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Valuing Residual Goodwill After Trademark Forfeiture

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VALUING RESIDUAL GOODWILL AFTER TRADEMARK FORFEITURE

Jake Linford*

Trademarks contribute to an efficient market by helping consumers find products they like from sources they trust. This information-transmission function of trademarks can be upset if the law fails to reflect both how trademark owners communicate through marks and how consumers understand and use them. But many of trademark law's forfeiture mechanisms (the ways a trademark can lose protection) ignore or discount consumer perception. This failure threatens not only to increase consumer search costs and consumer confusion, but also to distort markets.

For example, trademark protection may be forfeited when the mark owner interrupts or abandons use, even though consumers still see the mark as identifying products from that owner. Or a mark may be forfeited if the mark owner licenses the mark for use without following certain quality control requirements, even if there is no evidence that licensees produce subpar products or disappoint consumers. As a result, a new seller can adopt a forfeited mark to identify its own products, even when many consumers will be confused by that use. If consumers think forfeited marks often identify products from the original mark owner, widespread reuse of forfeited marks can disrupt the ability of trademarks to transmit useful information to consumers.

Trademark forfeiture mechanisms operate like information-forcing penalty default rules, but failure to account for consumer perception renders the information that they force incomplete. Those mechanisms should be readjusted to account for residual consumer goodwill—the likelihood that consumers reasonably associate a forfeited mark with the original owner. This Article proposes a framework for revealing and valuing residual consumer goodwill, and in the process, restores needed balance to trademark's forfeiture mechanisms as new entrants jockey for market position by appropriating residual goodwill.

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INTRODUCTION

Coca-Cola Co. sold a fruit-flavored, highly caffeinated soft drink under the Surge trademark from 1996 to 2003.¹ After Coca-Cola discontinued

1 Coca-Cola Co.'s registration of Surge for soft drinks was cancelled in 2005 for failure to file an acceptable Section 8 Declaration of Continued Use. SURGE, Registration No.

Surge, fans of the beverage bought billboards and started social media campaigns hoping to convince the bottler to bring the beverage back.² The campaign worked: following a trial run through Amazon.com,³ Coca-Cola relaunched Surge in several eastern states on September 7, 2015.⁴

Coca-Cola is lucky, however, that the twelve-year gap in sales was not fatal to its rights. In fact, it was a close call: two different firms filed applications with the U.S. Patent and Trademark Office (USPTO) stating an intent to use Surge as a trademark for beverages.⁵ In a hypothetical fight between the soda giant and the upstarts, Coca-Cola's decade of nonuse would provide prima facie evidence that the company abandoned the Surge mark and thus forfeited its trademark rights.⁶ Had either firm brought its planned beverage to market prior to 2014, that firm would have secured superior rights in Surge⁷ and thus the ability to keep Coca-Cola's relaunch off the market.⁸

Some mark owners are not as lucky as Coca-Cola. Abandonment derailed a relaunch of the Stratotone line of guitars.⁹ Stratotone was one of the lines formerly offered by the Harmony Company, which was perhaps the largest musical instrument manufacturer in the United States in the mid-twentieth century.¹⁰ Multitudes of aspiring rockstars in the '50s and '60s

2,186,269 (cancelled June 4, 2005) (use-based registration of Surge for "soft drinks, and syrups and concentrates for use in the preparation of soft drinks").

2 Jay Moye, *SURGE Returns: Back by Popular Demand, Brand Now Available Exclusively on Amazon.com*, COCA-COLA COMPANY (Sept. 15, 2014), <http://www.coca-colacompany.com/stories/surge-returns-back-by-popular-demand-brand-now-available-exclusively-on-amazoncom/>.

3 *Id.*

4 SURGE, <https://www.surge.com> (last visited Nov. 13, 2017).

5 U.S. Trademark Application Serial No. 86/028,522 (abandoned Feb. 27, 2015) (ITU application for Surge design mark for energy drinks and soft drinks); U.S. Trademark Application Serial No. 85/040,311 (abandoned Aug. 4, 2014) (ITU application for Surge for soft drinks); U.S. Trademark Application Serial No. 77/450,786 (abandoned Jan. 13, 2009) (ITU application for Surge for energy drinks).

6 Under the current version of the Lanham Act, three years of nonuse is prima facie evidence of abandonment. 15 U.S.C. § 1127 (2012), "abandoned". The mark owner may rebut the presumption of abandonment with evidence that it intends to resume use, or had a good reason for suspending use. *Specht v. Google Inc.*, 747 F.3d 929, 934 (7th Cir. 2014).

7 *Agler v. Westheimer Corp.*, 143 F. Supp. 3d 766, 771 (N.D. Ind. 2015); *see also* *Sutton Cosmetics (P.R.) Inc. v. Lander Co.*, 455 F.2d 285, 289 (2d Cir. 1972).

8 Appropriating firms often succeed in establishing abandonment and then acquiring priority in the forfeited mark. *See, e.g.*, *Ziebarth v. Del Taco, LLC*, Cancellation No. 92053501 (T.T.A.B. 2015) (successful challenge by Christian Ziebarth, securing an order cancelling Del Taco's registration of NAUGLES for Mexican restaurants [NAUGLES, Registration No. 1,043,729] on the basis of abandonment); *Strategic Marks, LLC v. Kellogg N. Am. Co.*, Cancellation No. 92058181 (T.T.A.B. 2013) (successful challenge by Ellia Kassoff to Kellogg's registration of the mark HYDROX for cookies [HYDROX, Registration No. 4,874,933] due to abandonment).

9 *Agler*, 143 F. Supp. 3d at 773–74.

10 According to the company, Harmony was the largest maker of guitars in the world by 1965. Mary Breslin, *Keeping America in Harmony: Guitar Maker Brought Music to the Masses*,

played Stratotone guitars, as did a few bona fide legends: Ritchie Valens started out on a Stratotone.¹¹ But sales of Harmony guitars tailed off in late 2002.¹² Charles Subecz sought to reinvigorate the brand and purchased several marks for guitars once belonging to Harmony.¹³ Subecz then set out to relaunch a line of new Harmony guitars with vintage aesthetics, including an updated Stratotone.¹⁴ Subecz's relaunch required an "archaeological dig through company history," as well as painstaking efforts to recreate traditional molds and reproduce classic Stratotone peripherals.¹⁵ The hard work appeared to pay off: fans flocked to Subecz's Stratotone as an authentic take on the original.¹⁶

In 2009, shortly after Subecz's relaunch of Stratotone, Westheimer Corporation purchased all Harmony assets and goodwill from Subecz, including his interest in any protectable marks.¹⁷ Westheimer also brought Harmony's former international sales manager on board to provide some continuity between the new Harmony and the predecessor in interest.¹⁸

But, unbeknownst to Westheimer and Subecz, an enterprising luthier shot the gap between the end of licensed Stratotone sales in 2002 and Subecz's 2008 relaunch. In March 2006, Darryl Agler filed an intent-to-use application to register Stratotone as a trademark for guitars.¹⁹ With the sale of his first Stratotone guitar in 2010 and the completion of some paperwork, Agler secured a registration in the mark with an effective priority date of March 7, 2006.²⁰ Agler's earlier intent-to-use application, coupled with sales

CHI. TRIB. (Mar. 22, 1992), http://articles.chicagotribune.com/1992-03-22/features/9201260476_1_harmony-instruments-music. At one point, Harmony may have produced 1,000 guitars per day. HARMONY GUITARS, THE PEOPLE'S GUITAR, <http://harmony.rothguitar.com/> (last visited Nov. 13, 2017). Whether or not that is true, Harmony guitars were starter instruments for many famous American musicians.

11 *Born at NAMM: First Time Exhibitors Explain How the Show Serves as a Launching Pad for New Enterprises*, MUSIC TRADES, Mar. 2008, at 154 [hereinafter *Born at NAMM*].

12 Agler, 143 F. Supp. 3d at 768.

13 *Id.*

14 *Id.* at 772.

15 *Reintroducing the Harmony Guitar Line: Harmony, the World's Most Popular Guitar Brand for Close to a Century, Is Coming Back with a Faithful Reissue of the Famous Ritchie Valens Model*, MUSIC TRADES 140, Feb. 2008, at 140.

16 *Born at NAMM*, *supra* note 11, at 156.

17 Agler, 143 F. Supp. 3d at 769.

18 Breslin, *supra* note 10; Michael Ross, *Gear Test Drive: Harmony H49 Jupiter Stratotone*, GUITAR PLAYER, Feb. 2012, at 114.

19 STRATOTONE, Registration No. 3,986,754 ("[F]or: musical instruments, namely, guitars.").

20 *Id.* Under section (b)(1) of the Lanham Act, a party may apply for registration based on a bona fide intent to use the trademark. 15 U.S.C. § 1051(b)(1) (2012). If the party first uses the mark in commerce within the statutory window, the party secures priority from the date of the initial intent-to-use application. *Id.* §§ 1051(d), 1057(c); WarnerVision Entm't Inc. v. Empire of Carolina, Inc., 101 F.3d 259, 260 (2d Cir. 1996); Jake Linford, *Trademark Owner as Adverse Possessor: Productive Use and Property Acquisition*, 63 CASE W. RES. L. REV. 703, 755 (2013) [hereinafter Linford, *Adverse Possessor*].

starting after Subecz's first sale, gave Agler prior rights against Westheimer.²¹ Subecz's painstaking recreation of the Harmony line, Westheimer's decision to bring a former Harmony employee on board, and consumer interest in the Harmony relaunch were all to no avail.

One might imagine that a court could look at the consumer affection for Coca-Cola's Surge and conclude, in light of that residual consumer goodwill, that a mark like Surge should not be forfeited. Or a court might compare the quality and characteristics of the Subecz and Agler Stratotone offerings against Harmony's original Stratotone line to determine whether consumers are likely to be confused or disappointed. But courts do not ask these questions in abandonment cases.

The standard abandonment inquiry focuses on mark owner behavior while ignoring consumer perception.²² Courts inquire whether the mark owner has an excuse for suspending performance or a bona fide intent to resume use.²³ But courts discount evidence of residual consumer goodwill—the perception of a substantial number of consumers that the mark still signifies goods and services from the original mark owner.²⁴

21 *Agler*, 143 F. Supp. 3d at 774.

22 See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 (AM. LAW INST. 1995).

23 *Grocery Outlet Inc. v. Albertson's Inc.*, 497 F.3d 949, 951 (9th Cir. 2007) (per curiam). The requisite intent is intent to resume a commercial level of use. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. b (AM. LAW INST. 1995); 3 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 17:11 (3d ed. 2008).

24 Goodwill is a mutable term and somewhat problematic to define. Goodwill may simply be a shorthand for the property right in the mark, a term for property that properly packs in consumer perception, the intangible assets gained when one company acquires another, or a measure of consumer perception independent of the mark owner's property. In this Article, I use consumer goodwill to indicate the value that consumers invest in the mark, i.e., its value as a source signifier to reduce consumer search costs.

As one nineteenth-century court opined, goodwill is value that represents confidence on the part of consumers "that their experience in the future will be as satisfactory as it has been in the past," earned by the mark owner through long years of "scrupulous" attention to detail and care in maintaining "the standard of the goods dealt in." *Washburn v. Nat'l Wall-Paper Co.*, 81 F. 17, 20 (2d Cir. 1897). The court in *Washburn* describes this goodwill as "an element of value quite as important—in some cases, perhaps, far more important—than the plant or machinery with which the business is carried on." *Id.* While some courts and scholars refer to goodwill as a property right held by the mark owner as a reward for its productive effort, goodwill cannot be separated from consumer perception. Elizabeth Cutter Bannon, *Revisiting "The Rational Basis of Trademark Protection": Control of Quality and Dilution—Estranged Bedfellows?*, 24 J. MARSHALL L. REV. 65, 73–74 (1990) ("[Goodwill] exists in the minds of the buying public, where buyers trust the constancy of quality emanating from a particular producer. 'Goodwill' thus becomes 'a business value [that] reflects the basic human propensity to continue doing business with a seller [whose] goods and services . . . the customer likes and has found adequate to fulfill his needs.'" (alterations in original) (footnote omitted) (quoting 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:8(A) (2d ed. 1984))). Goodwill is built both on objective reasons (this soda is sweeter, this towel is more absorbent) and "emotional freight" (self-image, fond memories). Anne B. Fisher, *Coke's Brand-Loyalty Lesson*, FORTUNE (Aug. 5,

As with abandonment,²⁵ other forfeiture mechanisms also use mark owner behavior as the sole factor in determining whether the owner forfeits rights in the mark.²⁶ But ignoring how consumers perceive and use the ostensibly forfeited mark disconnects the law from how trademark meaning is generated and developed.²⁷ To the extent they ignore consumer perception, these mechanisms deviate from trademark law's professed goal of preventing consumer confusion and reducing consumer search costs.²⁸ This is unfortunate, because when a mark is forfeited, the former mark owner is not the only one who loses out. Consumers who use the mark as a signal of consistent source and quality also lose their investment in the mark as a source signifier.²⁹

When a new firm appropriates a forfeited mark, it stands to acquire consumer interest and loyalty through behavior that, but for the forfeiture, would constitute confusing and therefore infringing use. Such a windfall to

1985), http://archive.fortune.com/magazines/fortune/fortune_archive/1985/08/05/66245/index.htm.

25 It is easy to confuse abandonment as a general term with abandonment as a specific term for forfeiture through nonuse. This Article thus refers to the mechanisms that can end trademark protection as “forfeiture mechanisms,” and the specific loss of trademark protection as a consequence of nonuse as “abandonment through nonuse” or simply “abandonment.”

26 See, e.g., 15 U.S.C. § 1127 (2012) (“A mark shall be deemed to be ‘abandoned’ if . . . any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the [marked] goods or services.”).

27 See, e.g., Laura A. Heymann, *The Birth of the Authornym: Authorship, Pseudonymity, and Trademark Law*, 80 NOTRE DAME L. REV. 1377, 1423 (2005) (suggesting that a trademark's meaning depends on consumer interpretation).

28 See, e.g., Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1690 (1999) [hereinafter Lemley, *Death of Common Sense*] (trademarks are justified to the extent they “communicate useful information to consumers, and thereby reduce consumer search costs”). That commitment to consumer use is embodied in the validity requirement that the mark owner establish source significance (also known as secondary meaning or acquired distinctiveness) for descriptive trademarks, product design trade dress, and color marks, i.e., evidence that consumers use the mark, design, or symbol as a source signifier. Linford, *Adverse Possessor*, *supra* note 20, at 728–29. That commitment is also evidenced by the assumption underlying protection of suggestive, arbitrary, and fanciful marks from first use, without evidence of source significance, because consumers are highly likely to see those marks as source signifying. Jake Linford, *Are Trademarks Ever Fanciful?*, 105 GEO. L.J. 731, 740–41 (2017) [hereinafter Linford, *Fanciful?*]; Jake Linford, *The False Dichotomy Between Suggestive and Descriptive Trademarks*, 76 OHIO ST. L.J. 1367, 1376–77 (2015) [hereinafter Linford, *False Dichotomy*].

29 One might hope that some form of notification or disclaimer on the label might sufficiently warn consumers of the new owner and prevent otherwise-likely confusion. Courts and scholars have expressed skepticism on this point. See, e.g., *Suncoast Tours, Inc. v. Lambert Grp., Inc.*, No. 98-5627, 1999 WL 1034683, at *5 n.4 (D.N.J. Nov. 10, 1999) (finding a substantial amount of consumer confusion was likely to persist even though defendant sent letters to plaintiff's former customers disavowing any connection); Jake Linford, *A Linguistic Justification for Protecting “Generic” Trademarks*, 17 YALE J.L. & TECH. 110, 167–68 (2015) [hereinafter Linford, “*Generic*” *Trademarks*] (explaining the limits of disclaimers for correcting consumer confusion).

the appropriating firm is not inherently problematic in isolation, but it often comes from the pockets of confused consumers.³⁰ A consumer exposed to a product offered by a new seller under a forfeited mark may be predisposed to buy the product because of this residual goodwill, and disappointed when the new product fails to meet expectations.³¹

Apologists argue that in the forfeiture context, maximizing competition takes priority over preventing consumer confusion.³² But allowing a forfeited mark with residual goodwill to be appropriated by a new entrant also imposes costs on competitors who must overcome the advantage that residual goodwill confers on the new entrant. Forfeiture and appropriation of residual consumer goodwill can thus disrupt the information-transmission function of a trademark in ways that increase consumer search costs and intensify consumer confusion,³³ perhaps to the detriment of the trademark ecosystem as a whole.

Previous critiques typically discussed forfeiture mechanisms in isolation and thus failed to fully recognize the conflicting presumptions on which the mechanisms are based. This Article fills that gap by providing a stronger normative account of the importance of consumer perception to the trademark ecosystem, grounded on language-use and property-signaling theories. Trademark meaning may start with the mark owner, but collective use by consumers in context cements source significance in the commercial lexicon. In addition, scholars have recognized the importance of examining property claims in light of how signs of ownership are interpreted and reflected by the interpretive community. Trademark forfeiture mechanisms should likewise reflect the key role of consumers in establishing trademark meaning.

Courts can provide a needed corrective, readjusting trademark forfeiture mechanisms to better protect those consumers who continue to rely on a forfeited mark as a source signifier. While courts often resist the invitation, they can and should read the statutory language governing forfeiture mechanisms to allow inquiry into residual consumer goodwill. Courts can thus ensure that trademark forfeiture mechanisms operate consistent with three key objectives of trademark protection: reducing consumer search costs,

30 Indeed, consumers contribute significantly to trademark meaning. See, e.g., Steven Wilf, *Who Authors Trademarks?*, 17 *CARDOZO ARTS & ENT. L.J.* 1, 1 (1999) (“By associating a symbol with an object, the public contributes to the authorship of trademarks.”).

31 In this Article, “product” indicates goods, services, or both.

32 See, e.g., Rebecca Tushnet, *Why the Customer Isn't Always Right: Producer-Based Limits on Rights Accretion in Trademark*, 116 *YALE L.J. POCKET PART* 352, 355 (2007) (arguing that the abandonment mechanism “prioritizes free competition over avoiding consumer confusion. The goal is not to protect consumers, but to create bright lines so that producers will know what marks are free to use”).

33 Robert Bone first used “information transmission” to label the proper function of trademarks in the market. Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 *B.U. L. REV.* 547, 549 (2006) [hereinafter Bone, *Hunting Goodwill*] (“[T]he ‘information transmission model’ . . . views trademarks as devices for communicating information to the market and sees the goal of trademark law as preventing others from using similar marks to deceive or confuse consumers.”).

encouraging mark owner investment in consistent quality, and maintaining a proper competitive environment.³⁴ To that end, the Article proposes a comprehensive set of factors to analyze whether a mark retains residual goodwill and whether forfeiture is likely to harm consumers by dissipating consumer investment of goodwill. That framework will not only help judges uncover relevant residual goodwill, but will also cabin the exercise of judicial discretion in cases where the potential for residual goodwill is highly salient, but the real effect of the goodwill is inconsequential.

It is possible, however, that judicial inquiry will unearth evidence of residual goodwill too slowly. An auction mechanism might uncover that information more quickly and more completely. The Article describes an auction devised to improve discovery and valuation of residual goodwill. In addition, the auction is designed to increase the likelihood that the winner will meet consumer expectations about the product(s) offered under the mark.

This Article proceeds in five Parts. Part I briefly describes the forfeiture mechanisms that can strip protection from a trademark: generislide, abandonment through nonuse, modification, assignment in gross, and naked licensing. Excepting generislide, these mechanisms largely ignore the role of consumers in shaping trademark meaning. Part II provides a more fully theorized account of this role; language-use and property-signaling theories identify the importance of collective consumer use and perception to establish meaning and manifest property claims. Part III explains how appropriation of residual goodwill can harm consumers, competitors, and even the trademark ecosystem. Part IV argues that courts can read the Lanham Act broadly enough to account for residual consumer goodwill in every forfeiture case and provides a framework for that analysis. Part V offers an auction mechanism intended to uncover information about residual consumer goodwill and increase the likelihood that the party who secures rights in the mark will satisfy consumer expectations.

I. TRADEMARK FORFEITURE

Trademark law is dominated by an economic search cost account that purports to protect trademarks in order to improve the quality of information in the marketplace.³⁵ Trademark law aims to reduce consumer search

34 The Ninth Circuit has colorfully summarized the difficulty in balancing these goals: Trademark infringement is a peculiarly complex area of the law. . . . [E]ach case involves an effort to achieve three distinct objectives which, to a degree, are in conflict. . . . [Preserving free competition] dictates a degree of restraint in the pursuit of the first two [objectives]; [protecting mark owner investment] can be pushed beyond the reasonable needs of [consumers]; and each requires for its proper implementation the exercise of judicial intuition supported, to the extent possible, by relevant facts.

HMH Publ'g Co. v. Brincat, 504 F.2d 713, 716 (9th Cir. 1974).

35 Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 778 (2004) [hereinafter Dogan & Lemley, *Search Costs*]

costs by ensuring that a given mark can convey necessary source-identifying information to consumers.³⁶ To that end, the law protects a mark owner from the confusing or fraudulent use of identical or similar marks for the same or similar products and services so that the mark provides a consistent signal to consumers.³⁷ Without trademark protection, economists posit that consumers would spend more time than is optimal trying to distinguish one product from another.³⁸

Trademark law is thus efficient to the extent it reduces consumer search costs, which can in turn enable vigorous competition on price and quality.³⁹ The rational consumer who encounters Product X will only spend time searching for other equivalent products if the savings from finding a cheaper product are greater than the cost of searching for it.⁴⁰ Lowering search costs thus is likely to increase price competition.⁴¹ In addition, maintaining trademarks as a consistent signal of source (and therefore quality) provides the mark owning firm with an incentive to maintain product quality.⁴² Consum-

(arguing that the historical normative goal of trademark law is to foster the flow of information in markets, thereby reducing consumer search costs); Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 525–27 (1988) (suggesting that trademarks primarily exist to enhance consumer decisions and to create incentives for firms to produce desirable products); Clarisa Long, *Dilution*, 106 COLUM. L. REV. 1029, 1033–34 (2006) (noting that traditional trademark protection is consumer-centered); Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1840 (2007) [hereinafter McKenna, *Normative Foundations*] (“[T]rademark law’s core policies [are] protecting consumers and improving the quality of information in the marketplace.”); I.P.L. Png & David Reitman, *Why Are Some Products Branded and Others Not?*, 38 J.L. & ECON. 207, 208–11 (1995) (providing empirical evidence supporting the search cost rationale). *But see* Deven R. Desai, *The Chicago School Trap in Trademark: The Co-Evolution of Corporate, Antitrust, and Trademark Law*, 37 CARDOZO L. REV. 551 (2015) (arguing that the search cost account is subordinate to a Chicago-school approach that maximizes freedom of action for mark owners).

36 Dogan & Lemley, *Search Costs*, *supra* note 35, at 778.

37 Stacey L. Dogan & Mark A. Lemley, *A Search-Costs Theory of Limiting Doctrines in Trademark Law*, 97 TRADEMARK REP. 1223, 1224–25 (2007) [hereinafter Dogan & Lemley, *Limiting Doctrines*].

38 Economides, *supra* note 35, at 526.

39 S. REP. NO. 1333, at 4 (1946) (noting that safeguarding fair competition is a core purpose of trademark protection).

40 J. Shahar Dillbary, *Getting the Word Out: The Informational Function of Trademarks*, 41 ARIZ. ST. L.J. 991, 999 (2009); *see also* WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 167 (2003) (explaining that a trademark saves search costs because it “is a shorthand way of telling [consumers] that the attributes are the same as that of the brand [they] enjoyed earlier” (internal quotation marks omitted)).

41 *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429 (7th Cir. 1985) (“Easily identified trademarks reduce the costs consumers incur in searching for what they desire, and the lower the costs of search the more competitive the market.”).

42 Lemley, *Death of Common Sense*, *supra* note 28, at 1694 (summarizing the view that “protecting [trademark] owners against the use of confusingly similar marks will encourage investment in brand quality and simultaneously protect consumers from confusion”).

ers do not necessarily care who sells the good, but they care whether or not the product they receive is consistent from buying experience to buying experience. Trademark law encourages a mark owner to maintain consistent quality by keeping competitors from using a confusingly similar mark on a similar product.⁴³ This protection allows the owner to internalize some of the costs of maintaining and sending signals about source and quality. The law thus protects trademarks so that they can be used to convey accurate information about the mark which reduces consumer search costs, encourages the mark owner to invest in consistent quality, and prevents harmful consumer confusion.⁴⁴ These related goals are three facets of what Robert Bone calls the “information transmission function” of trademarks.⁴⁵

Unlike other intellectual property regimes, the trademark regime offers perpetual protection.⁴⁶ So long as a critical mass of consumers continues to see the mark as a source identifier, a trademark can last forever. But trademark protection can expire if the mark owner engages in behavior that forfeits the source significance of the mark.⁴⁷ This Part outlines the trademark forfeiture mechanisms as they currently operate, and the ostensible statutory basis for the preoccupation with mark owner behavior and the neglect of consumer perception.

This Part also explains how trademark’s forfeiture mechanisms operate like information forcing penalty default rules. Unfortunately, the information they force is incomplete. Many of the forfeiture mechanisms described in this Part ignore consumer perception.⁴⁸ The law protects trademarks to the extent that consumers (are likely to) invest the mark with source significance, and to the extent that the use by another of a similar mark on similar products is likely to confuse consumers.⁴⁹ The law presumes that an inherently distinctive term used as a mark communicates source information to consumers from its first use in commerce.⁵⁰ A descriptive term is presumed not to communicate source information unless the mark owner provides evi-

43 *Id.*

44 Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2116 (2004) (“[R]educing consumer search costs, maintaining and improving product quality, and remedying intentional deception . . . all relate to the quality of the product information available to consumers. Even the [quality] incentive . . . is linked to safeguarding the information transmission function of marks.”).

45 Bone, *Hunting Goodwill*, *supra* note 33, at 555; *id.* at 549 (describing the “information transmission model” which “views trademarks as devices for communicating information to the market and sees the goal of trademark law as preventing others from using similar marks to deceive or confuse consumers” (internal quotation marks omitted)).

46 *Yurman Design, Inc. v. PAJ, Inc.*, 262 F.3d 101, 115 (2d Cir. 2001).

47 See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. c (AM. LAW INST. 1995).

48 In particular, while courts often take evidence of how consumers see the mark when the mark may have slid into genericness, evidence of consumer confusion is rarely considered in resolving other forfeiture disputes.

49 Linford, “*Generic*” Trademarks, *supra* note 29, at 119 (describing the central role of consumer confusion in assessing whether a junior user infringes the trademark rights of a senior user).

50 See Linford, *False Dichotomy*, *supra* note 28, at 1377.

dence that the term has acquired source significance.⁵¹ Consumer perception is an essential aspect of a word or symbol's operation as a mark. To the extent that trademark forfeiture mechanisms ignore consumer perception, they operate contrary to the information-transmission function of trademark law.

A. *Trademark's Forfeiture Mechanisms*

The law has provided several forfeiture mechanisms that can put an end to a mark's legal protection. A mark may be forfeited through generislide, falling into the public domain if consumers begin to use it primarily as a generic product indicator, or if the mark owner misuses it as a generic designation.⁵² A trademark can also expire if the mark owner suspends use of the mark and cannot show a clear intent to resume use;⁵³ if the mark is modified so significantly that the new version no longer presents a consistent commercial impression with the old version;⁵⁴ if the mark is sold "in gross," or without its underlying goodwill; or if the mark owner licenses the mark without engaging in quality control over licensees ("naked licensing").⁵⁵ Courts generally require that forfeiture "should be strictly proved."⁵⁶

For the most part, these forfeiture mechanisms work like a binary switch. The mark is protectable until the mark owner's behavior crosses the relevant threshold. Once the mark crosses one of these forfeiture thresholds, the mark loses its priority,⁵⁷ and a competitor may appropriate the mark to designate its own products.⁵⁸ The appropriator who first uses the mark after for-

51 *See id.* at 1375–79.

52 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 12:1 (4th ed. 2017).

53 15 U.S.C. § 1127 (2012).

54 *Id.*

55 *See* Michelle S. Friedman, *Naked Trademark Licenses in Business Format Franchising: The Quality Control Requirement and the Role of Local Culture*, 10 J. TECH. L. & POL'Y 353, 360 (2005).

56 *George Nelson Found. v. Modernica, Inc.*, 12 F. Supp. 3d 635, 646 (S.D.N.Y. 2014) (quoting *Saratoga Vichy Spring Co. v. Lehman*, 625 F.2d 1037, 1044 (2d Cir. 1980)) (internal quotation marks omitted).

57 *Gen. Cigar Co. v. G.D.M. Inc.*, 988 F. Supp. 647, 658 (S.D.N.Y. 1997) ("[A] party that is found to have abandoned its mark is deprived of any claim to priority in the mark before the date of abandonment and may regain rights in the mark only through subsequent use after the time of abandonment." (quoting *Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc.*, 841 F. Supp. 1339, 1355 (E.D.N.Y. 1994)) (internal quotation marks omitted)).

58 Generic terms are the exception. When a mark slides into genericness, any producer can use the forfeited mark to identify or describe the product sold, but no one can acquire exclusive rights in it. 2 MCCARTHY, *supra* note 52, § 12:1 ("[O]nce declared to be a generic name, the designation enters the 'linguistic commons' and is free for all to use."). *But see* Linford, "Generic" Trademarks, *supra* note 29, at 124 (describing how SINGER and GOODYEAR marks reacquired source significance after forfeiture through generislide).

feiture secures priority of use.⁵⁹ The appropriator may also register the forfeited mark,⁶⁰ which conveys a “right of priority, nationwide in effect . . . against any other person except for a person whose mark has not been abandoned.”⁶¹

If the mark is deemed forfeited, the prior mark owner has no remedy against the appropriation, even if a significant number of consumers will be confused by the shift in ownership.⁶² With the exception of generislide cases, forfeiture mechanisms focus exclusively on mark owner behavior and either ignore consumer perception or try to uncover it with ill-suited proxies.⁶³ Defenders of the status quo can turn to a circumscribed reading of relevant provisions of the Lanham Act⁶⁴: the statutory language, reproduced below, focuses on mark owner behavior.⁶⁵

1. Statutory Language

Section 45 of the Lanham Act (15 U.S.C. § 1127) defines, in general terms, how forfeiture occurs:

A mark shall be deemed to be “abandoned” if either of the following occurs:

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. “Use” of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise

59 See 2 MCCARTHY, *supra* note 52, § 16:1 (“The basic rule of trademark ownership in the United States is priority of use.”). *But see* Stephen M. Atkinson, *Appropriation of Expressly Abandoned Trademarks: Caveat Emptor?*, 65 TRADEMARK REP. 1 (1975) (arguing the subsequent user should not be permitted to rely on secondary meaning retained from the former user); Robert A. Kargen, *Trademark Law—The First User of an Abandoned Trademark Acquires the Secondary Meaning Associated with the Abandoned Mark by Virtue of His First Use*, 64 TRADEMARK REP. 8, 10–11 (1974).

60 See, e.g., *Cal. Cedar Prods. Co. v. Pine Mountain Corp.*, 724 F.2d 827, 830 (9th Cir. 1984) (“[T]he first party to use an abandoned trademark in a commercially meaningful way after its abandonment, is entitled to exclusive ownership and use of that trademark and trade dress.”); see also 15 U.S.C. § 1052(d) (2012).

61 15 U.S.C. § 1057(c).

62 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. b (AM. LAW INST. 1995) (“A finding of abandonment can . . . result in the forfeiture of valuable rights and can also create the potential for confusion.”).

63 See Tushnet, *supra* note 32, at 355.

64 The Lanham Act provides federal trademark protection. See 15 U.S.C. §§ 1051–1141.

65 Tushnet, *supra* note 32, at 355 n.11 (“[T]he Lanham Act defines abandonment solely in producer-focused terms.”). This Article argues in Section IV.A that the statutory language can be read capaciously enough for courts to consider consumer perception. Parts II and III lay out the argument for why courts should do so.

to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.⁶⁶

The Lanham Act divides what it calls the abandonment inquiry into three parts: abandonment through nonuse,⁶⁷ abandonment through generislide,⁶⁸ and abandonment through other loss of source significance, which includes naked licensing and assignment in gross.⁶⁹ The statutory language suggests that the mark owner, rather than the consumer, retains a position of primacy with regard to determining when trademark protection is forfeited.⁷⁰

First, a mark is deemed abandoned “[w]hen its use has been discontinued with intent not to resume such use.”⁷¹ The statutory language of section 1127(1) clearly bases abandonment through nonuse on the actions of the mark owner.⁷² The language makes no mention of consumer perception.

Second, a mark is deemed abandoned “[w]hen any course of conduct of the owner . . . causes the mark to become the generic name for the goods or services on or in connection with which it is used.”⁷³ The language of section 1127(2) indicates that when a mark becomes generic, it does so through acts of omission or commission by the mark owner, rather than a shift in perception on the part of consumers. That is a peculiar construction in light of the caselaw, which looks primarily at whether the majority of consumers have come to see the mark as a generic designation.⁷⁴

Third, forfeiture occurs “[w]hen any course of conduct of the owner . . . causes the mark . . . to lose its [source] significance as a mark.”⁷⁵ Claims of forfeiture through assignment in gross and naked licensing fit under this subpart of section 1127(2). When the mark owner assigns a mark without the transfer of goodwill, its action forfeits the priority in the assigned mark.⁷⁶ And, if the mark owner licenses the mark without the right quality control measures, it forfeits its rights in the licensed mark.⁷⁷

66 15 U.S.C. § 1127 (2012), “abandoned”.

67 1 ANNE GILSON LALONDE, *GILSON ON TRADEMARKS* § 3.05(1) (Matthew Bender ed., 2017).

68 *Id.* § 3.05(9)(0a).

69 *Id.* § 3.05(9)(a).

70 *Id.* § 3.05(01) (“As long as a mark *owner* uses its mark, it may maintain rights in that mark, but . . . [i]f the *owner* stops using a mark and [the owner] intends not to resume its use, it is said to have abandoned the mark.” (emphasis added)).

71 15 U.S.C. § 1127(1), “abandoned”.

72 *Id.*; see also *infra* subsection I.A.3.

73 15 U.S.C. § 1127(2), “abandoned”.

74 See *infra* subsection I.A.2.

75 15 U.S.C. § 1127(2), “abandoned”.

76 See *infra* subsection I.A.4; see also *supra* note 57 and accompanying text.

77 See *infra* subsection I.A.5.

Source significance—the connection between mark and source that trademark law protects—depends on consumer perception,⁷⁸ but outside of the context of generislide, the caselaw has done little to recognize the role of consumer perception and consumer use in determining whether a trademark has lost its source significance.⁷⁹ Trademark’s forfeiture mechanisms are, for the most part, out of sync with the information-transmission account of trademark protection and fail to incentivize the disclosure of important information about potential consumer harm. The generislide inquiry, discussed in the next Section, is the exemplary exception, considering both mark-owner effort and public perception.

2. Generislide Through Consumer Use

Unlike the other forfeiture mechanisms described below, courts expressly consider consumer perception when determining whether a mark has experienced a slide into genericness.⁸⁰ Once a majority of consumers see the mark as a generic product identifier, it no longer qualifies for trademark protection, even if a substantial minority of consumers continue to use the mark as a source signifier.⁸¹ When evaluating whether a mark has suffered “generislide,”⁸² courts ask whether consumers primarily use the mark as a generic designation for the product or service, rather than as a source signifier. In generislide cases, parties frequently consider survey evidence designed to reveal whether a majority of consumers see the mark as a source signifier or as a generic product designation.⁸³

But generislide inquiries do not ignore mark owner behavior. Indeed, many generislide cases are characterized by mark owner misuse of the mark

78 See, e.g., *Aloe Creme Labs., Inc. v. Milsan, Inc.*, 423 F.2d 845, 850 (5th Cir. 1970) (source significance does not depend on “the *extent* of the promotional efforts, but their *effectiveness* in altering the meaning of [the mark] to the consuming public”).

79 Some scholars have argued that subsection (2) of the abandonment definition can be read broadly, but caution against presuming that courts will so read it. Tal S. Benschar et al., *Covenant Not to Sue: A Super Sack or Just a Wet Paper Bag?*, 102 TRADEMARK REP. 1213, 1233 (2012). Nevertheless, in the Fifth Circuit’s discussion of naked licensing in *Exxon Corp. v. Oxford Clothes, Inc.*, the court embraces this strong reading of the language of subsection (2) of the abandonment definition. 109 F.3d 1070, 1080 (5th Cir. 1997) (“We, like the district court, would find it wholly anomalous to *presume* a loss of trademark significance merely because Exxon, in the course of diligently *protecting* its mark, entered into agreements designed to preserve the distinctiveness and strength of that mark.”).

80 Linford, “*Generic*” Trademarks, *supra* note 29, at 150 (“[C]ourts considering a claim of [generislide] look for evidence that a majority of the relevant consumer base . . . uses the mark as a generic product designation.”).

81 See *id.* at 149–50.

82 I use the term generislide, as opposed to genericness, genericide, or some awkward construction about a fall into genericness because it nicely captures the erosion of source significance through changing consumer usage over time.

83 See Linford, “*Generic*” Trademarks, *supra* note 29, at 163 (“The traditional ‘Teflon’ and ‘Thermos’ surveys applied in generislide disputes investigate how consumers perceive and use the challenged mark.” (citing *E.T. Browne Drug Co. v. Cococare Prods., Inc.*, 538 F.3d 185, 193 (3d Cir. 2008))).

as both a source signifier and a generic product designation.⁸⁴ For example, in classic generislide cases forfeiting rights to the Singer and Aspirin trademarks,⁸⁵ the mark owner's use of the mark as a generic product designation was seen as a critical factor contributing to changing consumer perception.

The generislide inquiry is well balanced and consistent with the information-transmission function of trademark law. Courts seek information about both mark owner behavior and consumer perception in determining whether the mark is forfeited. Unlike the generislide inquiry, the other forfeiture mechanisms are skewed, failing to uncover evidence of consumer perception, and nearly always ignoring it when it is presented.

3. Abandonment Through Nonuse

Abandonment through nonuse occurs when the mark owner stops using the mark.⁸⁶ Abandonment occasionally happens when a mark owner clearly signals its intent to stop using the mark.⁸⁷ More frequently, the mark owner makes no such admission, but its rights in the mark may be challenged on the ground that abandonment should be inferred from a period of nonuse.⁸⁸

Courts have developed a two-part abandonment inquiry. The party claiming abandonment through nonuse must establish (1) "discontinuance of trademark use" by the mark owner and (2) the mark owner's "intent not to resume such use."⁸⁹ The standard abandonment inquiry focuses on mark owner behavior but ignores consumer perception. Neither of the aforementioned factors—discontinuance or intent to resume use—account for

84 See 1 LALONDE, *supra* note 67, § 3.05(9)(a)(2) (noting instances where mark owner's misuse of the mark contributes to generislide).

85 Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169, 183 (1896) (noting that the Singer Manufacturing Co. contributed to the generislide of the Singer mark by voluntarily applying it to the companies' sewing machines "as a designation of the general type of machines made by them," rather than as a source signifier); Bayer Co. v. United Drug Co., 272 F. 505, 510–11 (S.D.N.Y. 1921) (finding Aspirin generic among consumers in part because Bayer used Aspirin as a generic product designation, rather than as a trademark on some product packaging).

86 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. c (AM. LAW INST. 1995).

87 See, e.g., Cal. Cedar Prods. Co. v. Pine Mountain Corp., 724 F.2d 827, 829–30 (9th Cir. 1984) (mark owner announced it would discontinue its line of Duraflame artificial fire logs, leading to a race among potential appropriators to be the first to use the mark in commerce and thus acquire priority over other firms). But see Manhattan Indus., Inc. v. Sweater Bee by Banff, Ltd., 627 F.2d 628, 631 (2d Cir. 1980) (allowing two firms racing to first use an abandoned mark to bring their respective products to market, expressing confidence that each could craft sufficiently distinct labels to allow sophisticated purchasers of women's clothing to distinguish their products).

88 Baglin v. Cusenier Co., 221 U.S. 580, 598 (1911) ("[I]ntent may be inferred when the facts are shown, yet the facts must be adequate to support the finding.").

89 Grocery Outlet Inc. v. Albertson's Inc., 497 F.3d 949, 951 (9th Cir. 2007) (per curiam) (quoting Electro Source, LLC v. Brandess-Kalt-Aetna Grp., Inc., 438 F.3d 931, 935–36 (9th Cir. 2006)) (internal quotation marks omitted); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. b (AM. LAW INST. 1995); 3 MCCARTHY, *supra* note 23, § 17:11 ("[T]he requisite intent is an intent to resume a *commercial* level of use . . .").

whether consumers still use the abandoned mark as a source signifier, or whether they would assume a product bearing the mark comes from the forfeiting owner. The abandonment mechanism thus fails to force information about consumer perception.

Courts and commentators articulate two main rationales for forfeiture through abandonment. First, it prevents an ostensible owner from “warehousing” a mark it does not use.⁹⁰ Second, it pushes the abandoned mark back into the public domain for use by a new seller.⁹¹ Returning the mark to the public domain is considered efficient because an abandoned mark is presumed to bear no goodwill.⁹²

Courts are often invited to consider evidence of residual goodwill, but typically reject the invitation.⁹³ For example, in *Exxon Corp. v. Humble Exploration Co.*, the court concluded that it could not extend protection to an abandoned mark even if recognizing residual goodwill were good policy,⁹⁴ because doing so could not be squared with the language of the statute.⁹⁵

On extremely rare occasions, a court takes note that consumers may be confused by the appropriation of an abandoned mark.⁹⁶ Nonetheless, even in the small handful of abandonment cases that consider residual consumer goodwill, the court focuses on the behavior of the mark owner and its intent to abandon and resume use of the mark.⁹⁷ Indeed, residual goodwill is

90 *Exxon Corp. v. Humble Expl. Co.*, 695 F.2d 96, 101 (5th Cir. 1983). Warehousing is frowned upon as inefficient. William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 281 (1987) [hereinafter Landes & Posner, *Economic Perspective*] (observing that warehousing registration without use of marks in Japan increases the cost of entering that market).

91 *Abdul-Jabbar v. Gen. Motors Corp.*, 85 F.3d 407, 411 (9th Cir. 1996) (“Rather than countenancing the ‘removal’ or retirement of the abandoned mark from commercial speech, trademark law allows it to be used by another.”); 3 McCARTHY, *supra* note 23, § 17:1 (“Abandonment paves the way for future possession and property in any other person.” (citing *Russell v. Caroline-Becker, Inc.*, 142 N.E.2d 899 (Mass. 1957))). *But see Indianapolis Colts, Inc. v. Metro. Balt. Football Club Ltd. P’ship*, 34 F.3d 410, 412 (7th Cir. 1994) (recognizing but expressing skepticism about the aforementioned principle).

92 Stephen L. Carter, Comment, *The Trouble with Trademark*, 99 YALE L.J. 759, 778 (1990).

93 *But see Note, Abandonment as a Defense in Trade-Mark and Unfair Competition Cases*, 30 COLUM. L. REV. 695, 696–97 (1930) (arguing that under pre-Lanham Act caselaw, abandonment occurs as goodwill expires; until source significance dissipates, the unused mark cannot be appropriated by another, and the intent of the mark owner is irrelevant).

94 Other cases suggest in dicta that the law might recognize residual goodwill on policy grounds. *See, e.g., Lyon Metal Prods., Inc. v. Lyon Inc.*, 134 U.S.P.Q. (BNA) 31, 35 n.5 (T.T.A.B. 1962) (noting in dicta that even assuming the opposed had abandoned the LYON mark, substantial goodwill might persist “until such time as it can be shown that the purchasing public generally no longer is reasonably likely to associate [a new entrant’s] product with the [abandoning] party”).

95 *Exxon Corp.*, 695 F.2d at 101.

96 *See, e.g., Indianapolis Colts*, 34 F.3d at 416.

97 *Defiance Button Mach. Co. v. C & C Metal Prods. Corp.*, 759 F.2d 1053, 1060 (2d Cir. 1985) (“[T]he record is clear that [the mark owner] never intended to abandon its trademark.”).

described as the value accrued by the mark owner, rather than the usefulness of the mark to a consumer.⁹⁸ And in those cases where residual goodwill is discussed, the discussion almost always turns on the manner in which the mark owner kept the product in front of the public eye, rather than evidence of consumer perception about the mark.⁹⁹ For example, in *Ferrari S.p.A. Esercizio Fabbriche Automobili e Corse v. McBurnie*, the court held that trade dress in the Ferrari “Daytona Spyder” had not been abandoned, even though new models had not been sold since the early seventies, because the cars were still on the road and parts for the cars were still available.¹⁰⁰

This tendency to ignore consumer investment in goodwill is unfortunate.¹⁰¹ The law will struggle to protect the information-transmission function of trademarks if it ignores how appropriation of a mark abandoned through nonuse is understood by consumers.¹⁰² For example, Coca-Cola’s restoration of the Surge mark highlights the potential for consumer confusion.¹⁰³ A critical mass of consumers petitioned Coke to bring Surge back, and the company responded. But if one of the intent-to-use applicants had commenced use during Coke’s hiatus from the market, that applicant would secure priority in the mark and be free to use Surge to sell its beverages. The goodwill which those consumers continued to invest in the Surge mark as a source signifier pointing back to Coke would be squandered—consumers try-

98 See *id.* at 1059 (noting that goodwill “represents the reputation developed by its owner for the nature and quality of goods or services sold by him”). Cases like *Defiance Button* consider residual consumer goodwill indirectly, treating it as a property right in the hands of the mark owner that doesn’t automatically dissipate at the first moment of nonuse. *Id.* at 1060 (“[T]he purpose of a mark is to protect the goodwill of a business . . . and if there is no business there is no goodwill and therefore nothing to protect. This is not to say, however, . . . that at the moment business is suspended the goodwill ceases to exist.” (quoting *Merry Hull & Co. v. Hi-Line Co.*, 243 F. Supp. 45, 50 (S.D.N.Y. 1965))); see also 3 MCCARTHY, *supra* note 23, § 17:14.

99 See *Ferrari S.p.A. Esercizio Fabbriche Automobili e Corse v. McBurnie*, 11 U.S.P.Q.2d (BNA) 1843, 1851–52 (S.D. Cal. 1989).

100 *Id.* at 1848–49.

101 Mark McKenna argues that trademark law focuses on protecting mark owners from trade diversion, rather than protecting consumers from confusion, and points to the abandonment mechanism as evidence of that focus. McKenna, *Normative Foundations*, *supra* note 35, at 1893 (“[The abandonment] rule makes little sense viewed through a consumer protection lens because consumers may continue to associate a mark with a particular producer for some time after that producer has ceased use.”); see also Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 398 (1990) (“[Trademark] defenses [like abandonment] centered on the commercial requirements of the competitive marketplace . . . [and] were understood strictly by reference to these commercial interests.”).

102 Cf. Lior Jacob Strahilevitz, *The Right to Abandon*, 158 U. PA. L. REV. 355, 373 (2010) (“[O]ne goal of abandonment law [generally] should be to reduce [] associated confusion costs.”).

103 See *supra* notes 1–8 and accompanying text.

ing the beverage would likely be disappointed. Coke, in turn, would have no ground to object if—as is likely—a court should deem Surge abandoned.¹⁰⁴

Courts consider consumer perception more explicitly in a discrete subset of abandonment inquiries involving modified marks.¹⁰⁵ The owner of a mark threatened with forfeiture through nonuse may argue the mark was not abandoned, but updated.¹⁰⁶ If the modified mark and its predecessor create “the same general commercial impression,”¹⁰⁷ the mark owner can tack back, or use the priority of the predecessor mark.¹⁰⁸ If not, the priority is forfeited.¹⁰⁹ For example, in *Van Dyne-Crotty, Inc. v. Wear-Guard Corp.*, a competitor successfully petitioned to cancel the registration of “CLOTHES THAT WORK” over the mark owner’s objection that its mark was a modification of a prior registration, “CLOTHES THAT WORK. FOR THE WORK YOU DO.”¹¹⁰ The court affirmed the grant of cancellation by the Trademark Trial and Appeal Board on the ground that the newer mark was not equivalent to the earlier mark.¹¹¹

Tacking cases properly disclose some information about residual consumer goodwill. But courts rarely take direct survey evidence of consumer perception about the continuing commercial impression of the original and modified marks.¹¹² The tacking inquiry improves on the standard abandonment inquiry, but nevertheless fails to fully account for consumer perception or discover information about residual goodwill.

104 See also Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1249 (“[R]eleasing marks back to the open market can have a rather significant negative impact on consumer search. If a company builds up substantial goodwill before going out of business, that goodwill will often persist long after the company and its products disappear.”).

105 See *Van Dyne-Crotty, Inc. v. Wear-Guard Corp.*, 926 F.2d 1156, 1159 (Fed. Cir. 1991) (noting that in such cases, consumers must “consider both [marks in question] as the same”), *abrogated by* *Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907 (2015).

106 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 30 cmt. b (AM. LAW INST. 1995) (“A change in the kinds of goods or services marketed under the trademark is not an abandonment.”).

107 4 LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS & MONOPOLIES § 20:65 (4th ed. 2017). Mark and Jacoby categorize residual consumer goodwill toward an abandoned mark as a type of continuing commercial impression. See Gideon Mark & Jacob Jacoby, *Continuing Commercial Impression: Applications and Measurement*, 10 MARQ. INTELL. PROP. L. REV. 433, 434–35 (2006).

108 *Van Dyne-Crotty*, 926 F.2d at 1160.

109 *Id.*

110 *Id.* at 1157.

111 *Id.* at 1160.

112 Mark & Jacoby, *supra* note 107, at 449 (“[Survey] evidence very infrequently has been submitted to support or rebut a claim of continuing commercial impression.”). Some courts suggested survey evidence was not needed because the question of tacking was a question of law. See, e.g., *Van Dyne-Crotty*, 926 F.2d at 1159. The Supreme Court recently *abrogated Van Dyne-Crotty*, holding that tacking is a question of fact. *Hana Fin., Inc. v. Hana Bank*, 135 S. Ct. 907, 912 (2015). It is unclear whether that will increase the frequency with which consumer surveys will be presented in tacking cases.

4. Assignment in Gross

The law protects trademarks because allowing unauthorized use may confuse consumers, who expect to buy *A*'s product with its relevant characteristics when selecting a product with *A*'s mark, but instead select *B*'s product.¹¹³ This same confusion may arise if a mark is assigned from one party to another, but the assignee's product differs significantly from the assignor's. Such use might defraud or confuse the purchasing public.¹¹⁴ The law thus bars assignment "in gross," or without the transfer of the assignor's goodwill.¹¹⁵ If assignment in gross occurs, the mark can be cancelled for misrepresenting the source of marked products¹¹⁶ or losing its significance as a mark.¹¹⁷

Like the modification inquiry, courts considering whether assignment in gross forfeits the mark look for continuity, but instead of continuity of the mark, courts look for continuity of product quality.¹¹⁸ Sufficient continuity is detected by looking at assignee inputs and outputs. First, courts ask whether the assignee has access to the materials that would allow it to preserve continuity with the assignor's product.¹¹⁹ If the trademark is assigned as part of the purchase of a "total business,"¹²⁰ including physical assets or trade secrets, courts typically assume the assignee also acquired goodwill.¹²¹

113 Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1185 (1948).

114 See 3 McCARTHY, *supra* note 23, § 18:3 (citing, *inter alia*, Sugar Busters LLC v. Brennan, 177 F.3d 258, 265 (5th Cir. 1999) ("The purpose of the rule prohibiting the sale or assignment of a trademark in gross is to prevent a consumer from being misled or confused as to the source and nature of the goods or services that he or she acquires.")); RESTATEMENT (THIRD) ON UNFAIR COMPETITION § 34(b) (AM. LAW INST. 1995); Glynn S. Lunney, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 410 (1999) ("Allowing a trademark owner to assign a mark without the associated, underlying business risks the very confusion trademark law aims to remedy.").

115 3 McCARTHY, *supra* note 23, § 18:3. Section 10 of the Lanham Act states that a registered trademark is assignable "with the good will of the business in which the mark is used, or with that part of the good will of the business connected with the use of and symbolized by the mark." 15 U.S.C. § 1060(a)(1) (2012).

116 *Id.* § 1064(3).

117 *Id.* § 1127.

118 See, *e.g.*, Kidd v. Johnson, 100 U.S. 617, 620 (1879) (holding, prior to the passage of the Lanham Act, that a trademark "may not be the subject of sale" separate from the original manufacturer's product, but "the right to the use of the trade-mark may be lawfully transferred with" the place of manufacture).

119 See 3 McCARTHY, *supra* note 23, § 18:23.

120 *Id.*

121 See, *e.g.*, Am. Dirigold Corp. v. Dirigold Metals Corp., 125 F.2d 446, 454 (6th Cir. 1942) (holding that "intangible assets" like trademarks pass with the purchase of the business and its accoutrements, and that a judicial sale of the entire business did not abandon the mark). If the assignee does not acquire tangible assets, courts will ask whether it acquired sufficient assets to "go on in real continuity with [the] past." Merry Hull & Co. v. Hi-Line Co., 243 F. Supp. 45, 51 (S.D.N.Y. 1965) (quoting Mut. Life Ins. Co. v. Menin, 115 F.2d 975, 977 (2d Cir. 1940)) (internal quotation marks omitted).

Second, courts look at the assignee's output to determine whether the assignee is using the assigned mark on goods "having substantially the same characteristics" as those of the assignor.¹²² Thus, in *PepsiCo, Inc. v. Grapette Co.*, the court held the assignee forfeited the priority in the assigned mark—Peppy for a cola beverage—by using Peppy for a pepper-flavored beverage.¹²³

On the other hand, if the assignee offers substantially the same product, the assignment will not forfeit the mark, even if the quality has changed somewhat.¹²⁴ For example, in *Bambu Sales, Inc. v. Sultana Crackers, Inc.*, the court declined to hold the assignee forfeited its priority, even though it offered cigarette paper of lower quality than the assignor.¹²⁵ This shift in quality did not alter "the fundamental nature" of the product post-assignment, because even low quality cigarette paper was identifiable as cigarette paper. Continuity required nothing more.¹²⁶

Inputs and outputs are better proxies for consumer perception than trademark use or its absence—the focus of the abandonment inquiry. Nevertheless, direct evidence of consumer confusion is not considered in assignment in gross cases either. The assignment mechanism also fails to force information about residual goodwill.

5. Naked Licensing

Licensing done wrong can also extinguish trademark protection. A "system of naked licensing," or licensing without quality control, can forfeit the licensor's mark.¹²⁷ Early on, any licensing of a trademark was seen as inherently misleading,¹²⁸ and thus impermissible,¹²⁹ because licensing would vio-

122 *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 288 (8th Cir. 1969).

123 *Id.* at 286.

124 *See, e.g., Visa, U.S.A., Inc. v. Birmingham Tr. Nat'l Bank*, 696 F.2d 1371, 1372 (Fed. Cir. 1982) (mark signifying a promise to guarantee a check can be assigned from a super-market chain to a credit card organization).

125 *Bambu Sales, Inc. v. Sultana Crackers, Inc.*, 683 F. Supp. 899, 907 (E.D.N.Y. 1988) ("[W]here the product or service is essentially the same before and after the transfer, variations in type or quality will not invalidate the assignment."). Glynn Lunney argues that the sufficient continuity rule sets too low a bar and thus "authorizes precisely those assignments most likely to create such confusion." Lunney, *supra* note 114, at 416 (citing *PepsiCo*, 416 F.2d at 286–87).

126 *See Bambu Sales*, 693 F. Supp. at 908. This is consistent with how courts treat product change by a mark owner outside of the assignment context. *Midlothian Labs., L.L.C. v. PamLab, L.L.C.*, 509 F. Supp. 2d 1065, 1077 (M.D. Ala. 2007), *vacated in part on reconsideration*, 509 F. Supp. 2d 1095.

127 *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959). Forfeiting a mark through naked licensing will estop the licensor from exercising legal rights in the mark. *See Sheila's Shine Prods., Inc. v. Sheila Shine, Inc.*, 486 F.2d 114, 124 (5th Cir. 1973). It can also result in the cancellation of federal trademark registration. *See Barcamerica Int'l USA Tr. v. Tyfield Imps., Inc.*, 289 F.3d 589, 598 (9th Cir. 2002).

128 Friedman, *supra* note 55, at 376.

late the presumption that all marked products come from a single physical source.¹³⁰

Courts later relaxed the bar against licensing to better suit a modern view of consumer sophistication and business necessity,¹³¹ consistent with a theory that a trademark provides information about consistent quality, and thus source need not be strictly defined.¹³² The Lanham Act now contemplates that use by a licensee will “inure to the benefit of the registrant” without threatening the validity of the mark, “provided [the licensed] mark is not used in such manner as to deceive the public.”¹³³ However, licensors are still burdened by the common law’s historical distrust of licensing.¹³⁴ Thus, licensing which occurs without a certain level of quality control will forfeit protection in the licensed mark.

Most courts presume that licensing without quality control will inevitably confuse consumers.¹³⁵ As the Second Circuit articulated the standard, “the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.”¹³⁶ But unlike the assignment inquiry, which considers both inputs (assignor resources) and outputs (assignee’s consistent product quality), the traditional naked licensing inquiry focuses solely on the inputs: the licensor’s quality control mechanisms. Courts considering the naked licensing defense do not ask whether consumers are actually confused. Indeed, courts rarely bother to inquire whether the licensee actually offers products or services of inconsistent or inferior quality.¹³⁷ If quality control measures are detected, then the court concludes, “there is no reason to believe that the public will be misled.”¹³⁸

129 See, e.g., *Macmahon Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 474–75 (8th Cir. 1901) (“A trade-mark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used.”).

130 See 3 MCCARTHY, *supra* note 23, § 18:39.

131 See Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19, 24 (1995). Some scholars have stylized the shift in jurisprudence as a shift from a focus on the mark as a signifier of source to a guarantor of a consistent level of quality. See Elmer William Hanak, III, *The Quality Assurance Function of Trademarks*, 43 FORDHAM L. REV. 363, 363–65 (1974).

132 See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 314–15 (1988) (Brennan, J., concurring in part and dissenting in part).

133 15 U.S.C. § 1055 (2012).

134 See, e.g., *Movie Mania Metro, Inc. v. GZ DVD’s Inc.*, 857 N.W.2d 677, 689 n.16 (Mich. Ct. App. 2014) (noting that naked licensing “would render [a] mark not valid under the common law and the Lanham Act”).

135 See, e.g., *U.S. Jaycees v. Phila. Jaycees*, 639 F.2d 134, 140 (3d Cir. 1981) (“If a licensor does not maintain control of his licensees in their use of the license, the public may be damaged by products that, despite their trademark, do not have the normal quality of such goods.”).

136 See *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959).

137 See, e.g., *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395 (2d Cir. 1986) (“[T]he actual quality of the goods is irrelevant.”).

138 *Exxon Corp. v. Oxxford Clothes, Inc.*, 109 F.3d 1070, 1079 (5th Cir. 1997).

But when quality control measures are missing, courts forfeit the mark, even if there is no evidence of confusion and no inconsistency as to quality. For example, in *Eva's Bridal Ltd. v. Halanick Enterprises, Inc.*,¹³⁹ the owner of Eva's Bridal, a bridal store in a North Chicago suburb, licensed the Eva's Bridal mark to a cousin, who opened a second store in a different suburb.¹⁴⁰ The licensor engaged in no formal quality control.¹⁴¹ The court presumed, based on the lack of quality control, that a customer who visited the stores operated by the licensor and licensee "might not have found a common ambiance or means of doing business."¹⁴² That was sufficient to forfeit the mark, even though the licensees were relatives and the stores shared the same dress designer.¹⁴³

A few outlier cases consider licensee quality—similar to the assignee output question in assignment in gross cases. For example, in *Brewski Beer Co. v. Brewski Bros., Inc.*,¹⁴⁴ the Trademark Trial and Appeals Board held that the mark in question was not forfeited through naked licensing because "satisfactory quality was maintained, and, hence, no deception of purchasers occurred."¹⁴⁵ Some universities also successfully argue that longstanding uncontrolled use has not forfeited rights in their respective marks, either because the quality of marked goods "remained at an acceptable level in virtually all instances,"¹⁴⁶ (similar to the continuity requirement from assignment in gross cases) or because the court found that the mark retained source significance after the period of uncontrolled licensing.¹⁴⁷ But these cases are the exception rather than the rule.¹⁴⁸ In the naked licensing context, like abandonment and assignment in gross, the law fails to encourage parties to consider or disclose information about actual or likely consumer disappointment.

Essentially, in that sliver of abandonment and naked licensing cases where courts consider residual consumer goodwill, they contort the analysis

139 639 F.3d 788 (7th Cir. 2011).

140 *Id.* at 789.

141 *Id.* at 790 (noting that the plaintiffs believed "they had no reason to superintend any aspects of defendants' business").

142 *Id.* at 791.

143 *Id.*

144 47 U.S.P.Q.2d (BNA) 1281 (T.T.A.B. 1998).

145 *Id.* at 1288 (quoting *Stockpot, Inc. v. Stock Pot Rest., Inc.*, 220 U.S.P.Q. (BNA) 52, 59 (T.T.A.B. 1983), *aff'd*, 737 F.2d 1576 (Fed. Cir. 1984)).

146 *Univ. Book Store v. Univ. of Wis. Bd. of Regents*, 33 U.S.P.Q.2d (BNA) 1385, 1396 (T.T.A.B. 1994).

147 *See Bd. of Governors of Univ. of N.C. v. Helpingstine*, 714 F. Supp. 167, 171 (M.D.N.C. 1989).

148 *But see* Irene Calboli, *The Sunset of "Quality Control" in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 395 (2007) (arguing that courts have started using the quality of the licensee's offerings as a proxy for quality control mechanisms); Mark P. McKenna, *Testing Modern Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63, 89 (2009) (citing the aforementioned cases as evidence that the TTAB "fairly routinely" refuses to cancel trademarks for naked licensing in cases "in which the purported licensee's products were of reasonable quality").

to fit perceived statutory requirements. Courts seem to intuit that consumers will continue to vest a mark with residual goodwill in some cases, although courts are forced to voice those intuitions using unaccommodating tests to remain consistent with perceived statutory commitments. As a result, courts may be relying on intuition in these cases, accounting for residual goodwill only where it seems obvious—whether or not it actually occurs.¹⁴⁹

B. Information-Forcing Failures

These forfeiture mechanisms serve as information-forcing penalty default rules, but they are poorly focused, failing in large part to encourage the disclosure of information about consumer use of the endangered mark.¹⁵⁰ An information-forcing penalty default rule encourages disclosure of information in situations where one might expect information asymmetry to harm the uninformed party.¹⁵¹ Information-forcing penalty default rules are most easily justified when a well-informed participant is situated to solve a problem caused by incomplete information, and where a default rule can penalize the underproduction of information and thus cabin strategic behavior.¹⁵² For example, the default rule in contract law denying unforeseeable damages can be justified as a rule that incentivizes the promisee to disclose its unique needs so that promisors can correctly price the transaction and take efficient precautions.¹⁵³ Information-forcing penalty default rules are not uncommon in IP regimes. For instance, many patent doctrines can be understood as penalty default rules that incentivize clear disclosure of the patented invention.¹⁵⁴

149 See *supra* notes 96–101 and accompanying text.

150 Others have argued that trademark law is generally structured to encourage disclosure of needed information. See Linford, *Adverse Possessor*, *supra* note 20, at 708 (“Like adverse possession, trademark use is also communicative and information forcing. Consumers come to understand the scope of the mark owner’s claim as the mark is used in commerce to designate goods and services from a consistent source. Competitors are also notified of the trademark owner’s claim through her productive use.”); Jeremy N. Sheff, *Veblen Brands*, 96 MINN. L. REV. 769, 779 (2012) (describing the dominant justification of trademark law as espousing “information-forcing policies”).

151 See Thomas W. Merrill & Henry E. Smith, *The Property/Contract Interface*, 101 COLUM. L. REV. 773, 806–07 (2001). See generally Lucian Ayre Bebchuk & Steven Shavell, *Information and the Scope of Liability for Breach of Contract: The Rule of Hadley v. Baxendale*, 7 J.L. ECON. & ORG. 284 (1991).

152 See R. Polk Wagner, *Reconsidering Estoppel: Patent Administration and the Failure of Festo*, 151 U. PA. L. REV. 159, 212–17 (2002).

153 See, e.g., *Hadley v. Baxendale* (1854) 156 Eng. Rep. 145, 9 Ex. 341; RICHARD A. POSNER, *ECONOMIC ANALYSIS OF LAW* 114–15 (3d ed. 1986); Ian Ayres & Robert Gertner, *Filling Gaps in Incomplete Contracts: An Economic Theory of Default Rules*, 99 YALE L.J. 87, 97–100 (1989). But see Jason Scott Johnston, *Strategic Bargaining and the Economic Theory of Contract Default Rules*, 100 YALE L.J. 615, 617 (1990) (arguing that “strategic incentives in bargaining seem to cut against the idea that the penalty default rule in *Hadley* can force promisees to reveal information”).

154 See Kevin Emerson Collins, *The Reach of Literal Claim Scope into After-Arising Technology: On Thing Construction and the Meaning of Meaning*, 41 CONN. L. REV. 493, 506 (2008)

Trademark law's forfeiture mechanisms ostensibly fulfill similar functions. For example, after a period of nonuse, the abandonment mechanism strips protection from the mark unless the mark owner presents evidence of a bona fide intent to resume use of the mark.¹⁵⁵ But in most cases, trademark forfeiture mechanisms are forcing incomplete information. In some cases, these mechanisms force the wrong information. Asking whether the mark owner has credible plans to resume use tells us little about the relative costs and benefits that allowing reassignment of the mark would impose on consumers and competitors or convey to the hopeful appropriator. Likewise, the existence of a right to police in the naked licensing context tells us little about whether allowing the licensing relationship to continue imposes more costs on consumers than allowing uncontrolled use of the mark by a party who pays no license. And mere category similarity between the product sold by the assignor and the assignee under the mark does not guarantee that consumers will not be confused or injured by the assignment.

The current trademark forfeiture mechanisms also cannot be justified as inquiry-simplifying rules. Each one is context sensitive, resembling fuzzy standards instead of bright line rules.¹⁵⁶ And each of these standards mishandles their respective inquiry by focusing exclusively on mark owner behavior. The generislide threshold, which forfeits mark protection if the majority of consumers see the mark as a product identifier instead of a source signifier, is both more rule-like than other forfeiture mechanisms and properly directed to disclose information about consumer use in addition to mark owner behavior.¹⁵⁷

(discussing information-forcing aspects of disclosure doctrine in patent prosecution); Christopher A. Cotropia, *Modernizing Patent Law's Inequitable Conduct Doctrine*, 24 BERKELEY TECH. L.J. 723, 753–62 (2009) (discussing information-forcing aspects of patent law's inequitable conduct doctrine—information is forced from the party with the best access to information); Gideon Parchomovsky & R. Polk Wagner, *Patent Portfolios*, 154 U. PA. L. REV. 1, 70–71 (2005) (discussing value of information-forcing rules in the patent context—rules that create an incentive for patent seekers to discover and disclose additional information prior to obtaining approval for a patent application); Wagner, *supra* note 152, at 159, 168 (“[T]he fact that the application of prosecution history estoppel can limit patent scope creates incentives for prospective patentees to avoid such a penalty by adjusting their behavior.”); *cf.* Tun-Jen Chiang, *Forcing Patent Claims*, 113 MICH. L. REV. 513, 558 (2015) (defending claimant-drafted patent claims as a mechanism that, properly timed and properly weighted, can overcome information asymmetries endemic to patent law).

155 See Strahilevitz, *supra* note 102, at 390–91.

156 The abandonment mechanism could become more rule-like if the three-year prima facie abandonment window was crystalized into per se abandonment, but that is not the current system. See Linford, *Adverse Possessor*, *supra* note 20, at 764.

157 Compare Linford, “Generic” Trademarks, *supra* note 29, at 149–50 (“[C]ourts considering a claim of ex post genericness look for evidence that a majority of the relevant consumer base now uses the mark as a generic product designation.”), with *Baglin v. Cusenier Co.*, 221 U.S. 580, 598 (1911) (“[I]ntent may be inferred when the facts are shown, yet the facts must be adequate to support the finding.”).

C. *Forfeiture's Inconsistent Presumptions*

The decision to ignore evidence of consumer perception in forfeiture cases is grounded on faulty presumptions from foundational trademark cases. Courts presume that certain mark owner behaviors (suspending use, licensing without quality control) will confuse consumers, so they look for those behaviors and presume the confusion.¹⁵⁸ When these behaviors are detected, the mark is forfeited. Federal trademark law appears to encode those presumptions into law, which then shapes forfeiture inquiries in the courts. But those assumptions are often in conflict with each other. For example, trademark law presumes that naked licensing and assignment in gross confuse consumers by definition, while assuming away the confusion that consumers will experience when a mark slides into genericness or is abandoned through nonuse.¹⁵⁹ This tendency is unsurprising. Courts invited to judge source significance or likely confusion from the perspective of the typical consumer might understandably default to personal experience.¹⁶⁰

A properly functioning trademark system must manage consumer confusion, and correctly calibrated forfeiture mechanisms are crucial tools for achieving that goal. Misalignment can allow market-distorting confusion to creep into the trademark ecosystem. For example, as Glynn Lunney notes, the sufficient continuity standard for valid assignment of trademark rights,¹⁶¹ which allows the assignee's product to vary significantly from the assignor's product, might set the bar against assignment too low and result in assigned trademarks that "serve as a means for deceiving consumers as to what they are buying."¹⁶² But the same logic applies to an abandoned mark with residual goodwill. If the abandoned mark is used on similar goods or services, deviation from consumer expectation will also result in the appropriated mark serving as a means to deceive consumers. In fact, the effect may be more acute—the appropriator of an abandoned mark is not required to meet even the relatively weak sufficient continuity standard required of assignees, and likely has not invested in trade secrets, infrastructure, or employees that would help it meet consumer expectations.

158 See Sheff, *supra* note 150, at 783.

159 See Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1239–40.

160 See A. Fuat Firat & Alladi Venkatesh, *Liberatory Postmodernism and the Reenchantment of Consumption*, 22 J. CONSUMER RES. 239, 258 (1995) (“[T]he notion of an individual consumer is as much a construction of the social system as it is a product of the knowledge system that claims to study consumers objectively from a distance, but is, in fact, constructing her/him from this imaginary distance.”); Laura A. Heymann, *The Reasonable Person in Trademark Law*, 52 ST. LOUIS U. L.J. 781, 793 (2008) (“[W]hen students read cases in which courts claim to be divining the beliefs of the typical consumer, they would do well to consider to what extent this view of what is reasonable is shaded by the court’s own experience.”).

161 See *supra* notes 119–121 and accompanying text.

162 Lunney, *supra* note 114, at 415.

Forfeiture through naked licensing also likely leaves consumers in one of two problematic situations. The naked licensee whose product is assumed to be confusingly dissimilar to the licensor's product cannot be barred from selling said product to the public. The mark owner effectively loses priority against the naked licensee. If there is only one licensee, then that licensee is allowed to operate alongside the prior mark owner, irrespective of confusion.¹⁶³ Because the mark is invalid, the confusion is no longer at issue.¹⁶⁴ If there are multiple licensees and the licensor loses its priority through naked licensing, there will be no singular surviving licensee, and potential competitors offering nearly fungible products in relatively close markets will be left to distinguish themselves in other ways.¹⁶⁵ In both cases, if the fundamental assumption regarding naked licensing is correct, then the failure of the licensor to engage in quality control by definition leads to divergent output that will—by definition—confuse consumers.

The view of trademark forfeiture embodied in most of these forfeiture mechanisms and encoded in a narrow reading of the statute—that forfeiture is by and large determined only by mark owner behavior—might be proper in a world where the creation and maintenance of trademark meaning is dependent only on mark owner behavior. But as Part II explains, such a regime would be inconsistent with the information-transmission goals that a properly functioning trademark system should seek to meet, in part because they ignore the critical role of consumers in creating trademark meaning and source significance.

II. CONSUMER PERCEPTION AND TRADEMARK MEANING

A superficial look at the current forfeiture mechanisms suggests that those mechanisms preserve the information-transmission function of trademarks. But a deeper look suggests that the abandonment and naked licensing mechanisms operate in a manner inconsistent with the information-transmission function of trademarks because they fail to account for consumer perception of residual goodwill. Insights from linguistic theory and property scholarship help refine the application of information-transmission and search cost justifications to trademark forfeiture.

A. *Standard Justifications for Forfeiture Mechanisms*

Trademarks should be protected to the extent necessary to ensure that they convey valuable information to the public. The forfeiture mechanisms evolved with the stated goals of preventing consumer confusion and preserving a competitive commercial marketplace (in part by discouraging ware-

163 Cf. *Manhattan Indus., Inc. v. Sweater Bee by Banff, Ltd.*, 627 F.2d 628, 631 (2d Cir. 1980) (allowing two competitors racing for priority over the mark Kimberly for women's sweaters to share the market, with the expectation that stylistic differences in labels would suffice to prevent confusion among sophisticated consumers).

164 *Id.*

165 See, e.g., *Freecycle Network, Inc. v. Oey*, 505 F.3d 898 (9th Cir. 2007).

housing of marks and encouraging entry).¹⁶⁶ The standard justifications for forfeiture mechanisms are unsatisfying, but the underlying rationale is not entirely indefensible. Unfortunately, the mechanisms fall short of those goals in many ways.

1. Trademark Warehousing and the Public Domain

Trademark's abandonment mechanism aims to prevent warehousing—ownership and control of a mark that the owner does not use.¹⁶⁷ Instead an abandoned mark may be reused—even for the same category of product offered by the former owner.¹⁶⁸ Admittedly, if the primary focus of trademark law is properly centered on preventing warehousing and promoting the return of unused marks to the public domain, then focusing solely or even primarily on mark owner behavior in the forfeiture context might be appropriate.¹⁶⁹

But maximizing the number of words in the public domain for subsequent appropriation may not be the proper focus of trademark law. In the copyright and patent regimes, a large public domain is critical, so the appropriator of ideas and creations can build on, repurpose, and repackage public domain goods in ways likely to reduce the cost to consumers of acquiring the goods.¹⁷⁰ The end of the protection is a key part of those regimes, allowing authors and inventors to build on prior innovation or sell goods embodying public domain expression and inventions without paying former rights holders.¹⁷¹

166 See Strahilevitz, *supra* note 102, at 391.

167 See Michael B. Landau, *Problems Arising out of the Use of "WWW.Trademark.Com": The Application of Principles of Trademark Law to Internet Domain Name Disputes*, 13 GA. ST. U. L. REV. 455, 467 (1997) ("One cannot simply create 'catchy' marks, not use them and then assert them against the users. In order to maintain rights in a mark, the trademark owner must maintain the mark's usage in connection with goods and/or services."); David S. Ruder, *The Fallacy of Trademark Residual Goodwill*, 22 INTELL. PROP. L. NEWSL. 4, 6 (2003) (arguing that warehousing would "deprive those same consumers of the benefits of new product choices and lower prices in the marketplace").

168 See *Abdul-Jabbar v. Gen. Motors Corp.*, 85 F.3d 407, 411 (9th Cir. 1996) ("Rather than countenancing the 'removal' or retirement of the abandoned mark from commercial speech, trademark law allows it to be used by another."); see also *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 147 (2d Cir. 2007).

169 See, e.g., Stanley A. Bowker, Jr., Note, *The Song Is Over but the Melody Lingers On: Persistence of Goodwill and the Intent Factor in Trademark Abandonment*, 56 FORDHAM L. REV. 1003, 1016 (1988) ("[If] the procompetition policy is viable it obviously cuts in the direction of finding against the trademark owner and in favor of the competitor charging abandonment."); Strahilevitz, *supra* note 102, at 391 ("When a trademark falls into disuse, there is no longer any justification for impoverishing the public domain, however slightly, so the mark is returned to the commons where it can be appropriated by any other firm that wishes to use it in commerce.")

170 See Jake Linford, *A Second Look at the Right of First Publication*, 58 J. COPYRIGHT SOC'Y U.S.A. 585, 622 (2011).

171 While IP rights persist, new entrants hoping to avoid liability for infringement must either innovate around those rights or pay to license them. Christopher Buccafusco et al.,

On the other hand, a trademark is an information-transmission tool that the seller of a product can use to communicate information about the source and quality of the product to a consumer. Where consumers invest a mark with trademark meaning, allowing a competitor to use the mark will often increase consumer search costs.¹⁷² In addition, as discussed in more detail in Section III.B, this use of a mark with residual consumer goodwill is also likely to impose costs on competitors and degrade the value of the mark to transmit useful information more generally.¹⁷³

2. Trademark Forfeiture and Consumer Search Costs

Individual forfeiture mechanisms often come under fire for counting mark owner behavior but discounting consumer perception.¹⁷⁴ For example, critiques of the abandonment mechanism grounded in the search-cost rationale propose adjusting the abandonment standard,¹⁷⁵ or the breadth of remedies allowed an ostensibly forfeiting mark owner.¹⁷⁶ Some go so far as to suggest that any appropriation of an abandoned mark that retains residual goodwill is “almost certain” to confuse and deceive consumers.¹⁷⁷

Scholars also differ about whether prohibitions on naked licensing and assignments in gross “unambiguously lower consumer search costs,”¹⁷⁸ pre-

The Nature of Sequential Innovation, 59 WM. & MARY L. REV. (forthcoming 2017), <https://ssrn.com/abstract=2902937>.

172 See *supra* notes 33 & 44 and accompanying text; see also Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1224–26.

173 See also Irene Calboli, *Trademark Assignment “With Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 834 (2005) (observing that strict enforcement of the assignment in gross rule can make it more difficult for entrants to replace firms which are ready to exit).

174 See, e.g., 3 MCCARTHY, *supra* note 23, § 17:15 (“[I]t is error to give greater weight to the non-us[ing mark owner’s] subjective intent than to the marketplace perception of customers.”); Note, *supra* note 93, at 696 (relying on mark owner intent to determine when a mark is abandoned requires embracing a “formalistic ‘property’ theory of trade-marks”).

175 Bowker, *supra* note 169, at 1020–22 (arguing that the drafters of the Lanham Act did not intend to distinguish intent to abandon from intent not to resume use, and the reading of section 45 by the court in *Exxon* focuses on protecting the interest of the competitor alleging abandonment, rather than preventing consumer confusion).

176 See Michael S. Denniston, *Residual Good Will in Unused Marks—the Case Against Abandonment*, 90 TRADEMARK REP. 615, 643 (2000).

177 Jerome Gilson & Anne Gilson LaLonde, *The Zombie Trademark: A Windfall and a Pitfall*, 98 TRADEMARK REP. 1280, 1300 (2008); cf. Denniston, *supra* note 176, at 649 (proposing that a mark should not be deemed abandoned until residual goodwill “drops to an insignificant level”); Allison Sell McDade, Note, *Trading in Trademarks—Why the Anti-Assignment in Gross Doctrine Should Be Abolished When Trademarks Are Used as Collateral*, 77 TEX. L. REV. 465, 469 (1998). But see Jonathan B. Schwartz, Comment, *Less Is More: Why a Preponderance Standard Should Be Enough for Trademark Abandonment*, 42 U.C. DAVIS L. REV. 1345, 1363–64 (2009) (arguing that courts set too high a bar to clear before determining that a mark owner who has suspended use does not intend to resume use).

178 Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1224, 1232–36. *Contra* Carter, *supra* note 92, at 786 (arguing that forfeiture for assignment in gross increases consumer

vent consumer deception,¹⁷⁹ or cause consumer confusion.¹⁸⁰ It is more likely that the current assignment in gross mechanism imposes fewer search costs than naked licensing precisely because courts consider both assignor inputs (the transfer of goodwill) and assignee outputs (quality of the assignee's marked product) in determining whether to forfeit the mark for assignment in gross. In naked licensing cases, courts focus on the mark owner's quality control procedures, which does not guarantee any level of output quality, but merely establishes that the mark owner has jumped through one fairly broad hoop to avoid forfeiture.¹⁸¹ Even scholars who express confidence that discouraging assignments in gross and naked licensing will result in lower consumer confusion in the long term concede that forfeiture likely exacerbates confusion in the short term.¹⁸²

These fragmentary appraisals of forfeiture mechanisms recognize the importance of consumer perception, but the individual accounts are unsatisfying for two reasons. First, they fail to take a holistic view of forfeiture mechanisms. Second, their attention to consumer perception is undertheorized. It is a given that trademark law historically pays lip service to consumer perception and consumer harm.

This Article fills that gap in part by providing two justifications for the central role of the consumer in igniting and extinguishing trademark meaning. As Section II.B explains, focusing on mark owner behavior in assessing forfeiture ignores the critical role that consumers play in creating and shap-

search costs); Johnston, *supra* note 131, at 26–27 (same); Landes & Posner, *supra* note 90, at 285 (same); Noah D. Genel, Note, *Keep It Real: A Call for a Broader Quality Control Requirement in Trademark Law*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 269, 291 (1997) (arguing that forfeiture for naked licensing increases search costs); Rudolph J. Kuss, Comment, *The Naked Licensing Doctrine Exposed: How Courts Interpret the Lanham Act to Require Licensors to Police Their Licensees and Why This Requirement Conflicts with Modern Licensing Realities and the Goals of Trademark Law*, 9 MARQ. INTELL. PROP. L. REV. 361, 373 n.80 (2005) (“[D]enial of trademark protection increases search costs more than naked licensing ever could.”).

179 Kuss, *supra* note 178, at 384 (“[T]rademark protection is no longer justified when a trademark deceives consumers more than it reduces search costs.”).

180 See Comment, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L.J. 1171, 1188 (1963) (“[A]ssuming that the consumer cannot be deceived in a controlled licensing arrangement since he seeks only an assurance of quality . . . [may] oversimplif[y] purchaser response to different classes of products.”).

181 Proposed changes to the naked licensing standard include: requiring a showing of “deception of the public by reason of the licensor’s or licensee’s act,” Alfred M. Marks, *Trademark Licensing—Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 655 (1988); applying a balancing test in naked licensing cases that considers both consumer deception and loss of trademark distinctiveness, Kuss, *supra* note 178, at 381–85; and making a direct assessment of licensee quality before forfeiting the mark, Irene Calboli, *What if, After All, Trademarks Were “Traded in Gross”?*, 2008 MICH. ST. L. REV. 345, 347.

182 See Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1240. *But see* Graeme B. Dinwoodie, *The Death of Ontology: A Teleological Approach to Trademark Law*, 84 IOWA L. REV. 611, 729–30 n.446 (1999) (“[T]he policy warranting denial of protection [in cases of naked licensing and assignment in gross] is the avoidance of consumer deception that those activities engender.”).

ing trademark meaning. Section II.C then describes how discounting consumer perception in the forfeiture context may distort the scope of trademark protection by failing to account for the importance of public comprehension and buy-in in any properly functioning property regime.

B. *How Trademarks Add Meaning*

Meaning is not created in a vacuum. Instead, meaning is created in context, and that generalization applies to trademark meaning.¹⁸³ When a firm adopts a word, design, symbol, or other indication of source for its product(s), this new use occurs in the context of prior trademark use. A firm may face legal barriers when it tries to use the mark; competitors may already be using or have used similar words for similar goods or services. A consumer who is familiar with prior uses of an identical or similar mark on the same or comparable products may be confused by this new use. The law will generally prevent the new entrant from using its mark if the incumbent can establish that consumers are likely to be confused or face significant cognitive hurdles when attempting to process the competing uses as two different source indicators.¹⁸⁴ Indeed, consumer confusion is the *sine qua non* of trademark infringement, and trademark litigation is designed to disclose information about its likely occurrence.¹⁸⁵

Trademark significance is also shaped by preexisting meanings of the word, design, or symbol selected as the mark. Those preexisting meanings can channel consumer perception of the mark. For example, some appropriated words are synonymous with the product offered. A consumer might fail to distinguish the term from the product designation, and a competitor facing legal protection for such a term might struggle to find another way to identify its rival product. The law thus resists investing such a term with trademark meaning. Other words are unrelated to the product, and those words may stand out as trademarks precisely because of such lack of relationship.¹⁸⁶

Subsequent use of the mark by consumers and competitors can further modify the meaning(s) of the trademark.¹⁸⁷ A speaker may appropriate trademarks for purposes unforeseen and undesired by the firm that claims ownership. A competitor may engage in uses that are confusing and thus

183 In this way, a trademark is like any other symbol used to communicate. *Cf.* *Towne v. Eisner*, 245 U.S. 418, 425 (1918) (Holmes, J.) (“A word is not a crystal, transparent and unchanged, it is the skin of a living thought and may vary greatly in color and content according to the circumstances and the time in which it is used.”).

184 See Linford, *Adverse Possessor*, *supra* note 20, at 712.

185 See *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1142 (9th Cir. 2011).

186 See Linford, *Adverse Possessor*, *supra* note 20, at 728–29 (acquired distinctiveness factors “all serve as proxy evidence that the consuming public has taken notice of and imbued the mark with source significance”).

187 Like other words, trademarks can be understood on multiple levels. See, e.g., Laura A. Heymann, *The Grammar of Trademarks*, 14 LEWIS & CLARK L. REV. 1313, 1335–36 (2010).

infringing in some situations, and in other cases descriptive of the competitor's or owner's marks and thus noninfringing.¹⁸⁸ These consumer uses shape the meaning of the mark and its ability to effectively identify source and therefore quality. Trademark's forfeiture mechanisms account for some of these contextual factors that shape meaning in some cases. But forfeiture mechanisms too often ignore critical context to the detriment of consumers and the ability of the market to differentiate products from different sources.¹⁸⁹

Linguistic theory has much to teach about trademark acquisition.¹⁹⁰ To summarize, acquiring source significance in a word mark requires a mark owner to add new meaning to an existing word, or to add a new word to the existing lexicon. Theories of semantic shift measure how new meanings are added to the lexicon, and how language innovators and language adopters both contribute to the creation of that meaning.¹⁹¹ Understanding how those changes occur generally can help us understand which of trademark law's underlying assumptions about meaning formation are more likely supported, and which are probably unjustified.

The current inquiries into abandonment through nonuse and naked licensing are inconsistent with principles of semantic shift in their top down approach. An innovator, like a trademark owner, can try to add a new meaning to the lexicon by using the word in a new way, but whether or not that use catches on does not depend on the innovator. Indeed, some linguistic innovations never catch on, and are effectively meaningless to the general public.¹⁹² These nonce formations are meaningless precisely because they are not embraced, used, or propagated by the public.

New meanings take root only when change is embraced by an audience beyond the initial innovator. A change may be adopted in certain contexts or by certain groups. This "occasional" or contextual use may not become widespread, but bears meaning in its community.¹⁹³ Other changes become so widespread that they can be understood outside of a particular context, or by a large subset of the speaking population. These "usual" formations become central to the lexicon.¹⁹⁴ For example, the Oxford Dictionary of American English recently added several new slang terms to its online dictionary that the editors view sufficiently in common usage to qualify for an official entry, like "manspreading" and "hangry."¹⁹⁵

188 See Dogan & Lemley, *Search Costs*, *supra* note 35, at 809–10.

189 See *supra* Section I.A.

190 Linford, *Fanciful?*, *supra* note 28, at 747–54; see Linford, *False Dichotomy*, *supra* note 28, at 1402–15.

191 See Linford, *False Dichotomy*, *supra* note 28, at 1391–1401.

192 See Linford, *"Generic" Trademarks*, *supra* note 29, at 131, 157.

193 For example, the author's college friends appropriated the term B-INTO, used by a professor to explain the flow of electromagnetic force, as a synonym for "cool." Most users of B-INTO will not use it in that way, but we did.

194 Linford, *"Generic" Trademarks*, *supra* note 29, at 131.

195 *Hangry*, OXFORD LIVING DICTIONARIES (2017), http://www.oxforddictionaries.com/us/definition/american_english/hangry ("Bad-tempered or irritable as a result of hun-

Ending the inquiry into trademark forfeiture with mark owner behavior is like ending the question of creation of new meaning with the first person to use the word, rather than considering whether the word has been adopted and how broadly. Trademark meaning may be maintained whether or not the mark owner takes an active hand in maintaining it. Acting as if that meaning has not been maintained because the initial innovator has ceased using the term has potentially pernicious downstream effects, discussed in Part III. In addition, as the next Section explains, ignoring consumer perception also distorts how the law defines and protects the rights extended to mark owners.

C. *Consumer Perception and Trademark Property*

Property scholars like Carol Rose, Robert Ellickson, and Henry Smith have proposed that theories of property must account for how the property owner signals the claim to the public: the manner of claiming matters in assessing the validity and scope of the claim precisely because the public has a role in recognizing the property right. A claim of right that fails to communicate with the public cannot meet its objective. Signals must be cognizable and consistent, and the processing costs faced by others in recognizing the property right must be taken into account.¹⁹⁶ For example, former or current residents of the city of Chicago might recognize the custom by which a person who shovels snow out of a parking space lays claim to the space by leaving something (often a chair) in the space. Neighbors will easily recognize a chair, which has permanence, salience (because it does not otherwise belong there), and size. The chair is a better signal than a garbage container, which has size and permanence, but lacks salience; a garbage container is often left on the side of the road for pick up. Likewise, an interpretive dance is quite salient (one rarely sees one on the side of the road), but lacks permanence.¹⁹⁷

To the extent that a trademark is recognized as a form of property, “the mark holder’s right to exclusive use of its mark is tempered by and dependent on the perceptions of the consuming public.”¹⁹⁸ In a way, this is conso-

ger.”); *Manspreading*, OXFORD LIVING DICTIONARIES (2017), http://www.oxforddictionaries.com/us/definition/american_english/manspreading (“The practice whereby a man, especially one traveling on public transportation, adopts a sitting position with his legs wide apart, in such a way as to encroach on an adjacent seat or seats.”).

196 See Henry E. Smith, *The Language of Property: Form, Context, and Audience*, 55 STAN. L. REV. 1105, 1108 (2003) (“Because audiences of different types have different abilities to process messages, the nature of the audience has implications for the amount and form of the information communicated.”).

197 See Robert C. Ellickson, *The Inevitable Trend Toward Universally Recognizable Signals of Property Claims: An Essay for Carol Rose*, 19 WM. & MARY BILL RTS. J. 1015, 1029 (2011) (citing Carol M. Rose, *Introduction: Property and Language, or, the Ghost of the Fifth Panel*, 18 YALE J.L. & HUMAN. 1, 7 (2006) [hereinafter Rose, *Property and Language*]).

198 *Movie Mania Metro, Inc. v. GZ DVD’s Inc.*, 857 N.W.2d 677, 683 (Mich. Ct. App. 2014) (“Trademark rights are thus inherently mutable because they are dependent on whether the consuming public is able to use the mark to distinguish a good or service as

nant with the importance of the interpretive community in construing property rights more generally, and the signals that lay claim to those rights.¹⁹⁹ As Carol Rose observes, “the audience has to ‘get it.’”²⁰⁰ The “it” in question is the method chosen by the property owner to convey or manifest its claim.

Property rights are properly signaled by efforts that are perceptible by and cognizable to those communities that are bound to respect them.²⁰¹ Likewise, one cannot clearly evaluate the effectiveness of attempts to create and maintain trademark meaning without considering whether the audience for the communication perceives, comprehends, and adopts the message.²⁰² In many contexts, trademark law properly focuses on consumers as the interpretive community for claims of trademark ownership.²⁰³ Their likely confusion is the focal point of disputes between owners and alleged infringers.²⁰⁴ Just as trademark meaning cannot be created without some evidence that consumers should perceive the mark as a source signifier, trademark meaning should not be lost without some evidence that a critical mass of consumers are on notice that the change has occurred. Nothing about the sale of a new product under an old mark necessarily makes salient the change in producer or product to consumers, and forfeiture mechanisms do not require it.²⁰⁵ Instead, most forfeiture mechanisms discount the consumer’s central role in this interpretive process.²⁰⁶

One potential side effect of ignoring the consumer in the forfeiture context is that the ignorance might spread to more central trademark doctrines used to calibrate trademark validity and scope. Perhaps it already has. Even now, in considering whether a mark has acquired source significance, courts rely heavily on mark owner behaviors (advertising expenditures, length of

originating from a particular source.”); *see also* *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1430 (7th Cir. 1985) (“The value of a trademark is in a sense a ‘hostage’ of consumers; if the seller disappoints the consumers, they respond by devaluing the trademark.”).

199 *See* Rose, *Property and Language*, *supra* note 197, at 6; *see also* Carol M. Rose, *Possession as the Origin of Property*, 52 U. CHI. L. REV. 73, 84–85 (1985) [hereinafter Rose, *Possession*].

200 Rose, *Property and Language*, *supra* note 197, at 6.

201 *Id.* at 3; *see also* Rose, *Possession*, *supra* note 199, at 81–82.

202 *Cf.* Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L.J. 1717, 1718 (1999) (recognizing the collective role consumers play in establishing brands as cultural icons).

203 *See, e.g.*, *Paco Sport, Ltd. v. Paco Rabanne Parfums*, 86 F. Supp. 2d 305, 318 (S.D.N.Y. 2000) (describing how consumer perception shapes the likelihood of confusion analysis in trademark infringement cases).

204 *Id.* at 310 (trademark infringement claim requires showing “that the contested use of the trademark is likely to cause confusion among consumers”).

205 *See* 15 U.S.C. § 1064 (2012) (describing the various ways to cancel a trademark registration).

206 *See id.*

time in the marketplace) as proxies for source significance.²⁰⁷ Evidence of these proxies is sometimes sufficient to overcome a lack of any evidence about consumer perception.²⁰⁸ As the next Part argues, appropriation of a forfeited mark that consumers continue to use as a source signifier may have consequences not only for consumers, but for competitors and the marketplace as a whole.

III. FORFEITURE, APPROPRIATION, AND HARM TO CONSUMERS AND COMPETITORS

Many of the forfeiture mechanisms are out of sync with trademark law's primary justification (enabling information transmission that reduces search costs)²⁰⁹ and our best understanding of how meaning is created, information is transmitted, and property is claimed. This Part argues that allowing appropriation of a mark bearing residual consumer goodwill presents a significant risk to consumers and to the market for mark-bearing products. First, in many cases, allowing the appropriation of a mark with residual consumer goodwill is likely to increase consumer search costs and cause consumer harm.²¹⁰ Second, that appropriation is also likely to create distortions in the market for the marked products that harm nonappropriating competitors. Allowing appropriation of a mark with residual goodwill threatens to countenance trade diversion from other competitors who are not freeriding on the residual goodwill. Third, those distortions have the potential to undermine confidence in trademarks as source signifiers more generally.

A. *Residual Goodwill and Harm to Consumers*

Allowing the appropriation of a forfeited mark that retains goodwill has the potential to harm consumers. Trademarks ostensibly allow consumers to more easily evaluate qualities of the good before purchase, transforming goods with credence or experience attributes into goods with searchable

207 See, e.g., *Worsham Sprinkler Co. v. Wes Worsham Fire Prot., LLC*, 419 F. Supp. 2d 861, 871 (E.D. Va. 2006) (“[A]dvertising expenditures . . . help to establish a secondary meaning in the minds of consumers.”).

208 See, e.g., *Int'l Kennel Club of Chi., Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1086 (7th Cir. 1988) (ruling that survey evidence is useful, but not necessary, to establish secondary meaning).

209 See Lemley, *Death of Common Sense*, *supra* note 28, at 1690.

210 Scholars have cautioned that consumer confusion is not necessarily coterminous with consumer harm. See, e.g., Mark P. McKenna, *A Consumer Decision-Making Theory of Trademark Law*, 98 VA. L. REV. 67, 85 (2012) (“[Increased] costs [from confusion] do not harm consumers *as consumers* if they do not affect purchasing behavior.”); Rebecca Tushnet, *What's the Harm of Trademark Infringement?*, 49 AKRON L. REV. 627, 629 (2016) (arguing that courts do not require mark owners to show that consumers care about the type of confusion asserted, which may mean in some cases there is no harm even if consumers are confused).

attributes.²¹¹ Those consumers who continue to vest the mark with goodwill will treat products offered under that mark as search goods, i.e., as if the mark provides information about the product that it does not.

When an appropriator uses a mark that a critical mass of consumers treats as a source signifier, the use of the mark enables the appropriator to secure a windfall that otherwise may have gone to the original mark owner. The appropriator secures this windfall from consumers who expect the product with which they are familiar. Those consumers spend money on a product that may well dissatisfy many of them, but the current abandonment and naked licensing inquiries do not ask what consumers might expect or whether the appropriator provides goods of a consistent quality.²¹² Instead, consumers are required to reeducate themselves based on sad experience. But courts have properly refused to put that burden on consumers in some assignment cases.²¹³

Allowing appropriation of a mark with residual goodwill merely changes the beneficiary of the lock-in effect without any benefit to consumers. Unlearning source significance is not necessarily costless for consumers.²¹⁴ In addition, goodwill, especially if it has developed into brand loyalty, can make it more likely that disappointed consumers will endure disutility from consuming the marked product longer than they would if the product did not bear the appropriated mark.²¹⁵ When consumers continue to invest the mark with goodwill post-forfeiture, they are likely to experience disappointment when the trademarked product does not have expected features. At

211 Ariel Katz, *Beyond Search Costs: The Linguistic and Trust Functions of Trademarks*, 2010 B.Y.U. L. REV. 1555, 1563 (by reducing search costs and allowing consumers to rely on sellers' signals of quality, trademarks "prevent the lemonization of markets for goods with experience and credence attributes").

212 See 15 U.S.C. § 1127 (2012) (listing conditions for when a trademark is abandoned); 3 McCARTHY, *supra* note 23, § 18:48 (discussing the nature and effects of naked licensing).

213 *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 289 (8th Cir. 1969). The court in *Grapette* held that it was insufficient to argue that the consumer could eventually remedy its initial confusion through sad experience with the new product. "To say that this [injury] would be remedied by the public soon losing faith in the product fails to give the consumer the protection it initially deserves." *Id.* Shahar Dillbary likewise identifies some cases where marks acquire a "secondary descriptive meaning," and argues that selling products that do not meet that description under the mark may defraud the public. J. Shahar Dillbary, *Trademarks as a Media for False Advertising*, 31 CARDOZO L. REV. 327, 339–41, 346 (2009) (arguing that the false advertising provision of the Lanham Act, § 43(a)(1)(B), should be read broadly enough to cover intrabrand misrepresentation).

214 Giovanni B. Ramello, *What's in a Sign? Trademark Law and Economic Theory*, 20 J. ECON. SURVEYS 547, 558–59 (2006) (suggesting that brand loyalty increases switching costs, which has the effect of locking in consumers and preventing some entry). Literature on switching costs refers to these costs as learning costs. Paul Klemperer, *Markets with Consumer Switching Costs*, 102 Q.J. ECONOMICS 375, 375 (1987) [hereinafter Klemperer, *Switching Costs*]. Firms seem to presume that switching costs will preserve custom; they tend to charge lower prices in markets with low switching costs. *Id.* at 384.

215 See Ramello, *supra* note 214, at 558–59.

the extreme, the use of a mark may lead consumers to repeatedly seek satisfaction from a trademarked product unlikely to provide it.

That is not to say every consumer will be harmed by the appropriation, even if a significant subset of consumers invests the mark with residual goodwill. Indeed, some consumers will be satisfied with the appropriator's product. But the subset of consumers who benefit from the appropriation may be rather small. Consumers who are looking for Coca-Cola's Surge, find a competitor's Surge, and are happy with it, will likely be happy either because the appropriator's product is of sufficiently high quality or because they do not care much about quality anyway. But for consumers who are not looking for Surge but are happy with the appropriator's product, the appropriation was likely unnecessary.²¹⁶ There is little advantage to the quality-unconscious consumer, but significant potential disadvantage for the quality conscious, brand-loyal consumer. On the other hand, the appropriation of a forfeited mark could nevertheless benefit society if a significant portion of the consuming population does not invest the mark with residual goodwill.

B. *Residual Goodwill and Harm to Competitors*

Harm to consumers is not the only cost of ignoring residual goodwill: some of the money the consumer spends on the appropriator's product might instead have been spent on the products of other competitors in the marketplace. Thus, some of the windfall secured by the appropriator is not diverted from the forfeiting mark owner, but from other competitors. The appropriator takes advantage by using a mark that continues to bear goodwill that consumers have invested in the mark. Indeed, at least in some abandonment cases, there is no product offered by the former mark owner, and thus no diversion from that mark owner at all.²¹⁷ The stronger the residual consumer goodwill, the more market share that the appropriator can command, and the more difficulty competitors will have communicating with consumers and competing with the appropriator.

216 If there are a broad selection of marks from which a mark owner can choose, *see, e.g.*, Landes & Posner, *supra* note 90, at 289, then any mark will do, and the benefit to this subset of consumers does not justify the appropriation. *Contra* Barton Beebe & Jeanne Fromer, *Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion* (unpublished draft on file with author).

217 *Cf.* McKenna, *Normative Foundations, supra* note 35, at 1893 ("Traditional trademark law . . . was concerned with consumer confusion . . . because a competitor could use such confusion to divert a mark owner's trade. . . . [C]ontinuing goodwill is entirely immaterial. Absent intent to serve its former market, a party cannot claim its sales will be diverted by the defendant's use; the former mark owner has no sales (and will have no sales) to divert. Thus, even if consumers continued to associate a mark with one party, traditional trademark law would not have found a violation because the former owner's property was 'in no wise interfered with.'" (quoting *Borden Ice Cream Co. v. Borden's Condensed Milk Co.*, 201 F. 510, 513 (7th Cir. 1912))).

TABLE 1: WINDFALL TO APPROPRIATOR POST-ABANDONMENT, WHERE CONSUMERS STILL PERCEIVE THE MARK AS A SIGNIFIER OF THE ORIGINAL SOURCE.

	Mark Owner	Appropriator (enters post-forfeiture)	Competitors (four total)
Time 1: Pre-forfeiture	20	0	20 [5 each]
Time 2, Option 1: Post-forfeiture (no appropriation)	0	4	36 [9 each]
Time 2, Option 2: Post-forfeiture (with appropriation)	0	20	20 [5 each]

As Table 1 shows, appropriation of a mark bearing residual consumer goodwill may convey a significant advantage to the appropriator over competitors. Table 1 posits a prior owner with a significant market share in a given product category. The mark owner makes fifty percent of the sales in a given period of time (twenty units), and the next four competitors split the other fifty percent of sales in the market (another twenty units).

Imagine two simple post-forfeiture regimes. In the first, no one appropriates the forfeited mark. The new entrant finds a word not used as a mark in that product category, or coins a new word as a mark, and begins competing with the remaining incumbents. Assuming that former customers of the abandoned mark have no preexisting experience with any replacement product, the custom will likely be split five ways. The new entrant will earn four units, and the incumbents will split the other sixteen units. The simplified hypothetical presumes roughly fungible quality between the various competitors and relaxing that assumption would complicate the example.²¹⁸ In a system where a forfeited mark could not be appropriated by a new entrant, consumers would rely on other signals to compare products, and competitors would be on a more level playing field.

In the second post-forfeiture regime, the new entrant is allowed to adopt the abandoned mark with its residual goodwill. Consumers looking for their preferred experience will try the new entrant's product first,²¹⁹ and competitors who would otherwise expect to split a value of sixteen when the aban-

²¹⁸ One can also add complexity by imagining that former customers might try multiple offerings before settling on the replacement they prefer. Similarly, if consumers are familiar with the incumbents, they might try the products of incumbents first, leaving the entrant with a smaller share of the former mark owner's custom.

²¹⁹ Ken Bensinger, *Reviving Brands That Aren't Quite Forgotten*, L.A. TIMES (Jan. 5, 2013), <http://articles.latimes.com/2013/jan/05/business/la-fi-trademark-trolls-20130106> (describing the advantage of adopting an existing mark that retains brand awareness).

doning mark owner leaves the market will instead receive no new custom. These assumptions may also be relaxed. If the new entrant's product is not satisfactory, consumers will eventually settle on an offering from a competitor. But sales will be lost in the interim due to the appropriation of the consumer goodwill invested in the forfeited mark. And if consumers are satisfied with the new entrant's marked goods, they may never try those of another competitor.²²⁰ Allowing an entrant to acquire a mark with residual goodwill can thus distort the competitive marketplace. The harm of confusion caused by appropriation is borne by competitors as well as consumers.

On the other hand, an appropriator might purchase the trademark from the former owner. Assuming that the mark comes with the prior owner's trade secrets, business relationships, and perhaps even physical plants, storefronts, and employees, consumers will have a relatively consistent consumer experience through the shift in ownership and benefit. In such a case, the appropriator *should* benefit from the consumer goodwill accrued by the mark owner;²²¹ the appropriator is paying for it and, in many cases, acquiring resources that make it likely to meet consumer expectations.

Recall, however, that the law no longer forfeits protection when an assignment is made without the sale of physical resources.²²² The analysis above might lead us to question whether weakening the bar against assignment in gross is well advised. The old assignment in gross rule was aimed at preserving consumer expectations after a trademark sale. If the purchase price includes physical plants or other embodiments of the prior owner's goodwill, it is less likely that the assignee will take the trademark and try to pass off inferior or maladapted goods likely to confuse consumers. A proposal for encouraging assignees to buy relevant production infrastructure follows in Section V.C.

C. *Residual Goodwill and Harm to the Market*

Allowing frequent appropriation of residual goodwill also poses potential harms to the information-transmission function of trademarks, and thus a functioning market for marked products, in a more general sense. First, if consumers have multiple experiences with trademarks that fail to fulfill their information-transmission function, the failure devalues not only the original mark owner's brand, but the information-transmission value of marks. Consumers who are repeatedly disappointed will be less confident in relying on a trademark as a heuristic for source and quality. The efficiency of relying on

220 This depends in part on how price-sensitive consumers are and on their level of brand loyalty. See *infra* note 249 and accompanying text.

221 At least one court has held that if the mark denotes that goods are made according to a trade secret, the mark should receive no protection in the hands of the assignee unless the assignee also acquires the trade secret. *Mulhens & Kropff, Inc. v. Ferd. Muelhens, Inc.*, 43 F.2d 937, 939-40 (2d Cir. 1930); accord RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 34 cmt. c (AM. LAW INST. 1995); 3 MCCARTHY, *supra* note 23, § 18:27; Grover C. Grismore, *The Assignment of Trade Marks and Trade Names*, 30 MICH. L. REV. 489, 499 (1932).

222 See *supra* subsection I.A.4.

the trademark will be lost, and consumers will need to spend more time seeking information about product quality from other sources.²²³ Lowered consumer confidence may also create a feedback loop—if mark owners detect that consumers are losing confidence in marks, they may lose confidence in the ability to internalize the benefit of providing a consistent consumer experience.²²⁴ As mark owners spend less effort on a consistent product experience, consumers' expectations may continue to fall.²²⁵ This sort of downward spiral could cause market distortions.

In addition, it is not clear that, *ceteris paribus*, more frequent forfeiture of marks inures to the benefit of consumers or the market. As detailed above in Section I.C, abandonment and naked licensing mechanisms are built on conflicting presumptions about consumer harm and consumer confusion.²²⁶ Those presumptions have persisted for decades, but have not been empirically tested. Consumer preferences may run counter to how the law currently operates. The more often a mark turns over, the more often consumers will face relearning costs.²²⁷ If consumers are repeatedly unsatisfied with the product post-appropriation, it becomes less likely that relearning costs will produce the results consumers might prefer as marks become systemically less likely to provide valuable information about quality or source.

Forfeiture mechanisms like abandonment and naked licensing will better meet the information-transmission goal of trademark law if they are modified to resemble the generislide mechanism and make a more direct inquiry into consumer perception. Two means of accomplishing that goal are discussed below. Part IV proposes a framework to guide courts in determining whether the residuum of goodwill in a forfeited mark is large enough to impact competition in the market. Part V offers an administrative option, using auction theory to improve information forcing in the forfeiture context.

223 See *supra* notes 211–14 and accompanying text. The problem is most acute for consumers of experience and credence goods, those goods where quality is not readily observable but trademarks arguably fill the gap. Michael R. Darby & Edi Karni, *Free Competition and the Optimal Amount of Fraud*, 16 J.L. & ECON. 67, 68–69 (1973); Katz, *supra* note 212, at 1560–61; Phillip Nelson, *Advertising as Information*, 82 J. POL. ECON. 729, 729 (1974).

224 See *supra* note 35 and accompanying text.

225 Cf. Roger Allan Ford, *The Patent Spiral*, 164 U. PA. L. REV. 827, 841–42 (2016) (describing a similar feedback loop that degrades patent examination).

226 But see Lemley, *Death of Common Sense*, *supra* note 28, at 1710 n.119 (noting the positive economic case for free alienability, but arguing that it is much weaker vis-à-vis trademarks because “the asset is only supposed to exist in connection with particular goods made by a particular manufacturer”).

227 See Klemperer, *Switching Costs*, *supra* note 214, at 375.

IV. CHANGING THE FORFEITURE INQUIRY TO ACCOUNT FOR CONSUMER GOODWILL

Courts can adjust the forfeiture inquiry to take consumer perception and residual goodwill into account without violating the relevant provisions of the Lanham Act. As discussed above, a surface reading of the Lanham Act pushes us toward a mark-owner-driven view of forfeiture.²²⁸ But that reading is inconsistent with a proper understanding of the role of consumers in creating and maintaining trademark meaning.²²⁹ While an amendment to the language of the Act would clarify the ability of courts to directly consider the consumer perspective in forfeiture cases, reading the statute in light of its construction provides space for courts to consider consumer perception when applying the forfeiture provisions.

A. *Reading Consumer Goodwill Back into the Lanham Act*

The statutory language dealing with generislide, naked licensing, and assignment in gross already embodies some consumer-facing terminology. A mark becomes “the generic name for the goods or services”²³⁰ when consumers use the mark as a generic product designation. Properly understood, generislide should have little, if anything, to do with mark owner activity—either the majority of consumers see the mark as a source signifier, or they see it as a generic designation.²³¹ While section 1127(2) does not explicitly so state as a textual matter, the provision governing the cancellation of trademark registrations, section 1064(3), explains that “[t]he primary significance of the registered mark to the relevant public . . . shall be the test for determining whether the registered mark has become the generic name of goods or services on or in connection with which it has been used.”²³² Likewise, the language in section 1127(2) that triggers forfeiture on the loss of “signifi-

228 See *supra* subsection I.A.1.

229 See *supra* Sections II.B, II.C.

230 15 U.S.C. § 1127 (2012).

231 Couching generislide in terms of mark owner conduct suggests that the mark owner can stop the process. Thus, we see mark owners like Xerox Corporation fight pitched battles in the press and with lexicographers to forestall generic uses of the Xerox trademark. As early as 1966, the Oxford English Dictionary included a generic usage of Xerox for the output of a photocopy machine. See Shawn M. Clankie, *Brand Name Use in Creative Writing: Genericide or Language Right?*, in PERSPECTIVES ON PLAGIARISM AND INTELLECTUAL PROPERTY IN A POSTMODERN WORLD 253, 260 (Lisa Buranen & Alice M. Roy eds., 1999). In addition, the law may unintentionally incentivize aggressive policing because the costs of generislide are so high. Dogan & Lemley, *Limiting Doctrines*, *supra* note 37, at 1243.

232 15 U.S.C. § 1064(3); see also, e.g., *Retail Servs., Inc. v. Freebies Publ’g*, 247 F. Supp. 2d 822, 826 (E.D. Va. 2003), *aff’d sub nom.*, 364 F.3d 535 (4th Cir. 2004) (“A party seeking cancellation of a trademark registration bears the burden of proving, by a preponderance of the evidence, that, in the minds of the consuming public, the significance of the registered term is the general class of product.”).

cance as a mark”²³³ raises the question, significance from whose perspective?²³⁴

The provision on abandonment through nonuse, section 1127(1), does not include references to genericness or significance as a mark.²³⁵ It is thus tempting to read out any consideration of consumer perception from that provision. As argued above,²³⁶ however, reading out the consumer perspective creates distortions that not only harm consumers, but also threaten to upset the competitive model embraced by our trademark laws, which protect marks because and to the extent they correctly identify product from a consistent source. In addition, the forfeiture provisions are close statutory neighbors. Courts frequently read statutory and constitutional provisions contextually, in light of the relevant provision’s broader purposes.²³⁷ Reading the consumer perspective out of the provision on abandonment undermines the statutory regime. A holistic reading of the forfeiture provisions in light of the Lanham Act’s purpose to protect mark owners, consumers, and competitive infrastructure, gives courts sufficient room to directly consider residual consumer goodwill in the forfeiture context. The next Section provides a structure for that more focused inquiry.

B. Reforming Forfeiture Mechanisms to Account for Residual Goodwill

This Article argues that a mark should not be forfeited for abandonment through nonuse, naked licensing, or assignment in gross unless the forfeiture is less likely to harm consumers and distort competition than the preservation of trademark rights. Under the current forfeiture provisions, appropriation is costless; the forfeiting mark owner cannot prevent the appropriation. The law thus lacks a mechanism to force the appropriator to internalize the harm caused to consumers, competitors, or the marketplace.

Note that this inquiry cuts both ways. It is likely that there are cases where a court finds a mark valid in the face of a charge of assignment in gross because the court fails to account for confusing differences between the assignor’s mark-bearing product and that of the assignee.²³⁸ The same may

233 15 U.S.C. § 1127, “abandoned”.

234 See, e.g., *Cairns v. Franklin Mint Co.*, 107 F. Supp. 2d 1212, 1217 (C.D. Cal. 2000) (“[In light of a] vast inventory of products sold by innumerable sources, the image of Princess Diana on a product provides consumers with no suggestion that the product is associated with her, the Estate or the Fund. Her image has truly lost any significance as a mark identifying the source of a product.”).

235 See 15 U.S.C. § 1127.

236 See *supra* Part III.

237 See, e.g., *Evenwel v. Abbott*, 136 S. Ct. 1120, 1129 (2016) (reading the Fourteenth Amendment Equal Protection Clause in light of Section 2 of the Fourteenth Amendment and concluding that “[i]t cannot be that the Fourteenth Amendment calls for the apportionment of congressional districts based on total population, but simultaneously prohibits States from apportioning their own legislative districts on the same basis”).

238 See *supra* subsection I.A.4.

be true in many cases where the claim of naked licensing would otherwise be rebutted because of the existence of minimal quality control provisions.²³⁹

An investigation into residual goodwill should occur during an opposition proceeding or a petition to cancel a registration grounded on forfeiture. The inquiry would also arise when a defendant to an action for trademark infringement claims forfeiture as a defense.²⁴⁰ One could even imagine the former owner of a forfeited mark bringing an action for false association, particularly in light of recent cases that recognize the right to bring such a claim even if the claimant lacks trademark rights.²⁴¹

The goal of modifying forfeiture inquiries is not to take questions of mark owner omission or commission out of the equation, but instead to consider consumer investment of goodwill, consistent with the information-transmission function of trademarks. A direct inquiry into residual consumer goodwill in the forfeiture context is preferable to accounting for it indirectly by way of the mark owner's intent to resume use, or the formal existence of quality control measures. Even with the existing flaws in consumer surveys, evidence of consumer perception is at least an equal, if not better, proxy of source significance and trademark meaning. While a direct inquiry into consumer confusion is costlier than assuming consumers are confused by certain mark owner behaviors, the cost is not particularly high. Indeed, courts already collect similar evidence of consumer perception in generislide cases.²⁴²

In addition, an inquiry into consumer perception is more likely to reflect actual consumer perception than the judge's best guess on the subject.²⁴³ Courts currently chip at the edges of residual consumer goodwill in a handful of cases where the likely residuum is obvious, but cloak the inquiry in terms of mark owner behavior.²⁴⁴ Even if a judge or jury is doing no more than echolocating between competing evidentiary offerings by the litigating parties, survey evidence can provide a helpful way to anchor the discussion.

239 See *supra* subsection I.A.5.

240 This action could arise under 15 U.S.C. § 1114(1)(a) for registered marks or 15 U.S.C. § 1125(a)(1)(A) for unregistered marks.

241 See, e.g., *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1390 (2014) (holding that lost sales and damages to business reputation are injuries that fall within the zone of interests protected by the false advertising provision of the Lanham Act); *Belmora LLC v. Bayer Consumer Care AG*, 819 F.3d 697, 706 (4th Cir. 2016) (recognizing foreign mark owner's right to bring false association and false advertising claims even though the mark owner has no rights in the United States).

242 See *supra* note 84 and accompanying text.

243 Cf. *Triangle Publ'ns, Inc. v. Rohrlich*, 167 F.2d 969, 976 (2d Cir. 1948) (Frank, J., dissenting) (noting, in a dispute over whether "Seventeen" for girdles infringed "Seventeen" for a magazine for teen girls, that "[a]s neither the trial judge nor any member of this court is (or resembles) a teen-age girl or the mother or sister of such a girl, our judicial notice apparatus will not work well unless we feed it with information directly obtained from 'teen-agers' or from their female relatives accustomed to shop for them").

244 See, e.g., *Ferrari S.p.A. Esercizio Fabbriche Automobili e Corse v. McBurnie*, 11 U.S.P.Q.2d (BNA) 1843, 1849 (S.D. Cal. 1989).

Taking a direct look at residual consumer goodwill will also discipline judicial inquiry and reduce error in outlier cases where a court is tempted to presume, after taking judicial notice of the state of the market, that some residual goodwill must exist.

Table 2, in the appendix, provides structure for an inquiry into residual goodwill and consumer confusion in forfeiture cases. Table 2 provides a decision chart for distinguishing consumers likely to be harmed by the appropriation of the forfeited mark from consumers unlikely to be harmed. The following discussion explains the process a court could undertake in distinguishing harmful from nonharmful use, whether by the assignees and licensees of the mark owner, or by the appropriator of the ostensibly abandoned mark. Table 2 presents the inquiry in the form of a decision tree with a series of offramps. At each stage in the inquiry, the court could conclude, based on the evidence presented, that there is no likely consumer confusion or harm. The following factors would provide courts with important guidance on that point:

1. Does the Use of the Mark Affect the Purchasing Decision?

There is no harm (and no benefit) from appropriation for that subset of consumers who made purchasing decisions unaffected by the appropriated mark. On the other hand, for consumers who selected the good (or service) in part because they were attracted by the appropriated mark, there is a potential for significant harm via confusion.

2. Does the Consumer Think the Marked Goods Come from Source 1, the Original Mark Owner?

If the appropriation of the mark influences a consumer's purchasing decision (Question 1), and if the consumer sees the mark as signifying Source 1—the forfeiting prior mark owner (Question 2)—then the residual consumer goodwill in the appropriated mark may lead the consumer to make a purchase that is otherwise less likely to be made. This confusion is no different from the consumer confusion that triggers liability in trademark disputes in standard trademark cases.²⁴⁵ The difference is that in forfeiture cases, courts typically ignore the question.²⁴⁶

On the other hand, if the consumer does not think the marked goods come from Source 1, then something other than trademark confusion must be driving the effect of the mark on the purchasing decision. For example, the mark might be desirable for reasons other than utility as a source signifier. If that is the case, any confusion or harm to that consumer is likely to be minimal or irrelevant.

245 See *supra* note 28 and accompanying text.

246 See *supra* subsections I.A.3–I.A.5.

3. Are the Marked Goods the Same as Goods from Source 1?

If the marked goods from Source 2 are essentially the same as goods from Source 1, then there may be no harm to any consumer, even if some consumers would feel deceived. On the other hand, inconsistent quality might well harm consumers who are expecting goods from Source 1 and do not get them. In effect, this is the intuition that undergirds the once-robust rule that a mark is forfeited if assigned in gross.²⁴⁷ The rule against assignment in gross presumes that the mark transferred without underlying goodwill (and really, goodwill as used in the traditional assignment case should include those things that make the marked good desirable, including, perhaps, physical facilities, trade secrets, and access to essential resources) will inevitably confuse consumers. Thus, in the occasional assignment in gross case, forfeiture could be avoided if the purchaser's goods were effectively the same quality as the seller's goods.

The same presumption underlies the bar on naked licensing. Thus, the naked licensing mechanism should take quality of the licensee's products into account. Unfortunately, it does not.²⁴⁸ But if a naked or uncontrolled licensee produces goods that are the same as, fungible with, or otherwise satisfactory when compare to goods directly from Source 1, there is no harm.

4. Is the Consumer Happy with the Marked Goods; i.e., Are the Marked Goods from Source 2 Fungible with Goods from Source 1?

It is also possible that a consumer who mistakenly purchases goods from Source 2 bearing the appropriated mark is satisfied with the goods even though they do not match the quality of goods from Source 1. That consumer may not have been harmed, although that question may depend in part on whether goods from Source 2 are objectively and/or subjectively fungible with goods from replacement sellers. The proportion of dissatisfied consumers should be no bigger than the subset of consumers who still vest the mark with goodwill or treat the mark as a source signifier and see the appropriator's product as a quality mismatch. For consumers who do not care one way or the other, appropriation has no effect. On the other hand, a consumer dissatisfied with goods from Source 2 may feel duped or deceived by the use of the mark. The severity of the harm from that confusion or deceit may turn in part on the next two related questions.

5. Did the Use of the Trademark Impose Some Cost or Trigger Some Delay on the Part of the Consumer in Trying Out or Shifting to a Replacement Good?

Scholars have argued that advertising and/or the use of trademarks on goods helps the mark owner instill brand loyalty in consumers, and that brand loyalty can lead consumers to stay with a product longer than is other-

²⁴⁷ See *supra* note 120 and accompanying text.

²⁴⁸ See, e.g., *Eva's Bridal Ltd. v. Halanick Enters., Inc.*, 639 F.3d 788 (7th Cir. 2011).

wise in their best interest.²⁴⁹ A collateral effect of this brand loyalty is that competitors face a barrier to entry from the increased effort required to induce a consumer to switch products. Marketing literature evidences a pre-occupation with the creation of brand loyalty, suggesting that marketing experts believe brand loyalty conveys some level of market power.²⁵⁰ The appropriation of a mark bearing residual goodwill thus may provide the appropriator with an advantage in making not only an initial sale to a consumer but also subsequent sales, despite some level of consumer dissatisfaction.

6. Did the Consumer Buy or Use the Marked Goods Repeatedly?

One way to test for brand loyalty and switching costs is to ask whether the typical consumer gives an unsatisfying product multiple tries before moving on to another alternative. Repeated purchases of a dissatisfying product in the hope that deviation from expectations is a momentary blip might identify a consumer who is harmed by the purchase.

The harm may actually be greatest when the appropriator offers a bad facsimile of the original product, instead of offering something completely different. If the competitor offers something unlike the original (Surge root beer), there is a lower likelihood that the use of the trademark will impose some cost or create delay in shifting to the replacement good. The stark difference between the offerings might encourage consumers to shift to the replacement good after a single attempt. On the other hand, a bad facsimile might actually increase the likelihood that consumers make repeated attempts with the trademarked product in the hope that the first bad experience was an outlier.

7. Is the Marked Good of Lower Quality or Higher Price Than Replacement Goods?

The final question is about the relative utility of the marked good compared to replacement goods, measured in price and quality. *Ceteris paribus*, if the appropriated mark retains residual goodwill, then the consumer may try the marked good from Source 2 more than once before trying a replacement good. The harm to the consumer is the function of the number of repeat interactions with the marked good, multiplied by the disutility of purchasing and using the marked good, compared to a replacement good.

249 See, e.g., William S. Comanor & Thomas A. Wilson, *Advertising Market Structure and Performance*, 49 REV. ECON. & STAT. 423, 435 (1967) (arguing that a firm must advertise more to induce consumers to switch brands than to repeat buy because incumbents do not incur penetration costs; those costs increase as consumers are more inert or more loyal). But see Richard Schmalensee, *Brand Loyalty and Barriers to Entry*, 40 S. ECON. J. 579, 579 (1974) (“[U]nder plausible assumptions brand loyalty created by advertising is not a source of entry barriers.”).

250 See, e.g., Arjun Chaudhuri & Morris B. Holbrook, *The Chain of Effects from Brand Trust and Brand Affect to Brand Performance: The Role of Brand Loyalty*, 65 J. MARKETING 81 (2001).

Question 7 takes a different tack than Question 4 to measure customer satisfaction. A satisfied consumer who stumbles across Source 2's replacement good is no more or less satisfied than one who finds Source 2's replacement good because of the appropriation of Source 1's trademark. Thus, there must be some level of disutility for the consumer to be harmed. Correctly accounting for consumer harm requires considering whether the goods offered under the forfeited mark are of a consistent quality with those provided by Source 1, and whether consumers rely on the mark in a way that influences purchasing and switching decisions. If those purchasing and switching decisions are not affected by the residual consumer goodwill, then harm to competitors and the market is equally unlikely.

Finally, damages should be limited to a function of the severity of the harm experienced by consumers (how confused consumers are and how likely they are to act on that confusion) and the likely duration of that harm (how long residual goodwill will persist).

V. USING AUCTIONS TO DISCOVER RESIDUAL GOODWILL

As discussed above, an appropriator seeks to use a forfeited mark on similar goods for at least two reasons.²⁵¹ First, the mark may have some inherently desirable qualities.²⁵² Second, the appropriator anticipates that it will obtain an advantage over competitors by using the residual consumer goodwill in the mark. Courts seem to intuit, in a few scattered cases, that consumers will continue to vest a mark with residual goodwill after abandonment through nonuse, although courts are forced to voice those intuitions using unaccommodating tests to remain consistent with perceived statutory commitments.²⁵³ The previous Part proposed an alternative test that requires courts to articulate more explicitly their intuitions about residual consumer goodwill.

This Part proposes using an auction mechanism to encourage the mark owner and the appropriator to disclose their respective valuations of residual consumer goodwill. The primary virtue of the auction mechanism in this context is its capacity to serve as an information-forcing mechanism.²⁵⁴ A secondary virtue of this particular auction mechanism is its preference for bidders who invest in infrastructure, resources, and relationships that

251 If the products are sufficiently dissimilar, then trademark law should not bar the new entrant, because confusion is unlikely between dissimilar goods sold under the same or similar marks.

252 See, e.g., Linford, *Fanciful?*, *supra* note 28, at 740 (noting that fanciful marks are "inherently strong"); Xiyin Tang, A Phonoaesthetic Theory of Trademark Functionality (unpublished draft on file with author).

253 See, e.g., *supra* notes 96–100 and accompanying text.

254 See, e.g., Douglas G. Baird & Edward R. Morrison, *Bankruptcy Decision Making*, 17 J.L. ECON. & ORG. 356, 369 (2001) ("A regime of mandatory auctions is strongly information forcing."); cf. M. Todd Henderson & Frederick Tung, *Reverse Regulatory Arbitrage: An Auction Approach to Regulatory Assignments*, 98 IOWA L. REV. 1895, 1918 (2013) ("Bidding can help reveal [bidder-specific] information, skills, or preferences.").

improve the bidder's ability to meet consumer expectations. The proposed auction is also designed to limit opportunities for arbitrage.

A. *Why Auctions?*

Auction theory identifies several virtues of auction mechanisms. Three are particularly relevant here. First, auctions encourage bidders to disclose nonpublic information concerning their estimated value of the item for sale.²⁵⁵ In the context of a forfeited mark, party bids will disclose both perceived common value in the mark (the residual consumer goodwill) and private value (the ability of the bidder to exploit that goodwill).²⁵⁶ The auction mechanism can help reveal estimates about the amount and value of residual goodwill remaining in a forfeited mark. The forfeiting firm's valuation of residual goodwill is likely a better estimate of its perception about goodwill than any plans to resume using the mark (the critical showing a mark owner must make to overcome a claim of abandonment through nonuse).²⁵⁷ Second, auctions will disclose information and settle property rights earlier than litigation or administrative hearings before the USPTO. Third, in some contexts, auctions are superior to a first-in-time regime for placing the thing auctioned with its highest value user.²⁵⁸ To this end, the proposed auction mechanism is weighted in favor of parties likely to meet consumer expectations, as described in Section V.C.

Auctions are often geared towards efficiency, i.e., putting the object in the hands of the highest value user,²⁵⁹ or maximizing the seller's expected revenue.²⁶⁰ The auction proposed herein focuses on efficiency by encouraging firms to disclose their respective valuations of the residual consumer goodwill. Correctly calibrated, the auction will increase the likelihood that the mark ends up with the highest value user and maximize the chance that the winner of the bid will meet consumer expectations and thus externalize fewer costs on consumers.

255 See Gideon Parchomovsky, *On Trademarks, Domain Names, and Internal Auctions*, 2001 U. ILL. L. REV. 211, 215 ("The virtue of auctions lies in their ability to force parties to reveal private information, thereby eliminating the incentive to negotiate strategically."); see also Anthony J. Casey, *Auction Design for Claims Trading*, 22 AM. BANKR. INST. L. REV. 133, 143 (2014) ("The auction creates an incentive for sellers to reveal information, and for bidders to competitively bid. The bid reveals private information about their valuation." (footnote omitted)). Auctions may excel in disclosing information held by buyers compared to private information held by sellers. *Id.*

256 See *infra* notes 263–264 and accompanying text.

257 See *supra* notes 89–90 and accompanying text.

258 See, e.g., Adam M. Samaha, *Randomization in Adjudication*, 51 WM. & MARY L. REV. 1, 26–27 (2009).

259 See, e.g., R. H. Coase, *The Federal Communications Commission*, 2 J.L. & ECON. 1, 35–36 (1959) (arguing that an auction for spectrum is superior to a government assignment because in an auction the rights would go to the parties that assigned the highest value to the resource).

260 Jay B. Kesten, *Adjudicating Corporate Auctions*, 32 YALE J. ON REG. 46, 56–57 (2015).

One might object that if auctions are more efficient than a priority race, perhaps every trademark should be allocated by auction. But one key difference in the forfeiture context is that the mark to be reassigned may bear residual, source-signifying goodwill, and that raises context specific complications outlined in the previous Parts of this Article. In other cases, the validity and infringement inquiries are better aimed at forcing information about consumer perception of the marks at issue.²⁶¹ Similarly, in a generislide dispute, the inquiry into residual consumer goodwill also serves an information-forcing function.²⁶² But other forfeiture mechanisms currently fail to meet their information-forcing functions with regard to consumer perception. The auction can therefore provide an important corrective.

1. Acquiring Information About Residual Goodwill

Auction theory identifies two general categories of value, about which bidders have varying information. The object being sold may have a primarily *private* value, idiosyncratic for each bidder. Or the object may have a primarily *common* value, where the actual value of the object sold is the same for each bidder.²⁶³ Bidders are unlikely to have perfect information about common value, but each bidder will have an estimate.²⁶⁴ In most cases, the value of the object is neither purely private nor purely common, but rather is interdependent. Bidders' values in auctions for trademark rights would also be interdependent, including both private value and common value components. Residual consumer goodwill has common value; the residual goodwill possessed by the mark would not change based on the bidder. However, each firm might have different capacity to profit from that residual goodwill and make use of the mark, reflected in its subjective, private valuation.

Three entities or groups are likely to have evidence or estimates about residual goodwill: consumers themselves, the former mark owner, and the likely appropriator.²⁶⁵ The actual residual goodwill invested by each given consumer has significance to that consumer, but may not tell us much about the level of residual goodwill across consumers. Collecting information from

261 See *Network Automation, Inc. v. Advanced Sys. Concepts, Inc.*, 638 F.3d 1137, 1152 (9th Cir. 2011).

262 See *supra* subsection I.A.1.

263 Kesten, *supra* note 260, at 53 (citing PAUL KLEMPERER, *AUCTIONS: THEORY AND PRACTICE* 12 (2004) [hereinafter KLEMPERER, *AUCTIONS*]); William Samuelson, *Auctions in Theory and Practice*, in *GAME THEORY AND BUSINESS APPLICATIONS* 295, 295–300 (Kalyan Chatterjee & William F. Samuelson eds., 2001).

264 In a pure common value auction, the value of the auctioned item is the same for all bidders, but if bidders do not have perfect information, some bids may overvalue the item. See generally John H. Kagel & Dan Levin, *The Winner's Curse and Public Information in Common Value Auctions*, 76 *AM. ECON. REV.* 894, 894 (1986) (describing literature on the “winner's curse”—winning with a bid that overestimates common value).

265 For the moment, let us make the simplifying assumption that there is only one likely appropriator. That assumption is relaxed *infra*. See also *supra* subsection I.A.5 (discussing naked licensing).

multiple consumers can be difficult.²⁶⁶ Trademark caselaw and scholarship have documented the difficulty of securing reliable information about consumer perceptions of source significance and actual consumer confusion. Consumers are also a diffuse group—it will be difficult for consumers to cooperate successfully in revealing their collective preferences.²⁶⁷

Unlike consumers with diffuse interests, the forfeiting mark owner has no collective action problem to overcome.²⁶⁸ The mark owner has a singular valuation for the mark, which reflects the likelihood that consumers will purchase a product bearing the mark should the mark owner reintroduce it to the market. The forfeiting firm's valuation of residual consumer goodwill might depend on some or all of the following data points: the mark owner's sunk costs in infrastructure, resources, and relationships necessary to bring to market products of a level consistent with consumer expectation; the strength of the mark as reflected in the price the former mark owner could command for the sale of its product compared to competitors' products; direct communication from consumers that expresses longing for the marked product; unsolicited media coverage that indicates the value of residual consumer goodwill in the brand; and the firm's perspective about the value of the mark itself as an attractive symbol for selling goods and services independent of residual goodwill.

The potential appropriating firm will also have a value for the mark, which includes both the firm's perception of residual consumer goodwill and the general attractiveness of the mark.²⁶⁹ The appropriating firm's calculation will resemble that of the forfeiting firm, although the appropriating firm is less likely to have previously invested in the infrastructure, resources, and relationships necessary to bring a product to market that meets consumer expectations. Indeed, the current legal structure does not require the appropriating firm to take consumer preferences into account.²⁷⁰

We can see how price can disclose information about valuation by considering assignments and licenses. Both the purchase price in an assignment, and the licensing fee in a license, disclose the estimate of the parties with regard to the value of consumer goodwill in the mark.²⁷¹ To a lesser extent,

266 See Lisa Larrimore Ouellette, *The Google Shortcut to Trademark Law*, 102 CALIF. L. REV. 351, 360–62 (2014) (describing the costs of acquiring survey evidence in trademark cases, and proposing that a Google search might provide an accurate picture of trademark distinctiveness as it discloses evidence of the wisdom of the crowds).

267 See generally MANCUR OLSON, *THE LOGIC OF COLLECTIVE ACTION: PUBLIC GOODS AND THE THEORY OF GROUPS* (1965) (noting the general inability of diffuse groups to influence the legislative process because it is difficult for them to organize and mobilize).

268 See, e.g., Thomas R. Lee et al., *Trademarks, Consumer Psychology, and the Sophisticated Consumer*, 57 EMORY L.J. 575, 578–81 (2008).

269 See Tang, *supra* note 252.

270 See 15 U.S.C. § 1064 (2012).

271 Cf. Jake Linford, Essay, *Unilateral Reordering in the Reel World*, 88 WASH. L. REV. 1395, 1422–26 (2013) (arguing that a unilateral reordering clause should be enforceable if the party hoping to enforce the clause makes it salient by offering the modified service or product at two prices—a higher price without the new terms and a lower price with them).

that price may also signal the value of the mark as a suitable name for a product independent of goodwill.²⁷² The assignee or licensee would not pay the price asked by the assignor or licensor if the price was higher than the licensee's valuation plus profit. And the assignor/licensor would not agree to a price that it found too low for the value conveyed.

2. Meeting Consumer Expectations

The law does not currently require a hopeful appropriator to commit to meeting consumer expectations. Ideally the market will fully discipline problematic behavior, but as described in Section III.B, there are reasons to be skeptical. The proposed auction mechanism is instead designed to weight the bidding process in favor of firms that signal a commitment to match consumer expectations about marked products by investing in infrastructure, resources, and relationships that make it more likely the firm will meet, rather than disappoint, consumer expectation.²⁷³

An auction mechanism can also forestall wasteful races. Consider *California Cedar Products Co. v. Pine Mountain Corp.*,²⁷⁴ a case in which the abandoning firm clearly stated its plans to abandon its trademark.²⁷⁵ Several competing firms raced to market, each hoping to establish priority of use over the others.²⁷⁶ As in other cases, multiple firms interested in securing rights using a first-in-time system may engage in a wasteful race.²⁷⁷ The auction would be preferable, sending a clearer signal about the highest value user, and the user whose appropriation of the mark is likely to be most highly valued by consumers. Similarly, the auction mechanism could provide helpful certainty in cases wherein multiple potential registrants have some vested rights in the mark. For example, in a naked licensing case with multiple preexisting licensees, an auction could help locate a replacement, rather than leaving each competitor to engage in its own potential confusing use in its overlapping niche.²⁷⁸

3. Earlier Assignment of Property Rights

A properly timed auction mechanism will encourage the forfeiting firm to disclose its valuation of residual consumer goodwill early in the process, compared to litigation. Such a disclosure provides a clearer signal to hopeful

272 See Tang, *supra* note 252.

273 See *infra* Section V.C.

274 724 F.2d 827 (9th Cir. 1984).

275 *Id.* at 829.

276 *Id.*

277 See Michael Abramowicz, *The Uneasy Case for Patent Races over Auctions*, 60 STAN. L. REV. 803, 826 (2007); Anupam Chander, *The New, New Property*, 81 TEX. L. REV. 715, 733–36 (2003) (critiquing first possession rules generally, and specifically as a mechanism for assigning rights to domain names).

278 See, e.g., *Freecycle Network, Inc. v. Oey*, 505 F.3d 898 (9th Cir. 2007) (holding Freecycle mark had been abandoned through naked licensing and thus leaving multiple former licensees to use the Freecycle mark as they see fit).

appropriators about the owner's valuation.²⁷⁹ An administrative procedure before the Trademark Trial and Appeal Board or a district court (and subsequent appeals) will take more time. An auction would instead allow the winning party to move forward with plans to use the mark at an earlier point, while encouraging losing parties to move in another direction.

B. *The Auction Mechanism*

Auctions are frequently vulnerable to strategic bidding. Depending on the structure of the auction, a party may enter the auction in order to secure a payoff from another party, rather than to acquire the auctioned object.²⁸⁰ Auctions can also be costly to administer.²⁸¹

In the context of an auction for a forfeited mark, other potential difficulties arise. For those who argue trademark law should optimize transition of abandoned marks to the public domain, the auction mechanism might seem to invite arbitrage on behalf of an otherwise disinterested trademark owner that might nevertheless prefer to reserve rights in the mark, rather than see the mark appropriated by another party.²⁸²

The auction mechanism seeks to cabin those costs by using a sealed-bid, second-price auction to assign rights in a forfeited mark. The winner will pay the value of the second highest bid to the loser or losers.²⁸³ In addition, each bidder will be required to post a bond to enter the auction.²⁸⁴ Requiring a bond may discourage undercapitalized parties from seeking to arbi-

279 Cf. Chiang, *supra* note 154, at 538–40. Chiang argues in the patent context that requiring the patent owner to disclose the patent through claim language upon filing provides the best information about claim scope when the patent owner is likely to have it, without allowing the patent owner to take advantage of pending litigation and knowledge about the defendant's product to redraft patent claims broad enough to take advantage of that knowledge. A similar advantage can be garnered by moving the fight over residual consumer goodwill earlier through the auction process.

280 See Parchomovsky, *supra* note 255, at 234.

281 Auctions are not necessarily costlier than other options, like property and liability rules, and the more transparent the bidding strategy, the less costly to participate in or operate. See, e.g., Ian Ayres & J.M. Balkin, Essay, *Legal Entitlements as Auctions: Property Rules, Liability Rules, and Beyond*, 106 *YALE L.J.* 703, 748 (1996).

282 See Kesten, *supra* note 260, at 65.

283 *Id.* at 55 (citing KLEMPERER, AUCTIONS, *supra* note 263, at 12).

284 PAUL MILGROM, PUTTING AUCTION THEORY TO WORK 227–29 (2004) (noting that prequalification of bidders reduces risks of speculative bidding). If one is concerned that an established mark-owning firm can always afford a larger bond than a hopeful appropriator, one could require the appropriator to post a bond equal to a certain percentage of the maximum bid. Similar bidding credits have been shown to increase competition in other contexts. See KLEMPERER, AUCTIONS, *supra* note 263. One could also imagine a third party willing to guarantee the amount of the bid, not unlike an insurance company or a livestock bonding company.

trage the auction and secure the second-price payout.²⁸⁵ As this Section explains, the sealed-bid structure can also mitigate this sort of arbitrage.²⁸⁶

1. Initiating the Auction

Trademark rights (whether the mark is registered or not) can be challenged in a declaratory judgment action²⁸⁷ or as a defense to an action for trademark infringement or unfair competition.²⁸⁸ An appropriator (or another party that believes it will be damaged by the registration) can also challenge a registration in a cancellation proceeding before the Trademark Trial and Appeal Board, a body within the USPTO.²⁸⁹

The Lanham Act treats three years of nonuse as prima facie evidence that the owner has abandoned the mark.²⁹⁰ The owner can rebut that presumption with evidence of a bona fide intent to resume use.²⁹¹ A trademark registration can also be cancelled²⁹² if the registrant fails to establish continued use of the mark at regular intervals.²⁹³ These thresholds—three years of nonuse, and the six- and ten-year renewal windows—might provide reasonable windows for a hopeful appropriator to initiate an auction. Three years of nonuse is a decent signal that residual consumer goodwill in the mark may have begun to dissipate. Cancellation of a registration for failure to provide an affidavit of continued use may also indicate that the owner plans long-term suspension of the mark, if not outright abandonment. Post-suspension, it is appropriate to ask whether consumer goodwill in the mark is dissipating.

Under the proposed auction mechanism, the winning firm will receive a six-month exclusive window to begin using the mark in commerce, if it has

285 See Parchomovsky, *supra* note 255, at 216 (“[H]er strategic ability to exaggerate her valuation is capped by . . . the requirement to post a bond in [the] amount [of her bid].”).

286 See *infra* subsection V.B.3.

287 See, e.g., *Fresh Del Monte Produce Inc. v. Del Monte Foods, Inc.*, 159 F. Supp. 3d 415 (S.D.N.Y. 2016).

288 See, e.g., *Burgess v. Gilman*, 475 F. Supp. 2d 1051 (D. Nev. 2007), *aff'd*, 316 F. App'x 542 (9th Cir. 2008).

289 See, e.g., 15 U.S.C. § 1064 (2012); *Combs v. All Surface Entm't, Inc.*, Cancellation No. 92051490 (T.T.A.B. 2012).

290 15 U.S.C. § 1127.

291 *Id.* § 1051(b).

292 Trademark use and trademark registration are not coterminous; in the United States, trademark protection is grounded in use, rather than registration. See Linford, *Adverse Possessor*, *supra* note 20, at 717.

293 See, e.g., Official Gazette Notice of Cancellation for Failure to File a Section 8 Declaration of Continued Use, STARBURST, Registration No. 3,177,483 (cancelled Aug. 13, 2013). The owner of a trademark registration must file an affidavit of continuing use after the first six years of registration, and then every ten years, to retain the registration. 15 U.S.C. § 1058. The USPTO grants a six-month grace period after the filing deadline if the registrant pays an additional fee. *Id.*

not already commenced use.²⁹⁴ Like the intent-to-use application on which it is modeled, the deadline could be extended.²⁹⁵

The proposed auction mechanism could instead require a bidder to use the mark in commerce prior to bidding, but a use requirement to qualify to bid is problematic for at least two reasons. First, the forfeiting mark owner might be barred from bidding if the mark is currently not in use, even though the mark retains residual goodwill. Second, as discussed in subsection V.B.3 below, the auction mechanism limits arbitrage in part by encouraging multiple firms to bid for the mark. If parties must race to use the ostensibly forfeited mark in commerce, the process may block otherwise-viable bidders from the market.

2. Administering the Auction

The USPTO would administer the auction, as it already handles trademark forfeiture cases. It regularly rules on petitions to cancel registrations on grounds of abandonment,²⁹⁶ assignment in gross,²⁹⁷ or generislide.²⁹⁸ In addition, the Trademark Trial and Appeal Board, a body within the USPTO, already handles inter partes proceedings directly challenging the validity of a registration on nonuse or generislide grounds.²⁹⁹

The auction would not be costless. However, running a static sealed-bid auction should save the USPTO some administrative costs compared to a dynamic auction.³⁰⁰ In addition, the auction can include a premium for the USPTO.³⁰¹ Auction fees could be handled in one of two ways. The winning bidder could pay the entire premium as a percentage of the winning bid. Or each bidder could pay an administrative cost up front, in addition to the bonded bid amount.

294 The six-month window is similar to the six months allowed an intent-to-use applicant to file an affidavit of use. 15 U.S.C. §§ 1051(b), (d); 1057(c).

295 That deadline can be extended up to three years. *Id.* § 1051(d).

296 *See, e.g.,* Lipton Indus., Inc. v. Ralston Purina Co., 670 F.2d 1024, 1025 (C.C.P.A. 1982).

297 *See, e.g.,* Hy-Cross Hatchery, Inc. v. Osborne, 303 F.2d 947, 948 (C.C.P.A. 1962).

298 *See, e.g.,* Informix Software, Inc. v. Oracle Corp., 927 F. Supp. 1283, 1286 (N.D. Cal. 1996).

299 *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, 158 n.18 (2d Cir. 2007) (“The Trademark Board’s primary function is to determine whether trademarks are registerable and to conduct opposition and cancellation proceedings by which interested parties can dispute the claims of applicants and registrants.” (citing 15 U.S.C. § 1051; §§ 1063–64)).

300 *See* MILGROM, *supra* note 284, at 10; *see also infra* subsection V.B.3.

301 Auction houses often charge a buyer’s premium—a predetermined percentage fee—for administering the auction. An auction premium is typically included in English auctions. *See* AVINASH K. DIXIT & BARRY J. NALEBUFF, *THE ART OF STRATEGY: A GAME THEORIST’S GUIDE TO SUCCESS IN BUSINESS & LIFE* 308 (2008).

3. Structuring the Auction to Limit Arbitrage

Unfortunately, auctions can provide opportunities for arbitrage. For instance, imagine that the Surge registrants were not interested in launching a new Surge brand, but instead hoped to secure rights in Surge and sell the brand back to Coca-Cola or a competitor. The registrant might bid more than its subjective value in the hope that the winner will be required to pay out higher value. Indeed, a similar arbitrage opportunity arose with domain name registration; many early registrations were secured by non-mark owners using a trademark as the top level domain.³⁰²

The proposed auction mechanism seeks to mitigate the threat of arbitrage in two ways. First, each bidder will be required to post a bond in the value of the bid.³⁰³ In an auction with two bidders, the bond itself limits opportunities for arbitrage: if a bidder cannot play without securing a guarantee that it can pay the price should it win, then it stands to reap a limited reward if it bids over its actual valuation.

Second, the auction mechanism is second-price, with a sealed bid, a structure that is more likely to encourage multiple bidders.³⁰⁴ Auctions can be organized in several different ways.³⁰⁵ An auction may be dynamic (changing price—typically open bid) or static (one price—typically sealed bid); and first-price (winner pays the value it bids) versus second-price (winner pays the value of the next highest bid).³⁰⁶ The most familiar dynamic auction structure is the ascending-bid or English auction.³⁰⁷ In an English auction, the parties successively raise bids.³⁰⁸ The winning bidder is the last to bid, and she pays the value of her top bid.³⁰⁹

Sealed-bid auctions are static, rather than dynamic. In a sealed-bid auction, each party submits a bid without knowing the bids of competing bidders.³¹⁰ Sealed-bid auctions thus do not disclose each party's valuation until after the bidding is complete. Sealed-bid auctions come in two varieties: first-price sealed-bid auctions, where the winner pays the value of its bid,³¹¹ and

302 Parchomovsky, *supra* note 255.

303 If one is concerned that an established mark-owning firm can always afford a larger bond than a hopeful appropriator, one could require the appropriator to post a bond equal to a certain percentage of the maximum bid.

304 See MILGROM, *supra* note 284, at 10 (“[An auction] presents each bidder with a simple strategic bidding problem [T]here is no need for any bidder to make estimates of the number of other bidders or their values, for those have no bearing on a rational bidder’s optimal bid.”).

305 See Kesten, *supra* note 260, at 52.

306 *Id.* at 54–55.

307 *Id.* at 54.

308 See *id.*

309 See *id.* (citing KLEMPERER, AUCTIONS, *supra* note 263, at 11). A dynamic auction can also work in reverse. In a descending bid or Dutch auction, the auctioneer opens the bidding at a high price, and the bid is lowered until one bidder accepts. The winning bidder pays the accepted price. *Id.*

310 *Id.* (citing KLEMPERER, AUCTIONS, *supra* note 263, at 12).

311 See *id.* at 54–55 (citing KLEMPERER, AUCTIONS, *supra* note 263, at 12).

second-price sealed-bid auctions, or Vickrey auctions,³¹² where the winner pays the value of the next highest bid.³¹³

Compared to an English auction, a less capitalized bidder is more likely to compete in a sealed-bid auction.³¹⁴ In an English auction, a well-capitalized bidder can use the open disclosure of bids to reassess its valuation and increase its bid.³¹⁵ Weak or less capitalized bidders are thus discouraged from bidding, because the well-capitalized bidder can respond to the disclosure.³¹⁶ There is no disclosure to tip the hand of well-capitalized bidders in a sealed-bid auction.³¹⁷

A sealed bid is also preferable in part because multiple bidders will decrease the likelihood of arbitrage because the winning bid will be divided between the remaining bidders. A strategic bidder in a two-bidder auction might estimate the mark's common value at \$10,000 and bid \$9,900, hoping not to win the mark but to secure the loser's payout. But in an auction with multiple bidders, the payout will be divided among all losers. For example, Firm A contemplates entering an auction for a forfeited mark seeking to benefit from the payoff but does not value the mark and does not want to use the mark in commerce. Firm A estimates that Firm B values the mark at \$10,000. Firm A bids \$9,900, hoping to secure a payoff of \$9,900. But Firm A must post a bond for the privilege of bidding. In addition—and to Firm A's dismay—Firm B enters the auction as well. Now Firm A has bonded a \$9,900 bid to split the payoff with another bidder. If Firm A anticipates this risk, it is unlikely to bid unless it truly values the mark at \$9,900, or unless it can secure a \$9,900 bond at a cost that makes a payoff of \$4,450 (or less) worthwhile.³¹⁸ Thus, in cases with more than two bidders, the primary incentive for bidding should be securing the trademark, rather than driving up the price of the trademark to secure the payment. Combined, these features should limit the incentive to engage in arbitrage.

The simple auction outlined above may not meet the other goal of the project: encouraging a fit between consumer expectation and trademark owner. The winning bidder could be a forfeiting mark owner willing to pay more to warehouse the mark than the losing bidder will pay to use the mark.

312 Named for Nobel laureate William Vickrey, who described the virtue of the second-price sealed-bid auction for simplifying bid strategy. William Vickrey, *Counterspeculation, Auctions, and Competitive Sealed Tenders*, 16 J. FINANCE 8, 14–20 (1961); see also DIXIT & NALEBUFF, *supra* note 302, at 305–11.

313 See Kesten, *supra* note 260, at 55 (citing KLEMPERER, AUCTIONS, *supra* note 263, at 12).

314 See *id.* at 62.

315 See *id.* at 60.

316 *Id.* at 61–62.

317 See KLEMPERER, AUCTIONS, *supra* note 263; Eric Maskin & John Riley, *Asymmetric Auctions*, 67 REV. ECON. STUD. 413 (2000) (showing that sealed bidding tends to favor weaker bidders).

318 One could make an even more draconian move to cabin arbitrage, with losing bidders forfeiting the bond. But that would discourage even well-motivated bidders if the bond amount is more than nominal.

Or the winning bidder could instead be a short-term profiteer willing to trade on consumer confusion. The next Section thus offers a refinement that will further discourage arbitrage and increase the likelihood that the winning bidder will meet consumer expectations.

C. *Tailoring the Auction to Benefit Consumers*

The auction mechanism proposed is not designed to prevent appropriation of marks with residual goodwill. In fact, appropriation can benefit consumers when the appropriator is transparent about its relationship to the former mark owner and its efforts to meet consumer expectations. Forfeiture mechanisms do not currently require such an approach, but a recent case hints at the type of appropriation the auction mechanism aims to encourage.

Food blogger Christian Ziebarth recently sought to relaunch Naugles, a popular Southern California taqueria that was swallowed up in a merger with Del Taco.³¹⁹ The last Naugles restaurant shuttered in 1995—a fairly clear-cut case of abandonment.³²⁰

Ziebarth engaged in consumer-satisfying behavior that the proposed auction is designed to encourage. Ziebarth's relaunch tapped into a groundswell of nostalgia for the old Naugles with pop-up restaurants and a retooled menu that fans claimed captured the essence of classic Naugles recipes.³²¹ In comparison, Del Taco sold Naugles hats and shirts, and customers could order from a secret Naugles menu at Del Taco restaurants.³²² But Del Taco did little else to meet consumer demand.

Ziebarth successfully petitioned to cancel Del Taco's registration for Naugles.³²³ As in previous cases, the Trademark Trial and Appeal Board ignored arguments about residual goodwill.³²⁴ Fortunately, Ziebarth was the party better suited to meet consumer expectations.³²⁵ The abandonment mechanism is not optimized to reach that outcome. But correctly structured, an auction could encourage investments in infrastructure, trade secrets, and communication with consumers when a firm wants to adopt a mark with residual goodwill.

The auction mechanism will directly assess whether each bidder can provide consumers with a marked product consistent with their expectations. To that end, each bidder will receive a "suitability bump"—a credit to the bid

319 Ziebarth v. Del Taco, LLC, Cancellation No. 92053501, at *6 (T.T.A.B. 2015).

320 As held by the T.T.A.B. *Id.* at *14.

321 See, e.g., Gustavo Arellano, *The Naugles Pop-Up Was Even Awesomer than Expected—And More to Come*, OC WEEKLY (Oct. 13, 2014), <http://www.ocweekly.com/restaurants/the-naugles-pop-up-was-even-awesomer-than-expected-and-more-to-come-6610279>.

322 Ziebarth, Cancellation No. 92053501, at *4.

323 *Id.* at *14.

324 *Id.* at *12–13 (“The Board has never found residual goodwill to be a defense to abandonment, and we decline to do so here. The continued existence of enthusiasts of the old Naugles food items does not negate the statutory presumption of abandonment.”).

325 *Id.* at *8.

amount and the payment made as winning bidder—commensurate with the bidder's investment in infrastructure, resources, and relationships that increase the likelihood that the bidder can meet consumer expectations. The suitability bump is not the only option: a buyer willing to precommit to actions that would benefit consumers might receive a discount on the price necessary to secure the mark, or a favorable position compared to buyers unwilling to make the same commitments. Or the agency running the auction could use precommitments as part of an initial screening mechanism. In any case, these investments signal in part the bidder's valuation of residual consumer goodwill.

Like the bid itself, these investments disclose the bidder's estimate about residual consumer goodwill. In fact, these investments might be a better signal than a simple cash outlay, because they disclose valuation made prior to the start of the auction.³²⁶ But these investments do more than disclose valuation of residual goodwill. They also indicate fit between marked product and consumer expectation. An auction that includes a suitability bump encourages an appropriator to send credible signals that it is trying to meet consumer demand as part of the trademark acquisition process.

Here's how a suitability bump would work: Two firms bid for a forfeited mark. Firm A bids \$10,000. Firm B bids \$10,100. But Firm A has purchased machinery used by the former mark owner to produce mark-bearing goods. The auction manager concludes the purchase of the machinery qualifies for a suitability bump of \$1,000. Firm A wins the bid with an effective bid of \$11,000. When calculating the auction price, the winning bidder can subtract the amount of the investment (the same \$1,000) from the price paid to Firm B. In this example, Firm A pays Firm B the value of Firm B's bid, \$10,100, less \$1000, or \$9,100.

Seen another way, the suitability bump encourages the investment in the infrastructure and resources that would establish an assignment with goodwill, rather than assignment in gross. This outcome would be preferable to the current invitation to free ride on residual consumer goodwill to the likely detriment of consumers and competitors. In addition, the investment in infrastructure is a costly signal of fit between consumer expectation and producer output.³²⁷

326 Cf. Chiang, *supra* note 154 (discussing the benefit of moving disclosure mechanisms early in the patent acquisition process). Similar investments insulate a transfer of trademark rights from an accusation of assignment in gross. See *supra* notes 122–123 and accompanying text.

327 A trademark serves a similar function: the creation of trademark meaning is also a costly signal about consistent quality. See Mark Bartholomew, *Making a Mark in the Internet Economy: A Trademark Analysis of Search Engine Advertising*, 58 OKLA. L. REV. 179, 203 (2005) ("Today, brand development requires an intense commitment of resources. For a trademark to serve as an effective signal to consumers, a mark holder must not only attract public attention, but also infuse the brand with the information and values inherent in the product." (footnotes omitted)). On signaling more generally, see Shahar J. Dilbary, *Famous Trademarks and the Rational Basis for Protecting "Irrational Beliefs"*, 14 GEO. MASON L. REV. 605, 622 (2007). Signaling function is not the dominant justification for trademark

Valuing investments in infrastructure would not be a costless undertaking for the USPTO. However, courts make similar appraisals in other contexts. For example, in an appraisal action after a merger,³²⁸ the Delaware Court of Chancery must often determine the value of shares held by shareholders who disagree with the buyout price.³²⁹ Valuation in appraisal cases could provide a model for how to value infrastructure investments in forfeiture cases.

One might also imagine that if only one party has acquired resources designed to better meet consumer expectations, that party should win the auction. But that is not necessarily the case for at least two reasons. First, price is also a signal of a private party's valuation. Second, a well-capitalized party may be better able to meet consumer expectations, even if that party has not (yet) invested in relevant resources. Thus, the auction mechanism will reward resource acquisition by way of the suitability bump, but will not treat the presence or absence of those investments as dispositive.

CONCLUSION

Forfeiture mechanisms serve an important role in a market for trademarked products. The current operation of these mechanisms, however, leaves much to be desired. Trademark forfeiture mechanisms cannot fully meet the ostensible goal of trademark protection—transmitting information to consumers that reduces search costs, encourages mark owners to maintain quality, and preserves a proper functioning market—if those mechanisms ignore evidence of residual consumer goodwill. Accounting for consumer welfare requires a more careful look at how consumers contribute to and are affected by the creation *and* termination of trademark meaning.

In some abandonment cases, we find happy accidents where the party acquiring a forfeited mark has invested in trade secrets or recipes (like the

protection. See Dogan & Lemley, *Search Costs*, *supra* note 35, at 799 (“[A]lternative justifications [like the signaling function] should not distract the reader from a proper focus on search costs.”). Trademarks may nevertheless have a similar signaling function to advertising. See George A. Akerlof, *The Market for “Lemons”: Quality Uncertainty and the Market Mechanism*, 84 Q.J. ECONOMICS 488, 499–500 (1970) (suggesting that, without trademarks, the market for goods in which experience characteristics predominate would not be clear).

328 See DEL. CODE ANN. tit. 8, § 262 (West 2016).

329 See *In re Appraisal of Dole Food Co.*, 114 A.3d 541, 548 (Del. Ch. 2014) (in a statutory appraisal proceeding, “[t]he central ‘issue is the determination of the value of the [dissenting shareholders’] shares on the date of the merger’” (quoting *Cede & Co. v. Technicolor, Inc.*, 542 A.2d 1182, 1187 (Del. 1988))).

relaunch of Naugles), key machinery,³³⁰ or relationships with former suppliers.³³¹ Consumers would benefit if these exceptions became the rule.

Readjusting forfeiture mechanisms is part of an overarching project aimed at ensuring trademark law takes into account not only mark owner claims, but also consumer welfare and consumer perception.³³² Indeed, the law cannot properly define the scope of the trademark right without an inquiry into consumer perception because consumer use justifies and constrains the mark's proper scope.

330 Leaf Brands purchased the Astro Pops mark for candy from Spangler Candy, but did not acquire any candy-making machinery; Spangler sold that for scrap after it ceased production. Leaf's CEO Ellia Kassoff reverse engineered the manufacturing process until he was satisfied that he could produce Astro Pop candy like he enjoyed in his youth. *See Planet Money Episode 652: The Hydrox Resurrection*, NPR (Sept. 18, 2015), <http://www.NPR.org/sections/money/2015/09/18/441546748/episode-652-the-hydrox-resurrection> (describing Kassoff's purchase of the Astro Pop trademark).

331 Leaf Brands took a different approach with Hydrox cookies, successfully petitioning to cancel the registration of Hydrox for cookies, and scrupulously endeavoring to reverse engineer the original Hydrox recipe and contact original suppliers for vanilla and cocoa. *See id.*

332 *See* Linford, "Generic" Trademarks, *supra* note 29, at 113–16 (applying theories of semantic shift to argue that generic terms should be allowed to obtain trademark protection when there is sufficient evidence that consumers primarily perceive the term as a trademark); Linford, *Fanciful?*, *supra* note 28 (arguing against broad protection for fanciful trademarks that convey product qualities through sound symbolism—a direct link between sound and meaning); Linford, *False Dichotomy*, *supra* note 28, at 1391–1401 (arguing that consumer use of metaphor and metonym suggest the legal difference between descriptive and suggestive trademarks are overstated); Linford, *Adverse Possessor*, *supra* note 20, at 708 (arguing that trademark rights depend on effectively communicating with consumers and competitors); Jake Linford, *Placebo Marks* (2017) (unpublished manuscript) (on file with author) (arguing that advertising and branding, often seen as manipulative of and harmful to consumers, may also convey benefits like the performance-enhancing placebo effect conveyed by the use of products associated with high-performance trademarks).

TABLE 2: DECISION CHART FOR DISTINGUISHING CONSUMERS HARMED BY THE USE OF THE APPROPRIATED MARK FROM THOSE WHO ARE UNHARMED.

Y →	Y →	N →	N →	Y →	Y →	Y →	Harmed consumer: Harm = $\Phi * Y$ where Φ = frequency / duration of mistaken experience with good, and Y = the reduction in utility of the marked good compared with replacement goods.
1. Did the mark influence the purchasing decision?	2. Did the consumer think marked goods come from Source 1 or expect goods to resemble those from Source 1?	3. Are the marked goods the same as goods from Source 1?	4. Is the consumer happy with the marked goods, i.e., are marked goods fungible with goods from Source 1?	5. Did the use of the trademark impose some cost / create some delay in shifting to a replacement good?	6. Did the consumer buy or use the marked goods repeatedly?	7. Is marked good of lower quality / higher price than replacement goods?	
N ↓	N ↓	Y ↓	Y ↓	N ↓	N ↓	N ↓	
Unharméd consumer							