under section 8, and rejecting the proposed theory that liability under the section requires not only "control" but also the reliance of a third party, the court seemed to reason, through a strict interpretation of section 8, that public policy is violated when a partner retains his privileged status of limited liability while possessing the ability to "control." This reasoning appears incorrect in light of the Commissioner's note to the ULPA³⁴ and the proposed revision of this section of the UPLA,³⁵ both of which expressly state that public policy is not violated by combining control with limited liability as long as partnership creditors are not deceived.³⁶ Under this view only those activities which could produce reasonable reliance by third parties, such as direct supervision of partnership activities, should produce personal liability.³⁷ As long as there is full disclosure and no misrepresentation, no inequity should result from allowing a corporation to be used as a general partner in a limited partnership and permitting limited partners to serve as officers of the corporation without losing their limited liability.³⁸ At first glance this approach may appear contrary to the correlation of personal liability with control contained in section 8.³⁹ The purpose of this correlation, however, is to protect those persons dealing with the limited partnership who assume that the partners managing the affairs of the partnership are personally liable.⁴⁰ When full disclosure exists as in *Delaney*, third parties are aware of the limited liability

33. See *Abraham v. Prewitt Printing Co.*, 330 S.W.2d 254 (Tex. Civ. App.—Waco 1959, no writ); *Hauser v. Layne*, 131 S.W. 1156 (Tex. Civ. App. 1910, no writ); *Marx v. Luling Co-op Ass'n*, 43 S.W. 596 (Tex. Civ. App. 1897, writ ref'd).

34. UNIFORM LIMITED PARTNERSHIP ACT § 1, Comment (Tent. Draft No. 1, 1974). The note states:

No public policy requires a person who contributes to the capital of a business, acquires an interest in the profits, and some degree of control over the conduct of the business, to become bound for the obligations of the business; provided creditors have no reason to believe at the times their credits were extended that such person was so bound.

35. UNIFORM LIMITED PARTNERSHIP ACT § 7 (Tent. Draft No. 1, 1974). The proposed draft states:

A limited partner shall not become liable as a general partner unless, in addition to the exercise of his rights and powers as a limited partner, he takes part in the control of the business, and then only to persons who transact business with the limited partnership reasonably believing that the limited partner is a general partner.

36. See Note, *Limited Partnerships—Absent Creditor Reliance, a Limited Partner Who Is a Director of the Corporate General Partner Is Not Personally Liable for Partnership Obligations*, 6 TEX. TECH L. REV. 1171, 1174 (1975), where this line of reasoning was used in discussing the court of appeals decision in *Delaney*.

37. Feld, *supra* note 4, at 1479.

38. This form of limited partnership would be similar to a close corporation, whose directors and officers are often the only shareholders of the corporation and who have a voice in the management of the corporation but retain their limited liability. See HENN § 203. In practice this analogy is not totally accurate. The officers of these close corporations are frequently required to give their personal guarantees when dealing with third parties. A. Bromberg, *Partnership Primer* 26 (1961) (unpublished paper in Southern Methodist University Law School Library).

39. TEX. REV. CIV. STAT. ANN. art. 6132a (1970).

40. See Feld, *supra* note 4, at 1479; Comment, *supra* note 6, at 427; Note, *supra* note 36, at 1174.

of the partners with whom they are dealing and the risks they will be assuming.⁴¹

The court also considered the defendants' contention that they acted solely through the corporate general partner when handling partnership affairs and that the corporation actually controlled the business of the limited partnership.⁴² It rejected the defendants' arguments concerning the protection yielded the limited partners through the corporate shield, and reasoned that this corporation was organized solely as a vehicle to circumvent section 8.⁴³ The court expressly adopted statements from the dissenting opinion in the court of civil appeals asserting that the corporation had no other function except to operate the limited partnership, leading to the inseparability of the partners' acts as limited partners and as officers of the corporation.⁴⁴ Thus, the limited partners were indirectly, if not directly, exercising control over the partnership.⁴⁵ The court also reasoned that a corporation should not be permitted to shield the limited partners from personal liability since this could result in the limited partners operating the partnership through a corporate general partner with inadequate capitalization and minimal liability.⁴⁶

The court's analysis on the issue of piercing the corporate veil appears unsound. The court failed to consider the absence of allegations regarding deception, misrepresentation, or inadequate capitalization of the corporation at the time the lease was created.⁴⁷ Ordinarily, a major factor in determining whether the shareholder or a third party creditor should bear the loss is whether the third party dealt voluntarily with the corporation.⁴⁸ In *Delaney* the plaintiffs were fully aware that they were dealing with a corporate "shell" and of the risks involved, and thus a voluntary dealing between two equal parties resulted in the execution of a contract.⁴⁹ Had the plaintiffs desired further assurances they should have insisted upon personal guarantees of the officers of the corporate general partner.⁵⁰ Having failed to do so, they should not have been allowed to succeed in having the corporate entity disregarded.

The theory that the corporate entity is separate and distinct from its shareholders provides the traditional basis for the concept of limited liability of shareholders.⁵¹ In accordance with this theory the majority of jurisdictions

41. Moreover, it is not unusual for contracts between third parties and limited partnerships to contain exculpatory clauses exempting the general partner from personal liability.

42. *Delaney v. Fidelity Lease Ltd.*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975).

43. *Id.* at 450.

44. *Id.*

45. *Id.* The court implied that if the corporation had some reason for existing other than to manage the partnership, the corporate entity might not have been disregarded.

46. *Id.* The corporate entity is frequently disregarded where a corporation is inadequately capitalized or dominated by few individuals. See note 27 *supra* and accompanying text.

47. 18 Tex. Sup. Ct. J. at 450.

48. See HAMILTON § 234.

49. *Delaney v. Fidelity Lease Ltd.*, 18 Tex. Sup. Ct. J. 449 (July 23, 1975).

50. See generally HAMILTON § 234. See also *Bell Oil & Gas Co. v. Allied Chem. Corp.*, 431 S.W.2d 336 (Tex. 1968), discussed in Note, *Corporations—Piercing the Corporate Veil*, 23 Sw. L.J. 384 (1969).

51. See HENN § 146.

allow incorporation for the purpose of avoiding general liability on the grounds that limited liability is one of the principal objectives of incorporation.⁵² To disallow the privilege of incorporation on grounds that it was being used to avoid general liability would seem to make the whole process of incorporation illusory.⁵³ In light of this and the previously mentioned authority stating that limited liability is the rule rather than the exception⁵⁴ and that in order for the corporate entity to be disregarded, adherence to it must lead to a fraud or promote injustice,⁵⁵ the court's holding of piercing the corporate veil appears unfounded.

III. CONCLUSION

In finding the limited partners personally liable through a strict interpretation of section 8 the court in *Delaney* has taken a position inconsistent with the opinions and proposals of many noted authorities and with sound legal analysis. The court expressly rejected the theory that, along with control, there must be the reliance of a third party before personal liability under section 8 will be imposed. In doing so, the court seems to reject the most effective means of alleviating the apparent conflict between section 8's provision for personal liability of those in control and the statutory provision of limited liability for shareholders which arises when a corporation serves as a general partner in a limited partnership. The best explanation for the opinion seems to be that the court felt the defendants had gone too far in setting up a corporation which had no apparent purpose except to act as a shield of protection for limited partners who desired to have some managerial influence over the affairs of the limited partnership without losing their limited liability. However, absent misrepresentation or reliance of third parties, there appears to be no valid theoretical or practical reason for holding these limited partners personally liable.

The court also found the limited partners personally liable by reasoning that the corporation was formed for the sole purpose of circumventing a statute and avoiding personal liability. The court reached this decision despite the facts that the corporation was adequately capitalized, the plain-

52. *Id. Contra*, *Bond-Reed Hardware Co. v. Walsh*, 193 S.W. 1148 (Tex. Civ. App.—San Antonio 1917, writ ref'd); *Oriental Inv. Co. v. Barclay*, 25 Tex. Civ. App. 543, 64 S.W. 80 (1901, writ ref'd). These cases can be distinguished from *Delaney* on the basis that fraud was present in both but not in *Delaney*.

53. See HAMILTON § 234 where it is stated: "For example despite the language about 'avoiding liability' it is well established that shareholder liability will not result even when . . . the corporation was formed for the specific purpose of limiting or escaping liability. Any other conclusion would make the whole process of incorporation a snare or a delusion." The leading cases in Texas in which the courts have disregarded the corporate entity on the basis that the corporation was formed as a sham to circumvent a statute involved statutes dealing with tax regulations and dummy corporations set up solely as a means of realizing certain tax advantages. See *State v. Ratliff*, 200 S.W.2d 645 (Tex. Civ. App.—Austin 1947, writ ref'd); *Fleming Hosp., Inc. v. Williams*, 169 S.W.2d 241 (Tex. Civ. App.—Austin 1943, writ ref'd w.o.m.); *Witherspoon Oil Co. v. State*, 156 S.W.2d 579 (Tex. Civ. App.—Beaumont 1941, writ ref'd w.o.m.); *H.E. Butt Grocery Co. v. Sheppard*, 137 S.W.2d 823 (Tex. Civ. App.—Austin 1940, writ ref'd). For further discussion of related cases see note 18 *supra*.

54. *Radio KBUY, Inc. v. Lieurance*, 390 S.W.2d 16 (Tex. Civ. App.—Amarillo 1965, no writ).

55. See 1 I. HILDEBRAND, TEXAS CORPORATIONS § 5 (1942).

tiffs were fully aware of the limited liability of the defendants, and the plaintiffs had every opportunity to ask the individual defendants for further assurances such as personal guarantees but failed to do so. By this liberal application of the theory of piercing the corporate veil, the court seems to negate the efforts of legislators to make limited liability more easily available when it is fully disclosed. This decision appears to present a threat not only to limited partners, but also to persons participating as shareholders in a small or close corporation, even though adequately capitalized and operating without any misrepresentations to its creditors, but set up principally as a means of avoiding personal liability.

Barksdale Hortenstine

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