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## *Zeiss v. Zeiss* - The Cold War in a Microcosm

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# Zeiss v. Zeiss— The Cold War in a Microcosm†

## I. Historical Background

On June 7, 1971 the Supreme Court of the United States denied a petition for a writ of certiorari to the United States Court of Appeals for the Second Circuit, in *Carl Zeiss v. VEB Carl Zeiss Jena*, thus ringing down the curtain on a 9-½ year East-West battle for control of the world-famous “Zeiss” name and trademarks in the United States.

The American litigation was only one of some 20-odd battles which had been fought between the West and East German parties in courts and patent offices across the world from New York to Tokyo in a trademark war that had its genesis in the post-war division of Germany.

The opening gun in the worldwide litigation was fired in 1954 in the West German courts after nine years of ambivalent collaboration. Then last summer a truce was called following defeat of the East German Zeiss firm in the United States. At that time, a worldwide settlement was reached terminating over 17 years of costly and protracted litigation.

Almost 100 years separated the date of April 13, 1945, when the first American soldiers entered Jena and set in motion the events which were the immediate cause of the East-West litigation, and the year 1846 when a highly skilled mechanic named Carl Zeiss established his optical workshop in the same city, which was then located in the Grand Duchy of Saxe-Weimar Eisenach.

For the next thirty years, Zeiss' workshop grew, until in 1875 Zeiss joined forces with a physicist at the University of Jena, Professor Ernst Abbe, who was vitally interested in the development of optical science. Four years later, in 1879, Roderick Zeiss, the son of the founder, became the third partner in the Zeiss firm.

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†This article represents the first time the fascinating story of the *Zeiss* litigation has been told in narrative form, which Mr. Shapiro was good enough to write at the request of the Editor.

Beginning about 1884, Zeiss and Abbe, joined by the optical physicist Otto Schott, began to manufacture optical and other types of glass through a firm known as Jenaer Glaswerk Schott & Gen.

When Carl Zeiss died in 1888, Professor Abbe decided to take the necessary steps to give the Zeiss and Schott firms more permanent form. As one with a strong sense of civic responsibility and interest in social progress, Professor Abbe chose a form of legal entity which then, as now, was unusual for a commercial enterprise. This was the "Stiftung" or foundation. An institution such as the Zeiss Foundation was established under the then prevailing law, by means of a written declaration somewhat akin to a deed of trust (either in the form of an *inter vivos* instrument or a will), which then had to be approved by the appropriate governmental authority, in this case, the Grand Duke of Saxe-Weimar Eisenach.

The Foundation was originally formed in 1889 and in 1891 it acquired all of the assets of the Zeiss partnership, and a one-half interest in the Schott firm (the remaining one-half interest was eventually acquired from Otto Schott in 1919).

The principal governing instrument of the Foundation was the "Statut" or charter, first drafted by Professor Abbe in 1889 and redrafted and resubmitted in 1896, which Statut (with certain modifications which will be discussed later) remains as the governing charter of the Zeiss Foundation to this day.

As the District Court found,<sup>1</sup> what Abbe established "was a continuation of the two basic existing commercial enterprises, the Zeiss and Schott works, as the property of the Foundation, to be operated privately as a permanent cooperative business venture or association with a view to its realizing a profit from such operation."

Rather than distributing the profits to the owners as would have been the case with a more conventional form of commercial organization, the profits realized by the Foundation were to be used primarily to maintain, develop and increase the Zeiss and Schott enterprises and to provide economic and social benefits for the workers employed in them. Any surplus remaining was to be used for the general promotion of technical knowledge and science and for financial support of community organizations in and around Jena where the Zeiss and Schott works were then located.

Professor Abbe made it clear that he had no intention of establishing a charitable foundation, but rather a cooperative commercial venture, which would benefit all those persons who were making a contribution to it either as employees or as persons working in natural and mathematical sciences or in public organizations in and around Jena.

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<sup>1</sup>160 USPQ 100.

The Foundation Statut established a rather elaborate organization for management of the two commercial enterprises. It stipulated that the Zeiss and Schott firms were to carry on their respective business activities under their own individual firm names with their separate assets and that each was to be managed by a separate "Board of Management" consisting of three or four members appointed either for life or for a fixed period of time.

Overall responsibility for seeing to it that the terms of the Statut would be carried out, as well as for administration of the non-industrial activity of the Foundation, was assigned to a so-called "Special Board" which also had the power to appoint the members of the Boards of Management of the Zeiss and Schott firms.

In his Statut, Professor Abbe entrusted the functions of the Special Board to the agency of the local government, which was responsible for the general supervision over the affairs of the University of Jena. At the same time, Professor Abbe made it clear that the Zeiss and Schott enterprises would not become state enterprises.

The Zeiss Foundation Statut also provided for the appointment by the Special Board, of a Foundation Deputy ("Stiftungskommissar"), whose job it was to represent the Special Board vis-à-vis the Boards of Management of the two individual commercial enterprises. The Deputy was without power to intervene directly in the management of the commercial enterprises, although he had to be consulted and his consent obtained with respect to certain specific matters, as well as matters as to which the members of a Board of Management did not reach unanimous agreement.

Professor Abbe foresaw the possibility of political changes in the Grand Duchy (although the changes he anticipated were not the radical changes in political and economic structure which followed World War II). Thus, he provided that in the event of "political changes in the State," the functions of the Special Board were to be carried out by "that department of State which, with regard to the University of Jena, occupies the place of the State department of the Grand Duchy acting as the Special Board, provided that its seat is in Thuringia, otherwise by the highest administrative authorities in Thuringia."

He further provided that in the event that there was no administrative body corresponding to this definition, the functions of the Special Board were to be assumed by the Board of Management of the Zeiss firm, until such time as they could be transferred to a new Special Board.

One thing Professor Abbe did not expressly foresee was that circumstances might occur, which would prevent the Foundation and its enterprises from continuing to function in and around Jena. In fact, in the Foundation Statut, it was not only provided that the domicile of the Foundation was to be in Jena, but also that this provision could "under no

circumstances and in no manner be legally amended or rendered inoperative.”<sup>2</sup>

Following the establishment of the Foundation, the Zeiss and Schott enterprises continued to prosper. In addition, the Foundation acquired a number of corporate manufacturing affiliates in various parts of Germany, including, in 1926, the firm of Zeiss Ikon AG of Dresden, a manufacturer of photographic equipment.

As time went on, the Zeiss firm developed a worldwide reputation in the optical-precision mechanical field and its name, and trademarks became synonymous with the highest quality in precision optics.

The oldest of the trademarks consisted of the word “Zeiss” which was first used by the Zeiss firm in 1846, and was first registered in the United States in 1912. Although not as old, the trademark consisting of the words “Carl Zeiss Jena” in a distinctive lens frame became more famous as time went on. It was adopted by the Zeiss firm in 1903 and was first used in the United States in 1907.

Between the time of its creation and 1945, the Foundation survived a number of political changes in Germany. Thus in 1920, the Grand Duchy of Saxe-Weimar Eisenach, in which the Foundation was first created, was dissolved and merged with a number of other German duchies and principalities to become the newly established Land of Thuringia, a state of the German Federal Republic (also known as the Weimar Republic).

Thereafter, the functions of the Special Board previously exercised by the Ministry of State of the Grand Duchy, were exercised by the Ministry of Education of the Land of Thuringia. From 1933 to 1945 the functions of the Special Board were exercised by the Reich’s Governor of Thuringia.

The Nazi period was a difficult one for the Foundation. From 1933 to 1935 the Boards of Management of the Zeiss and Schott enterprises resisted efforts of the Nazi Government to install a representative of the Nazi regime within the Foundation. In 1935 a compromise was reached pursuant to which, in exchange for remaining independent of direct involvement by the Nazi régime in the Foundation’s affairs, the members of the Boards of Management of Zeiss and Schott became nominal members of the Nazi Party.

Shortly after the American Armed Forces occupied Jena in 1945, it was determined that the Land of Thuringia was to become part of the Soviet Zone. Therefore, in mid-June 1945 the American military authorities put into effect a plan to remove the top management scientists and adminis-

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<sup>2</sup>Certain other provisions of the Statut relating to the purpose of the Foundation, its name, its governing bodies and the manner of amendment were also stipulated to be unamendable.

trative personnel of the Zeiss and Schott firms with their families to the American zone of occupation.

This move was part of an established American policy to bring leading German scientists under American control, where they could be used in connection with the continuing war effort against Japan. In this instance, the Americans planned to establish a Zeiss factory in the American Zone. The members of the Boards of Management of Zeiss and Schott were understandably reluctant to leave Jena and their colleagues, but they had no choice.

While they did not foresee a division of Germany, they did see the possibility that they might be absent from Jena for a long period of time, during which the enterprises would have to be managed. They therefore appointed certain persons to carry out their management functions while they were away. The East German defendants contended that the Board members, before leaving Jena in June 1945, tendered oral resignations, but the District Court concluded, after reviewing the evidence and appraising the witnesses, that there was no such resignation.

The evacuation took place on June 24 and 25, 1945. On June 27, the caretakers in Jena appointed to act in the Board's absence, took steps to provide a legal underpinning for their authority to manage the Zeiss and Schott works in the absence of the lifetime managers.

The situation in Jena at this time, and throughout Germany in general, was one of understandable confusion, particularly the legal situation. While it is clear that Germany continued to exist after the collapse of the Nazi régime as a unified state in the international sense, with central governmental authority in the hands of the Allied Control Council, the local governmental situation in Thuringia was more uncertain.

Defendants offered some evidence (in the nature of hearsay) which indicated that on June 9, 1945, a representative of the VIII United States Army Corps, during its brief stay in the Weimar area, purported to appoint a prime minister and other officials of a new government for the Land of Thuringia. However, four days earlier the Allies had consummated an agreement designating Thuringia as part of the Soviet Zone and the Allied agreements had provided that each of the military commanders would exercise jurisdiction within his country's own zone of occupation.

It was not until July 16, 1945 that the Soviet military administration announced the formation of a new government for the Land of Thuringia. Thus, as the District Court found, following the departure of the Boards of Management of the Zeiss and Schott works "an ad hoc temporary governmental authority . . . joined forces with equally temporary ad hoc caretakers . . . and in anticipation of the impending Soviet occupation at-

tempted to give themselves some sort of legal standing that might be acceptable to the Russians, despite the fact that the official Board members never resigned.”<sup>3</sup>

Some time after the deportation, when it became apparent that the enforced absence of the Zeiss and Schott Boards of Management from Jena might be of longer duration than expected, a dispute as to management authority arose between the Board of Management in the West and the caretakers in Jena (who were then under the control of the Soviet occupying forces).

In order to resolve the dispute, and to avoid the appearance of control of the firms' businesses in Jena by the deported managements in the West, which it was feared would precipitate unwelcome steps by the Soviet occupiers, an arrangement was made whereby the deported managements would refrain from exercising their functions, with respect to the management of the businesses in Jena for as long as they were forced to be absent from Jena, and would temporarily acknowledge that the Jena caretakers were the sole responsible management in Jena.

This temporary arrangement continued until June 1948 when, as had been feared, all of the commercial properties of the Foundation located in the Soviet Zone, including all assets of the Zeiss and Schott firms (together with the trademarks used in their businesses) were expropriated without compensation and transferred to state ownership.

Following expropriation, the Zeiss and Schott works formed part of an association of so-called People's Owned Enterprises. In May 1951, the two enterprises were separated from the association, and became independent legal entities directly subordinated to the Ministry of Machine Construction. The State corporation which took over the Zeiss works became known as "VEB Carl Zeiss Jena." ("VEB" stands for "Volkseigener Betrieb" or State-owned enterprise.)

Meanwhile, the group of managers and scientists removed by the American military authorities, were encouraged to build up a new Zeiss works in Wuerttemberg, and in the summer of 1946 a group consisting of approximately 200 persons commenced limited production in the town of Oberkochen.

Later that year they formed a new company under the name of Opton GmbH, later Zeiss Opton. 95% of Opton's capital stock was issued directly to the Carl Zeiss Foundation and 5% to two named individuals to be held in trust for the Foundation. Up until the time of the expropriation of the Zeiss and Schott firms in the Soviet Zone, the East and West groups cooperated.

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<sup>3</sup>160 USPQ 107.

Upon learning of the facts surrounding the expropriations, the Western Zeiss group considered the question of how best to preserve the identity and assets of the Carl Zeiss Foundation, which they believed could no longer function in the Soviet Zone of Occupation.

With the disappearance of the Foundation in the Soviet Zone, and the transformation of the Jena caretaker managements into state functionaries operating the expropriated works for the benefit, and under the direction of, the state (not the Foundation), Heidenheim, where the Board of Management and leading Zeiss scientists were acting, became *de facto* the principal place of business of the Zeiss firm and the administrative center of the Foundation, as its owner and operator.

After puzzling over the legal questions raised by the unprecedented situation in which the Foundation found itself, and conferring with the local authorities in Wuerttemberg, it was decided to make use of the provision in the Foundation's Statut pursuant to which the Zeiss Board of Management assumed the functions of the Special Board pending the latter's reconstitution.

Because the Foundation Statut provided that the domicile of the Foundation should always be in Jena, and there was therefore great uncertainty as to whether this could validly be changed, it was decided to give the Foundation a second domicile in Heidenheim, Wuerttemberg. This was done by means of a ministerial decree issued by the Government of Wuerttemberg in February 1949. While there was no legal precedent for a land other than that of the Foundation's domicile, in effect, to alter its governing instrument or charter, the situation itself was unprecedented.

The issuance of the Ministerial Decree in 1949 permitted the Zeiss managers in the West, to assume legal control of the Foundation's assets outside the Soviet Zone.

Between 1948 and 1953, the Zeiss firm in Heidenheim cooperated commercially with the socialized enterprise in Jena, and for a time permitted the latter to sell Zeiss-marked products under certain specified conditions. The cooperation deteriorated as the East German régime tightened its grasp on the expropriated works (after a workers' uprising in Jena in June 1953), and was terminated at the end of 1953 as legal battles loomed.

In preparation for the impending legal struggle, the East German régime which had been established by the Soviet occupying forces in October 1949 as the "German Democratic Republic," while refusing to revive the Foundation by returning its expropriated enterprises, sought instead to "warm up" the defunct Foundation, and give it the appearance of activity by making appointments of non-existent Boards of Management and other positions long vacant. This sham entity, which the District Court termed

“a pseudo-type organization,” was a facade for claiming identity with the original Foundation and ownership of exclusive rights to all the Zeiss marks outside East Germany.

In February 1954, the Zeiss firm in Heidenheim, in the first of a series of lawsuits (which have since proliferated into a world-wide confrontation) obtained an injunction in the District Court of Goettingen (West Germany) against the continued sale of Jena-made Zeiss-marked goods by a West German distributor of VEB Carl Zeiss Jena.

Shortly thereafter, in April 1954, the sham East German “Foundation” filed suit in West Germany against the Zeiss firm, seeking an injunction and an order registering the Zeiss marks in West Germany in its name. That action was ultimately dismissed in 1960 when the West German Supreme Court ruled that there was no one in the Soviet Zone having capacity to represent the Zeiss Foundation.

At about the same time, the Zeiss firm brought an action in West Germany to obtain an order, enjoining the East German Zeiss firm from using the Zeiss name and marks anywhere in the world. The action resulted in a judgment in favor of the Heidenheim firm, affirmed by the Supreme Court of the German Federal Republic, which determined that the Heidenheim firm was entitled to exclusive use of the Zeiss name and marks in West Germany and West Berlin.

Since February 1954, there has also been litigation with respect to the Zeiss marks in various other countries throughout the world. In December 1958, the Jena “Foundation” brought suit in East Germany against the Zeiss firm. The action resulted in a default judgment against the Zeiss firm, which was affirmed with modifications by the East German Supreme Court in March 1961.

In the United States, the situation was complicated by the fact that as early as 1919, the United States Government had purported to vest the Zeiss trademarks in the Alien Property Custodian. However, despite this vesting, the Zeiss firm continued to use these trademarks exclusively in the United States until at least 1941. Prior to 1925, the Zeiss firm sold its goods in the United States through various independent distributors.

In 1925, a wholly owned subsidiary, Carl Zeiss, Inc., was organized in New York. Thereafter, until the entry of the United States into World War II at the end of 1941, Zeiss goods were sold in the United States primarily through Carl Zeiss, Inc. In August 1942 all of the capital stock of Carl Zeiss, Inc. was vested by the United States Government in the Alien Property Custodian, and the stock remained so vested until the end of 1960.

The sale of Zeiss Ikon products was resumed in the United States in

1947. In 1949 the Zeiss plant in Jena, now controlled by the East German State-owned enterprise VEB Carl Zeiss Jena, began to sell Zeiss trademarked goods in the United States through Carl Zeiss, Inc., then still owned by the Attorney General. It changed distributors in 1950, switching to a New York firm, Ercona Corporation.

After 1949, Zeiss products originating both in West and East Germany, continued to be imported into the United States, and the District Court found that confusion among members of the consuming public resulted.

Between 1954 and February 1962, when the American law suit was commenced by the West German Zeiss group, litigations were pending in various countries of Western Europe and Egypt. By 1962, the West German Zeiss group felt that it had sufficient resources and interests at stake to embark on what it knew would be a protracted litigation in the United States courts.

## II. The American Litigation

The complaint in the American litigation was filed on February 14, 1962. Plaintiffs were the Carl Zeiss Foundation and Zeiss Ikon AG. Named as Defendants were VEB Carl Zeiss Jena and two of its American distributors, Steelmasters, Inc. and Ercona Corporation, as well as two other American firms which had been distributing East German cameras in the United States containing East German Zeiss lenses.<sup>4</sup>

The first problem was to get jurisdiction over the East German State-owned enterprise calling itself "VEB Carl Zeiss Jena." This was accomplished by service of process on the East German firm's exclusive distributor in the United States—Ercona Corporation. The East Germans did not accept the jurisdiction of our courts without a struggle, however, but made a motion to dismiss, which was denied by Judge Weinfeld in April 1963.

The defendants counterclaimed, and thus the pleadings presented rival claims to exclusive use of the various "Zeiss" names and marks in the United States. Plaintiff Carl Zeiss Foundation claimed direct ownership of the marks, while the East German defendant claimed under an alleged license from the purported "Zeiss Foundation" in Jena. Defendants also asserted, in the alternative, a right to the concurrent use of the "Zeiss" names and marks. Defendants named Carl Zeiss, Inc., the New York subsidiary of plaintiff Carl Zeiss, as an additional defendant on the counterclaims.

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<sup>4</sup>The latter two defendants did not actively participate in the case, but stood by, having agreed to be bound by any injunctive relief entered against the East German firm and its distributors.

Unlike the usual trademark case it was conceded that the names and marks used by the respective parties were identical or confusingly similar, and were being used in the United States in connection with the sale of competing goods. Thus, the question of likelihood of confusion normally presented in trademark infringement and unfair competition cases was not presented. Rather, the question was one of identity, or status—*i.e.*, whether plaintiff Carl Zeiss Foundation was identical with the original foundation created by Professor Abbe, or whether the entity calling itself the Carl Zeiss Foundation in Jena was the true Abbe Foundation.

Extensive discovery by both sides ensued, and continued throughout the period 1963 to 1967. Document inspection took place in Stuttgart, West Germany, as well as Jena, East Germany, and depositions were taken in Stuttgart and Frankfurt, and Vienna, Austria. At the eleventh hour, not long before the case went to trial, the entity in East Germany, claiming to be the Carl Zeiss Foundation, sought to intervene as a party defendant, but intervention was denied.

The case finally went to trial in November 1967. Two separate trials—one involving the trademark claims and counterclaims and the other involving the defense of antitrust misuse were held, occupying over six weeks. At the first trial, Judge Walter H. Mansfield, Jr., sitting without a jury, heard the testimony of twenty witnesses, including six experts on German law. Also received in evidence were over 550 exhibits and extensive depositions testimony.

At the second trial, involving the defense of antitrust misuse, the bulk of the evidence consisted of the testimony of seven witnesses and excerpts from depositions. It took Judge Mansfield almost a year to hand down his 154-page opinion, supplemented by 481 findings of fact, in November 1968. The antitrust defense issues were tried in February 1969, and decided in March of that year.

The District Court, in an opinion filed on November 7, 1968, determined the questions of identity or status in favor of plaintiff Carl Zeiss Foundation, and declared plaintiffs to be the owners of, and entitled to the exclusive right to use, the world-renowned “Zeiss” and “Zeiss Ikon” trademarks in the United States. It declared that defendant VEB Carl Zeiss Jena of East Germany and its American distributors had, since 1953, infringed these trademarks and competed unfairly with plaintiffs. It permanently enjoined the defendants from using the Zeiss names and marks in the United States, and declared that plaintiffs were entitled to damages and accounting and costs.<sup>5</sup> In a subsequent opinion, filed on March 12, 1969, the District Court dismissed the defense of antitrust misuse.<sup>6</sup>

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<sup>5</sup>160 USPQ 97.

<sup>6</sup>298 F. Supp. 1309.

In determining that plaintiff was the true Carl Zeiss Foundation, the District Court applied the well-settled American public policy against giving effect to foreign expropriation decrees, with respect to property rights in the United States. Under the principle of collateral estoppel, the District Court also held that the defendants were bound by the determination of the Supreme Court of West Germany, in a litigation in which they actively participated, that the Zeiss firm in Heidenheim was identical with the Carl Zeiss firm formerly in Jena, and that the Western Zeiss management had not resigned prior to leaving Jena, but continued to have the exclusive capacity to act for the Zeiss firm.

The District Court also found that plaintiff Zeiss Ikon AG was the same Zeiss Ikon which had formerly been domiciled in Dresden, and that the expropriation of its assets had left its corporate existence in effect in West Germany and elsewhere, where it had assets and continued to do business.

The District Court made short shrift of defendants' claims of laches, acquiescence and abandonment. It found that plaintiffs' failure to institute suit in the United States prior to February 1962 was justified by, *inter alia*, the United States Attorney General's claim of ownership of the United States marks, and his enforcement of the claim against the defendants. The Court also found that defendants were, at all times, fully on notice as to plaintiffs' claims and were never given any assurances, expressed or implied, that such claims would not be pressed.

In dismissing the antitrust misuse defense as unproven, the District Court found that no evidence had been adduced to show that the Zeiss marks had been used at any time by plaintiffs to violate the antitrust laws, or that plaintiffs Carl Zeiss or Zeiss Ikon were responsible for the acts of Carl Zeiss, Inc. in the United States, which were alleged to have constituted antitrust violations.

Finally, the District Court held as to defendants' counterclaims, that the East German defendants could not assert any claims to the disputed Zeiss marks by reason of the Trading With the Enemy Act, and regulations under the Act, which require the United States Attorney General's approval for the exercise of rights by East Germans in pre-1946 United States trademarks.

In holding for plaintiffs, the Court gave effect to the long-standing rule, pursuant to which courts of the United States deny extra-territorial effect to expropriations of private property, and award property in the United States to the surviving private victim of the expropriation who has found refuge outside the expropriating state.

The District Court noted at the outset that "well settled" United States policy prevents extra-territorial recognition of foreign expropriation decrees. Quoting from the Second Circuit's opinion in *Republic of Iraq v.*

*First Nat'l City Bank*, 353 F.2d 47, 51 (2d Cir. 1965), the District Court said:

Extra-territorial enforcement of the Iraqi ordinance as to property within the United States at the date of its promulgation turns on whether the decree is consistent with our policy and laws. [footnote omitted]. We perceive no basis for thinking it to be. Confiscation of the assets of a corporation has been said to be "contrary to our public policy and shocking to our sense of justice." *Vladikavkazsky Ry. Co. v. New York Trust Co.*, 263 N.Y. 369, 378, 189 N.E. 456, 460, 91 A.L.R. 1426 (1934).

In that case, Judge Friendly went on to note that

The policy of the United States is that there is no such thing as a "good" confiscation by legislative or executive decree.

The District Court ruled that for purposes of this anti-expropriation policy, United States trademarks are deemed to have their situs in the United States, even though the trademarked goods may be manufactured elsewhere.

The District Court also pointed out that in denying effect to foreign expropriation decrees, American courts will "overlook technical niceties in favor of doing substantial justice on the basis of the equities." It said:

The fashioning of such a doctrine of equitable ownership as a counterpart of our anti-expropriation policy is frequently dictated by necessity, since expropriation usually changes the expropriated enterprise, sometimes so drastically that recognition of the survivors or their successors becomes difficult.

The District Court went on to note that while the legal identity of a foreign corporate entity is normally to be determined by reference to the laws of the country where it has been created "*and continues to exist*" [emphasis added], in expropriation situations:

Procedural technicalities, lack of clarity in the foreign law involved, or doubt as to its applicability . . . should rarely be viewed as insurmountable obstacles, particularly where United States property is at stake, since failure to resolve the issue would reward the oppressor, give effect to fundamentally unfair acts, or result in the property becoming "ownerless."

Applying these principles, the District Court held that "fundamental fairness and equity" dictated recognition of the plaintiff Foundation, as the good faith continuation in the West of what remained of the Foundation's enterprises, after expropriation of its assets in the East.

On the other hand, the Court found as to the rival claims of defendants that:

The "Foundation" established in 1951 in East Germany, in contrast, is but a sham and subterfuge, erected solely for the purpose of litigation outside of East Germany, and neither a continuation of the original organization nor a good faith effort to resurrect it in substance or adhere to its basic tenets.

In finding that the expropriations terminated the existence of the Foundation as a viable entity in the East, the District Court found support in the Foundation's Statute:

Section 37 . . . prohibits alienation by sale or assignment of the enterprises, either in whole or in part, and Section 116 . . . provides for dissolution of the Foundation if it should no longer possess any enterprises "whose continued conduct would not constitute mere administration of property.

Accordingly, on the basis of all the evidence, the District Court determined that

. . . the Soviet expropriation sounded the death knell of the Foundation's capacity to operate in the Soviet Zone. Conceived and operated since 1889 as a private entity, to be free from state control, and dependent upon profits from its commercial enterprises, it now had no such enterprises in the Soviet Zone, no profits, no surplus, and no right to engage in operation of commercial ventures for profit, by reason of the acts of a communized state that decried such an entity as bourgeois capitalism which must be wiped out in favor of enterprises owned by the people rather than by a foundation. Thus expropriation, with peoples ownership and state operation of the Zeiss and Schott works, rendered the Statute incapable of functioning in the Soviet Zone and terminated the Foundation's existence as a viable operating entity in the East. Without any commercial assets or operations in the East, or its capacity to function there in the management of its commercial assets, it became a nonentity there.

The Court's findings in this respect were in accord with the decision of the Federal Supreme Court of Germany, rendered on November 15, 1960, in an action brought by the Jena "Foundation" against the Zeiss firm in Heidenheim. In affirming the judgment of the Court of Appeals of Stuttgart, declaring that the Foundation had become inoperative in the Soviet Zone, the Federal Supreme Court stated:

But in any case, the taking away of the industrial Foundation enterprises and their conversion into State directed enterprises of the nationalised economy of the Soviet Occupation Zone interfered with the organization of the Foundation as determined by the Articles to such a far reaching extent that in the Soviet Occupation Zone, to whose territory such interference is limited by the territorial principle, the conditions on which according to the Articles the Foundation's capacity to act as a juristic person [depends] are no longer satisfied.

The Supreme Court of Germany also held that the expropriation had eliminated the Foundation's organs as well as its industrial enterprises and that, therefore, in the Soviet Zone there were no longer any governing bodies of the Foundation capable of functioning.

On appeal, the Court of Appeals for the Second Circuit, in its opinion filed November 2, 1970, agreed with these factual conclusions:

In our opinion there is substantial credible evidence to support all of the

findings of fact set forth above. Accordingly we agree with the district court that if the issue of legal identity or successorship may be resolved solely as a question of fact, the facts dictate a decision in favor of appellee "as the true Zeiss Foundation"; and if fundamental fairness and equity are the criteria, "the *de facto* existence and operation of the (appellee) Foundation in the West as a good faith effort to continue what remained of the overall Abbe Foundation enterprise, after expropriation of its assets in the East and its inability to function in its original domicile, would call for its recognition." p. 897. The authorities cited by the district court support these conclusions. 433 F.2d 698.

The District Court went on to find that as a matter of German law, as well as fact, the plaintiff Carl Zeiss Foundation was legally identical with the Foundation of that name created by Professor Abbe. While the District Court agreed that ordinarily an issue of identity of a corporation must be determined by the laws of the country where it had been created, this was rendered difficult by reason of the partition of Germany and the subsequent expropriations in East Germany.

While the District Court went out of its way to consider the East German decisions favoring the East German defendant, it found them to be of little assistance and rested its conclusions on the basis of West German law, *i.e.*, the Wuerttemberg Ministerial Decrees and the West German Act of Parliament validating these Decrees. It not only found that these Decrees and the West German law were acts of state which were not subject to judicial review but that, in any event, they would be given effect as a matter of comity.

Again, the Court of Appeals for the Second Circuit agreed with the conclusions reached by Judge Mansfield:

The parties agree that the issue of identity must be determined by German law. They disagree as to whether the German law is that promulgated and interpreted by West Germany or by East Germany.

It is true, as Judge Mansfield stated, that the "legal existence, status, identity, and domicile of a foreign corporate entity or juristic personality, such as the Foundation here, must be determined by the laws of the country where it has been created and continues to exist." p. 898. Here we have a unique situation by reason of the partition of Germany after the creation of the Foundation pursuant to German law and the subsequent expropriation in East Germany. The original Foundation owned the commercial enterprises. This was permissible under German law. Those enterprises in East Germany are now held by VEB, a state or people-owned entity. The present Foundation in East Germany claiming ownership of the Zeiss name and marks does not claim ownership of the commercial enterprises and is dependent upon the state owned enterprise for its support.

The district court properly held that whether German law as declared or construed by the courts of unrecognized East Germany or recognized West Germany [footnote omitted] should be applied depends to some extent on the nature of the question to be resolved; that normally "the acts of an unrecog-

nized regime which pertain to its purely local, private, and domestic affairs will be given effect"; but that here the court is 'dealing with decisions of East German courts with respect to matters extending beyond the borders of East Germany, such as the nature of a Foundation under federal law and the effect to be given to acts of Wuerttemberg.'"7

We conclude that the district court properly applied the law of West Germany. . . .<sup>8</sup>

The district court made a careful and detailed analysis of the 'act of state' doctrine, reaffirmed by the Supreme Court in *Banco Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 84 S.Ct. 923, 11 L.Ed.2d 804 (1964). pp. 909-914. We adopt that portion of Judge Mansfield's opinion and agree with his conclusion that 'although the Wuerttemberg decrees and the German Parliament's Act of 1967 are not entitled to recognition as acts of state to the extent that they purport to terminate the Foundation's domicile in East Germany since to that extent they acted extra-territorially, they are entitled to such recognition insofar as they acted to give a legal status to the Foundation's *de facto* existence in West Germany as a continuation in the West of the original Zeiss cooperative enterprise, whose remaining commercial assets (worth 30 million marks) and personnel were almost entirely within the West's territorial jurisdiction.'"9

Likewise, the Court of Appeals upheld the District Court's determination that plaintiff Zeiss Ikon was identical with the corporation of that name, which had previously been domiciled in Dresden; it adopted Judge Mansfield's opinion holding that the defendants were barred from asserting any claims in the United States Zeiss trademarks, by reason of the Trading With the Enemy Act; it agreed with the District Court's rejection of the claim for joint or concurrent use, as well as the defenses of laches, acquiescence and abandonment, and also with the dismissal of the antitrust misuse defense.

The only point on which the Court of Appeals parted company with Judge Mansfield was the issue of damages. While Judge Mansfield had held that plaintiffs were entitled to damages and an accounting, the Court of Appeals held that since the East German defendant and its American distributors were not guilty of fraud or palming off in that they had not represented that their goods originated in Heidenheim, nor had they claimed that they were licensees of the West German Foundation. Therefore, the Court of Appeals determined that an injunction would satisfy the equities of the case and disallowed the claim for damages.<sup>10</sup>

In their petition for certiorari filed in April 1971, defendants argued that the Court of Appeals' affirmance of the District Court's refusal to apply

<sup>7</sup>pp. 900-901.

<sup>8</sup>433 F.2d 698-99.

<sup>9</sup>433 F.2d 703.

<sup>10</sup>433 F.2d 706-08.

East German law was error. They likewise argued that the Court of Appeals should independently have researched the German law questions involved in the case.

This argument was based on Rule 44.1 of the Federal Rules of Civil Procedure which, defendants argued, mandated an independent investigation of German materials and sources by the Appellate Court. Rule 44.1, of course, governs procedure in the District Courts and not in the Courts of Appeal. Moreover, it does not mandate anything, but only permits a district court to treat issues of foreign law as questions of law rather than fact.

The petition for certiorari also argued that the courts below had misinterpreted Section 33(b)(7) of the Lanham Act, in holding that this Section was available only to refute the evidentiary effect of a trademark registration, but provides no substantive defense to trademark infringement.

Finally, the defendants contended in their petition to the Supreme Court, that refusal by the courts below to permit joint use violated "long honored trademark principles."

On June 7, 1971, the Supreme Court denied certiorari, ending nine and a half years of sometimes bitterly-fought litigation. This victory, after a long-fought court battle, came as somewhat of an anticlimax. Actually, in April, two months earlier, the East and West Zeiss groups had entered into a worldwide settlement calling, among other things, for termination of litigation in all countries in which cases were pending.

It can fairly be stated that the Zeiss litigation was, for the most part, unique, and called for the application of reasonably well-known legal principles to facts which will, in all likelihood, never be repeated. The holdings of the District Court and Court of Appeals on questions of the governing law, the "act of state" doctrine, laches and acquiescence, were hardly precedent-shattering.

The only truly novel legal questions presented were those relating to the Trading With the Enemy Act, and its impact on East German claims to pre-War trademarks in the United States, and the interpretation to be given the antitrust misuse defense established by Section 33(b)(7) of the Lanham Act. Both these issues were subsidiary to the main questions of identity and legal capacity, which turned primarily on the facts.

Despite defendants' contentions that the District Court and the Court of Appeals were influenced by "Cold War predilections and attitudes," it cannot fairly be argued that the decision in the Zeiss case was primarily influenced by political considerations, except insofar as the legal doctrine pursuant to which our courts refuse to give effect to foreign expropriation decrees, insofar as they affect United States property could be said to be

politically inspired. The facts were more fully exposed in this case than in any other case between the contending parties.

American federal procedure, including liberal rules of discovery, gave the parties a unique opportunity to sift through opposing parties' files and interrogate opposing parties' officers and employees – an opportunity which had not been available in any of the litigation pending in other parts of the world. It was, thus, perhaps fitting that the American case, in which the facts had been probed to the fullest extent, marked the final round in the 17-year worldwide court battle between East and West.