
NOTICE FAILURE AND DEFENSES IN TRADEMARK LAW

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Notice is important in intellectual property law, but notice works differently in trademark law than in copyright and patent. Trademark law is not based on

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a property theory and the rights it creates are not property rights in the usual sense. As a result, the costs of notice failure are not necessarily as high in trademark as in patent and copyright, and solutions to notice problems take a somewhat different form. This Article examines notice problems in trademark law, identifies their source, evaluates their costs, and explores ways to remedy them. The principal notice deficiency has to do with uncertainty in determining the scope of trademark rights (rather than the existence or boundaries of protected subject matter), and the main source of the problem is the vague likelihood-of-confusion test for liability, which produces high litigation costs and risks. These costs and risks can chill the descriptive and expressive use of marks, the use of marks in resale markets, and the use of trade dress to compete in product markets. The seriousness of these chilling effects, however, depends on the user and the type of use.

After linking notice failure to chilling effects, the Article then explores possible ways to reduce the chilling effect problem. In this regard, an important distinction must be drawn between uses that implicate rights and uses that are valued only for efficiency reasons. Categorical exclusions work well for the former but not very well for the latter (except perhaps for product-design trade dress). For cases involving non-expressive descriptive and nominative uses and resale uses, trademark owners should be required to plead (and prove) sufficient facts to support the existence of actual source or sponsorship confusion (not just a likelihood) and a significant risk of serious trademark-related harm, and judges should review preliminary injunction motions strictly. These reforms should go far toward reducing chilling effects while still allowing trademark relief in those exceptional cases involving serious confusion-related harm.

INTRODUCTION

While notice of legal rights and obligations is important generally, it is especially important in property law. Reasonably clear notice of property ownership, boundaries, and rights facilitates efficient investment and exchange. When ownership and boundaries are clear, those developing property can be confident that their investments will benefit their own property and not their neighbor's, and those acquiring property can be confident of what they are buying. In the case of land, the physical nature of the property helps considerably with identifying boundaries; title registries simplify the search for conflicting claims, and the standardization of ownership interests makes valuation easier and reduces transaction costs.¹ Notice, however, is much more difficult for intellectual property. The nonrivalrous nature of IP greatly

¹ Thomas W. Merrill & Henry E. Smith, *Optimal Standardization in the Law of Property: The Numerus Clausus Principle*, 110 YALE L.J. 1, 33, 43 (2000) ("Because land is permanent and immobile, recording can give notice to prospective purchasers not just of the physical dimensions of land but also of the legal dimensions . . .").

multiplies the number of potentially conflicting claimants; the abstract nature of the subject matter complicates boundary determinations, and the complexity and vagueness of IP rights make valuation difficult and transactions costly.² Moreover, IP registries, when they exist, can be incomplete, or so crowded that searching is extremely costly.³ The resulting notice problems impede upstream innovation, chill downstream creativity, encourage strategic holdup, and compound litigation costs.

These problems are particularly acute for patent and copyright because both types of IP grant broad rights against copying and enforce those rights through injunctive relief.⁴ Without clear notice of competing claims, prospective innovators face a number of risks that can discourage investment in innovation. For one thing, they are likely to have difficulty estimating the value of the IP they create when that value depends on the uncertain existence of conflicting claims.⁵ Also, they face the risk of holdup. Owners of conflicting rights might wait until innovation costs are sunk and then demand a high licensing fee. This is the problem with many so-called non-practicing entities (“NPEs”), or more derisively, patent trolls. NPEs collect patents only to assert them against unsuspecting inventors and obtain disproportionately high settlements.⁶

Trademark law is different than patent and copyright in ways that require a different analysis of notice problems. In contrast to patent and copyright, trademark is not based on a property theory in the usual sense.⁷ At its core, trademark law protects marks not as things of value in themselves, but as

² See, e.g., JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE: HOW JUDGES, BUREAUCRATS, AND LAWYERS PUT INNOVATORS AT RISK 53-72 (2008) (comparing IP with real property and noting that “[t]here are sharp differences between patents and tangible property regarding the law and institutions that promote clear notice”); Peter S. Menell & Michael J. Meurer, *Notice Failure and Notice Externalities*, 5 J. LEGAL ANALYSIS 1, 2-7 (2013) (“[Intangible resources] can be difficult to navigate because of the amorphous nature of intangible boundaries . . .”).

³ BESSEN & MEURER, *supra* note 2, at 68-71.

⁴ Patent law goes even further and grants rights against independent replication, not just copying. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 478 (1974).

⁵ BESSEN & MEURER, *supra* note 2, at 9 (asserting that unclear patent boundaries chill incentives to innovate).

⁶ See Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2125-27 (2013) (evaluating the NPE problem); Robert P. Merges, *The Trouble With Trolls: Innovation, Rent-Seeking, and Patent Law Reform*, 24 BERKELEY TECH. L.J. 1583, 1614 (2009) (identifying rent-seeking and its adverse effects on innovation as the core problem with patent trolls).

⁷ See Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 561-65 (2006).

symbols of goodwill and devices to communicate information to the market.⁸ The primary goal is not to incentivize new creations, as it is for patent and copyright, but rather to protect the quality of market information, reduce consumer search costs, and safeguard the reputation of sellers.⁹ These distinctions have important implications for notice and the costs of notice failure, as elaborated more fully in Parts I and II below.

This Article examines notice failure in trademark law, identifies its sources, evaluates its costs, and explores ways to address it. The discussion is divided into three parts. Part I reviews some aspects of notice in general and then identifies the most serious notice problems in trademark law. Because trademark rights are based on public use, notice problems differ from those in patent and copyright. The principal concern has to do with ascertaining the scope of rights, and the main source of the problem is the vague likelihood-of-confusion test for liability.

Part II analyzes the costs of vague notice. The most serious cost is the chilling effect on expressive, competitive, and other socially valuable uses. The need to conduct a likelihood-of-confusion analysis in each case creates litigation risks and costs that can discourage perfectly lawful and socially beneficial uses of marks. Still, as Part II argues, it is not clear how serious this problem actually is. Its magnitude depends on the type of use and the type of user.

Part III discusses several possible solutions to notice failure on the assumption that the problems are serious enough to warrant a regulatory response. One possibility is to rely on defenses in the form of categorical rules or balancing tests.¹⁰ Categorical rules that exclude liability without regard to confusion risks work reasonably well for core expressive use and perhaps for some kinds of trade dress use. But they work poorly for other types of socially valuable use. In these latter cases, categorical exclusions can be difficult to implement and not easy to square with trademark policy. Moreover, balancing tests, while pervasive in trademark law, do little to solve notice problems. Some commentators have proposed using sanctions and fee-shifting to

⁸ See *id.* at 549. Some recent trends in trademark law come close to protecting marks as property, but these are controversial and they expand liability far beyond the relatively settled core. See *id.* at 621.

⁹ See, e.g., *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 34 (2003); *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995). For a more extensive overview of trademark policies, see Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2105-14 (2004).

¹⁰ See Graeme B. Dinwoodie, *Developing Defenses in Trademark Law*, 13 LEWIS & CLARK L. REV. 99, 99 (2009) (“Some defenses will operate as mechanisms by which to balance competing policy concerns on a case-by-case basis”); William McGeeveran & Mark P. McKenna, *Confusion Isn’t Everything*, 89 NOTRE DAME L. REV. 253, 301-06 (2013) (proposing categorical exclusions for some favored uses).

discourage illegitimate claims and reduce chilling effects.¹¹ But sanctions are not likely to work well and fee-shifting can produce strategic costs of its own.

A much more promising approach targets the liability standard directly. Part III outlines a proposal along these lines. While core expressive use and possibly some trade dress use would be subject to categorical rules, other socially valuable uses would be handled differently. Trademark owners in those cases would be required to plead (and prove) sufficient facts to support the existence of actual source or sponsorship confusion (not just a likelihood) and a significant risk of serious trademark-related harm, and judges would review preliminary injunction motions strictly in favored use cases. This proposal should go far toward reducing chilling effects while still allowing trademark relief in those exceptional cases involving serious confusion-related harm.

I. THE NATURE AND EXTENT OF NOTICE FAILURE IN TRADEMARK LAW

A. *Notice in General*

Notice is important in the law even when no specific type of notice is legally mandated.¹² Notice is about predictability—the ability of persons to predict the legal consequences of their actions in advance. When we refer to *B* as having notice of *X*, we mean that *B* is aware of *X* or can acquire knowledge of *X* with reasonable effort under the circumstances. This is the sense of notice that underlies discussions of notice failure in IP law. For example, when commentators complain that patent law does not furnish clear enough notice of the metes and bounds of a patented invention, they mean that the public cannot acquire the necessary information with reasonable effort despite the Patent Act's requirements.¹³

Four points follow from this observation, all of which are important to bear in mind when considering the analysis in Parts II and III below. First, notice is probabilistic and predictive. For example, a patent claim provides notice by helping a prospective inventor estimate the probability that her contemplated invention will infringe the claim. So too for trademark law. Someone wishing to parody a mark but concerned about possible infringement will look to the statute, case law, and other sources of notice in order to estimate the

¹¹ See, e.g., William McGeeveran, *Rethinking Trademark Fair Use*, 94 IOWA L. REV. 49, 122 (2008) (suggesting fee shifting); cf. Irina D. Manta, *Bearing Down on Trademark Bullies*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 853, 858-64 (2012) (evaluating the use of sanctions to deter trademark bullying).

¹² Sometimes the law requires notice and also specifies its form and content. For example, before the United States joined the Berne Convention in 1989, the federal copyright statute required authors to give formal notice of copyright ownership. 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 7.02[C] (2015).

¹³ See, e.g., Menell & Meurer, *supra* note 2, at 6.

probability her parody will infringe and the consequences if it does. In both cases, notice provides the basis for predicting expected liability from undertaking the use (i.e., the amount the user expects to lose if a court imposes liability discounted by the probability that liability will be imposed).¹⁴

Second, it follows from this first point that notice is a matter of degree. Its quality depends on the accuracy and the certainty of the expected liability estimate. To see this point more clearly, suppose that *B*, concerned about possible liability for using a mark, collects information about past infringement suits in similar cases. Suppose that some of those previous suits ended in large judgments for the plaintiff, some ended in small judgments, and some ended in judgments for the defendant.¹⁵ *B*, if rational, will take an average over all these cases to estimate her expected liability from using the mark. In other words, the mean of the distribution (with a judgment for the defendant counting as zero) is the same as a rational *B*'s estimate of expected liability.¹⁶

Now suppose that *B*'s research uncovers only cases ending in a trial judgment and misses weak cases that were dismissed early. Under these circumstances, the mean of the sample distribution, and thus *B*'s estimate of expected liability, will be too high relative to the true mean over all relevant cases, including those dismissed early. As a result, *B* might decide not to use the mark even though she would have used it had she had a more accurate estimate. Thus, the quality of notice is better when the estimate is closer to the true mean.

Next suppose that for some reason *B* finds only cases lying at the extremes—those with large judgments for the plaintiff and those with judgments for the defendant—and misses all the cases in between. The mean of this sample might be very close to the true mean—and thus a reasonably accurate estimate of expected liability—despite the missing cases. But the variance would be high because the sample consists of only extreme cases.¹⁷

¹⁴ For an explanation of expected liability and the more general concept of expected value, see ROBERT G. BONE, *THE ECONOMICS OF CIVIL PROCEDURE* 18-29 (2003).

¹⁵ A large or small judgment can be measured in terms of the size of monetary awards or the burdens imposed by injunctions of varying scope.

¹⁶ To illustrate, consider the following simple numerical example. Suppose that all the cases fall into one of three categories: 20% have large judgments in the amount of \$1 million per case; 60% have small judgments in the amount of \$50,000 per case; and 20% have judgments for the defendant. The mean of this distribution is: $0.2 \times 1,000,000 + 0.6 \times 50,000 + 0.2 \times 0 = \$230,000$. Thus, a rational *B* will assume an expected liability of \$230,000.

¹⁷ To illustrate with a simple example, suppose that the true distribution of cases is as follows: 20% have judgments of \$1,000,000 per case; 30% have judgments of \$600,000 per case; 30% have judgments of \$400,000 per case; and 20% have judgments for the defendant. The true mean of this distribution is: $0.2 \times 1,000,000 + 0.3 \times 600,000 + 0.3 \times 400,000 + 0.2 \times 0 = \$500,000$. Now suppose that for some reason *B* finds only the \$1,000,000 cases and the cases with judgments for the defendant. *B* will calculate the mean

This variance makes *B*'s estimate of expected liability uncertain, and if she is risk-averse, she might not make the parody at all even if the expected liability estimate, by itself, would not deter her.¹⁸

This observation leads to a third point. Evaluating the adequacy of notice is a normative judgment and depends on the choice of normative metric. In particular, a utilitarian metric, such as economic efficiency, can produce a different result than a rights metric. From an efficiency standpoint, one is justified in concluding that there is a failure of notice only when the marginal social benefits of providing better notice exceed the marginal costs of improving the notice scheme.¹⁹ By contrast, a rights metric deems notice deficient if the failure to give better notice impairs rights even if improving the notice is not cost-justified on efficiency grounds.²⁰ This point will be particularly important to the discussion of categorical defenses in Part III.²¹

Fourth, it is important to bear in mind that notice can work quite well without being certain (i.e., without having a small variance). To illustrate, consider a case in which a rational and risk-neutral innovator is uncertain about the scope of a potentially conflicting patent claim. She knows that there is some chance the claim will be construed very narrowly, some chance that it will be construed very broadly, and some chance that it will be construed in between. Under these circumstances, she will estimate the expected cost of future infringement based on the mean of this distribution. But—and this is the important point—the mean of the distribution should closely reflect the proper scope of the patent claim if courts on average construe patent claims correctly. As a result, our innovator will invest optimally from a social point of view despite her uncertainty. Hence the main point: notice can be very good even if it only communicates information about the average case.

Of course, this assumes risk-neutrality and perfect rationality. As noted above, if our innovator is risk-averse, she will be affected by the variance of the distribution as well as its mean, and should invest less as the variance increases, all other things equal. Moreover, innovators with bounded

of this distorted sample as follows: $0.5 \times 1,000,000 + 0.5 \times 0 = \$500,000$. The sample mean is exactly the same as the true mean of the underlying population and thus yields an accurate expected liability estimate despite the distorted sampling. However, the variance is large—larger than the variance of the actual population distribution.

¹⁸ For the effects of variance on risk-averse actors, see A. MITCHELL POLINSKY, AN INTRODUCTION TO LAW AND ECONOMICS 53-58 (2d ed. 1989).

¹⁹ See BESSEN & MEURER, *supra* note 2, at 219-23 (using an efficiency metric to analyze notice failure).

²⁰ For more on the difference between utilitarianism (of which efficiency analysis is an example) and rights analysis, see RONALD DWORKIN, TAKING RIGHTS SERIOUSLY 193 (1977), and JOHN RAWLS, A THEORY OF JUSTICE 3 (1971).

²¹ See *infra* notes 139-56 and accompanying text.

rationality are likely to arrive at different probability estimates.²² Costs matter, too. The lower the cost of acquiring information necessary to make a prediction, the more information will be obtained and the better the prediction should be.

In sum, notice must be evaluated along three dimensions: accuracy, certainty, and cost. Moreover, any evaluation depends on the normative metric. Efficiency balances the social benefits of better notice in terms of accuracy, certainty, and cost against the social costs of improving the notice scheme. By contrast, a rights metric gives priority to certain interests with special social value and focuses on how notice affects those interests.

B. *Notice in Trademark Law*

In analyzing notice failure, it is useful to distinguish three different aspects of IP in which notice can be a problem: ownership, subject matter boundaries, and the scope of rights and remedies.²³ While notice problems in copyright and patent manifest in all three areas, notice problems in trademark law focus mostly on the scope of rights.

First, consider ownership. The fact that copyright does not require publication or registration complicates the task of identifying owners of conflicting copyrights.²⁴ As a result, a copyright owner can keep her copyrighted work private and still assert rights against another creator. Registration and publication are both required for patents, but the costs of searching the registry and identifying conflicting claims can be prohibitive.²⁵ The results are well known: orphan works chill creativity in copyright, and NPEs create holdup problems in patent that can discourage invention.²⁶

²² For a discussion of bounded rationality, see Russell Korobkin & Thomas S. Ulen, *Law and Behavioral Science: Removing the Rationality Assumption from Law and Economics*, 88 CALIF. L. REV. 1051 (2000).

²³ For a similar classification of notice problems, see Menell & Meurer, *supra* note 2, at 7-13 (dividing notice problems into two “buckets”: (i) notice of boundaries and ownership, and (ii) notice of the scope of the property rights).

²⁴ The 1976 Copyright Act protects unpublished as well as published works and requires registration only as a condition to suit but not as a requirement for rights. *See* 17 U.S.C. §§ 102, 411 (2012).

²⁵ *See* BESSEN & MEURER, *supra* note 2, at 55 (explaining that patent searches cost “about a hundred times more” than land title searches). This problem is a function of both the huge number of patents and the difficulty of being certain that any particular patent covers the contemplated invention. *See id.* at 54-71.

²⁶ *See* U.S. COPYRIGHT OFFICE, REPORT ON ORPHAN WORKS 1 (2006) (addressing “the issue of ‘orphan works,’ a term used to describe the situation where the owner of a copyrighted work cannot be identified and located by someone who wishes to make use of the work in a manner that requires permission of the copyright owner”); *see also* Lemley & Melamed, *supra* note 6, at 2125-26 (describing the different types of NPEs).

Trademark is different. Trademark rights in the United States depend critically on public use.²⁷ To be protected, a mark must be used in trade, and the use must be sufficiently public to furnish notice to others that the senior user claims rights in the mark.²⁸ Moreover, if for some reason a junior user does not learn about a prior use, its lack of notice does not prevent it from acquiring trademark rights in its own geographic area.²⁹ It is true that this result no longer holds when the senior user's mark is registered, but then registration provides its own notice.³⁰ Finally, because of the abandonment doctrine, a mark owner must continue to use the mark publicly in order to retain rights; otherwise, the mark enters the public domain free for anyone to use.³¹ This makes it hard for a trademark owner to conceal its mark and still retain trademark rights in it.³²

Next consider subject matter boundaries. In patent law, the patent owner defines the subject matter of the patent through written patent claims. This means that subject matter boundaries depend on how the claim is construed, and claim construction is a notoriously messy business plagued by pervasive uncertainty.³³ In copyright law, the boundaries of a protected work of

²⁷ 2 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION §§ 16:1, 16:6-7 (4th ed. 2009). The secondary meaning requirement can produce some uncertainty about the existence of rights in descriptive marks. *Id.* § 11:15. This is not likely to be a problem, however, for the favored uses that I focus on in this Article because those uses tend to target well-known marks that clearly have secondary meaning.

²⁸ See *Couture v. Playdom, Inc.*, 778 F.3d 1379, 1381 (Fed. Cir. 2015) (holding that to register a service mark under the Lanham Act, the mark must not only be used publicly in an “open and notorious” way but must also be used in connection with the actual provision, not just the offering, of the service); *Zazú Designs v. L’Oréal, S.A.*, 979 F.2d 499, 503 (7th Cir. 1992) (“Only active use . . . notifies other firms that the mark is [associated with particular goods].”); see also MCCARTHY, *supra* note 27, §§ 16:1-14 (discussing the types of use necessary to acquire trademark rights and establish priority).

²⁹ This is the result of the common law doctrine that a good faith junior user in a remote area does not infringe the senior user's mark and can acquire rights of its own in that area. See 5 MCCARTHY, *supra* note 27, § 26:2 (explaining the Tea Rose-Rectanus doctrine). For this doctrine to apply, the junior user must be located outside the geographic area in which the senior user's mark already enjoys a substantial reputation. *Id.* But this requirement does not undercut the notice function when the senior user's reputation itself provides notice.

³⁰ Registration notice, however, is only as good as the Patent and Trademark Office's database.

³¹ See 3 MCCARTHY, *supra* note 27, § 17:9.

³² There is, however, one possible scenario where holdup might still occur. Suppose a senior user limits its use to a small area, shuns the Internet, and does not register the mark. A junior user could adopt the same mark, unaware of the senior user's prior use, and then face a conflict when it expands into the senior user's market. I have no idea whether or how often this scenario occurs. The Internet should make it unlikely, however.

³³ See BESSEN & MEURER, *supra* note 2, at 54-62 (“[P]atent applicants sometimes game

authorship are defined primarily in the course of infringement litigation and by the application of relatively open-ended rules, such as the substantial similarity test, the idea-expression dichotomy, and the merger doctrine.³⁴

Trademark is similar to copyright in this regard. Trademark law does not protect marks as such; it protects the information content of marks, that is, the mark's goodwill. Moreover, a trademark owner suing for infringement does not first define its goodwill and then show that the defendant injured or appropriated that goodwill.³⁵ Instead, the owner proves likelihood of consumer confusion ("LOC"), and this determination defines the boundaries of protectable goodwill.³⁶ Thus, subject matter boundaries in trademark law are largely defined by the scope of trademark rights, just as they are in copyright.³⁷

the system by drafting ambiguous claims that can be read narrowly during examination . . . and broadly during litigation . . ."). The ex ante approach used in patent law is known as "peripheral claiming," and the ex post approach used in copyright is known as "central claiming." Dan L. Burk & Mark A. Lemley, *Fence Posts or Sign Posts? Rethinking Patent Claim Construction*, 157 U. PA. L. REV. 1743, 1744-46 (2009) (explaining the concepts of peripheral and central claiming); Jeanne C. Fromer, *Claiming Intellectual Property*, 76 U. CHI. L. REV. 719, 721 (2009) (discussing peripheral claiming's role in patent law).

³⁴ A copyright-protected work must also be fixed in a tangible medium of expression, which helps reduce uncertainty to some extent. See 17 U.S.C. § 102 (2012). But the fixation requirement has limited utility in determining the boundaries of protection for a work because a work's boundaries extend beyond the literal content of its fixed form.

³⁵ Goodwill, of course, is not something definite with boundaries capable of clear definition and demarcation. In fact, the concept of goodwill has always eluded precise definition. See Bone, *supra* note 7, at 569-72 (reviewing the different attempts to define the term "goodwill").

³⁶ *Id.* at 558. I focus on confusion-based theories, but it is worth mentioning that trademark law also imposes liability for dilution, which does not require confusion. See, e.g., *Moseley v. V Secret Catalogue, Inc.*, 537 U.S. 418, 432-33 (2003) (clarifying the basis of dilution claims in trademark law). Dilution occurs when the defendant's use impairs the mark's selling power either by tarnishing it with unsavory associations or by blurring its distinctiveness with multiple uses on different products. See *id.* at 433. I concentrate on confusion, however, because it is the core liability theory in trademark law. Dilution has limited scope and is highly controversial. Moreover, dilution is also subject to multi-factor tests that create similar notice problems. See, e.g., 15 U.S.C. §§ 1125(c)(2)(A)-(B) (2012) (listing factors for determining whether a mark is famous and whether the defendant's use dilutes by blurring). For the history of the dilution theory and its controversial status in trademark law, see Bone, *supra* note 7, at 604-06, and Robert G. Bone, *Schechter's Ideas in Historical Context and Dilution's Rocky Road*, 24 SANTA CLARA COMPUTER & HIGH TECH. L.J. 469 (2008).

³⁷ This is particularly true for product market boundaries. A trademark owner can protect its mark against uses on noncompeting products only insofar as those uses are likely to cause confusion (or dilution). Still, likelihood of confusion is also relevant to the geographic reach of trademark rights, especially for owners of unregistered marks and for the scope of

This means that the primary source of notice problems in trademark law has to do with ascertaining the scope of a trademark owner's rights. Moreover, what makes the scope of rights so uncertain is the vagueness of the likelihood-of-confusion test ("LOC test") for infringement.³⁸ The LOC test focuses on whether the defendant's use is likely to confuse an appreciable number of consumers about whether the plaintiff actually sells the defendant's products ("source confusion") or is connected with the defendant or its products through sponsorship or some other type of relationship ("sponsorship confusion").³⁹ Courts balance a number of factors to make this determination, including the strength of the plaintiff's mark, the similarity of marks, the proximity or similarity of the products, and the defendant's intent.⁴⁰ Most importantly, a trademark owner can obtain injunctive relief simply by proving a *likelihood* of confusion without ever showing that any consumer is actually confused or that any confusion will cause actual harm.⁴¹

The LOC test has many flaws, but the main one for our purposes is its vagueness.⁴² Not only do different circuits use different factors, but different judges within the same circuit weigh the factors differently depending, among other things, on how those judges understand the purposes of trademark law.⁴³ For example, some judges insist on using trademark law to prevent free riding on a trademark owner's goodwill without much regard for the existence of consumer confusion, and they apply the LOC test broadly to further that goal.⁴⁴

the limited area defense to a registered mark. *See, e.g., Dorpan S.L. v. Hotel Meliá, Inc.*, 728 F.3d 55, 69 (1st Cir. 2013) (discussing the limited area defense).

³⁸ *See, e.g., Robert G. Bone, Taking the Confusion Out of "Likelihood of Confusion": Toward a More Sensible Approach to Trademark Infringement*, 106 NW. U. L. REV. 1307 (2012).

³⁹ *See* 4 MCCARTHY, *supra* note 27, §§ 23:1-4.

⁴⁰ *See* Barton Beebe, *An Empirical Study of the Multifactor Tests for Trademark Infringement*, 94 CALIF. L. REV. 1581, 1589, 1591 (2006) (describing the wide variety of factors courts use to assess trademark infringement under the LOC test).

⁴¹ 4 MCCARTHY, *supra* note 27, § 23:12. However, instances of actual confusion, if proven, can be highly probative of likely confusion. *Id.* § 23:13. Nor need the plaintiff show that a large fraction of consumers is at risk of being confused. Some courts have found liability with survey evidence showing that only ten to fifteen percent of consumers experienced confusion. *See id.* § 23:2 & n.3 (noting cases where courts have found a small number of confused consumers sufficient). It should be noted, however, that a plaintiff must prove actual confusion and resulting harm to recover damages. *5 id.* § 30:74.

⁴² I have discussed these flaws elsewhere. *See, e.g., Bone, supra* note 38, at 1336-48.

⁴³ *See* Beebe, *supra* note 40, at 1591, 1596-97 (summarizing in chart form the different factors each circuit considers and reporting "substantial intercircuit variation in plaintiff multifactor test win rates").

⁴⁴ *See* Bone, *supra* note 7, at 592-615 (describing the influence of free-riding concerns); Mark A. Lemley & Mark P. McKenna, *Owning Mark(ets)*, 109 MICH. L. REV. 137, 146 (2010) (critiquing the anti-free-riding impulse).

Other judges seem more strictly wedded to information transmission and consumer-protection and they construe the LOC test more narrowly to align with those goals.⁴⁵

All of this creates uncertainty, which interferes with prediction and undermines notice. It is important, however, not to exaggerate these problems. Professor Barton Beebe's empirical study of the LOC test reveals predictable patterns.⁴⁶ Notably, LOC decisions seem to be driven by only a few factors.⁴⁷ Mark similarity is "by far the most influential" factor; mark strength correlates strongly with an LOC determination, and the degree of relatedness of the goods or services is highly significant.⁴⁸ Moreover, an LOC finding is virtually guaranteed when a court finds that the defendant intended to deceive consumers.⁴⁹ Even so, it is reasonable to suppose that in many cases LOC predictions will be highly uncertain given the open-ended nature of the multifactor test and judicial variance in applying it.⁵⁰

II. THE COSTS OF NOTICE FAILURE IN TRADEMARK LAW

This Part first examines the costs of uncertain notice in general and then focuses on the most salient costs for trademark law. Although more empirical information is needed, tentative conclusions are possible even with limited empirics.

⁴⁵ See, e.g., *Kraft Foods Group Brands, LLC v. Cracker Barrel Old Country Store, Inc.*, 735 F.3d 735, 739 (7th Cir. 2013).

⁴⁶ See Beebe, *supra* note 40, at 1601 ("[D]ecision makers . . . make a decision after considering a remarkably low number of decision-relevant factors.").

⁴⁷ See *id.* at 1602.

⁴⁸ *Id.* at 1600 (discussing which factors most influence the outcome of the LOC test).

⁴⁹ *Id.* at 1628 ("[A] finding of bad faith intent creates, if not in doctrine, then at least in practice, a nearly un-rebuttable presumption of a likelihood of confusion."). Thus, if *X* is aware of an existing well-known mark and contemplates using a very similar mark on goods consumers expect the senior user to sell, *X* can predict a very high probability that a court will find LOC.

⁵⁰ Notice also depends on a third party's ability to access the information necessary for evaluating the different LOC factors, and ease of access varies by factor. For example, information about mark similarity is easily acquired by comparing the sound, sight, and meaning of the marks in context, and information about product proximity is readily available by comparing the products. See 4 MCCARTHY, *supra* note 27, § 23:21 (discussing the "sound, sight, and meaning" test for mark similarity). While the trademark owner is likely to possess some private information about the strength of its mark, mark strength can also be proved through surveys, or sometimes circumstantially—and maybe less expensively—by relying on sales volume, advertising expenditures, and duration of use. 2 *id.* § 15:48.

A. *Costs in General*

There are four different types of notice-related costs. Poor notice can discourage innovation, impede efficient licensing, increase information costs by directing users to more costly search strategies, and add litigation costs.⁵¹

1. Discourage Innovation

Notice failure can adversely affect incentives to innovate.⁵² This is especially true for uncertainty about ownership in copyright and patent. One of the major concerns has to do with the risk of holdup. A patent troll, for example, can hide its identity and wait to assert its patent rights until after the inventor has sunk substantial costs.⁵³ Also, a copyright owner of an orphan work, whose identity is hard to trace because of a long chain of unrecorded copyright transfers, might emerge only after a new work has been created and demand a high licensing fee.⁵⁴ These risks can deter *ex ante* investment in innovation.⁵⁵ And uncertainty about subject matter boundaries and rights scope only compounds these problems.⁵⁶

Innovation costs, however, are less significant for trademark law. For one thing, notice of ownership is not nearly as serious a problem in trademark as it is in patent and copyright, and opportunities for holdup are much more limited because of the public use requirement.⁵⁷ Moreover, trademark law is not primarily concerned with encouraging innovation in the way patent and copyright are.⁵⁸ To be sure, uncertainty about the scope of rights might adversely affect other incentives more relevant to trademark law, such as incentives to advertise or invest in developing brands. But firms advertise extensively and build brands today even with the vague LOC test, and it is not clear how much additional social benefit larger investments are likely to produce.⁵⁹ In addition, most trademark users are firms rather than individuals,

⁵¹ See generally Menell & Meurer, *supra* note 2, at 9-13 (discussing the potential costs of poor notice).

⁵² See *id.* at 5 (discussing how the “proliferation of [intellectual property] rights, as well as the uncertainty regarding their validity and scope, can impose substantial costs on other creators, thereby undermining progress”).

⁵³ See, e.g., *id.* at 2-4.

⁵⁴ See U.S. COPYRIGHT OFFICE, *supra* note 26, at 1 (describing the infringement risks facing users of orphan works).

⁵⁵ See Tun-Jen Chiang, *Trolls and Orphans*, 96 B.U. L. REV. 691, 695 (2016) (“The harm of holdup comes from its deterrence effect on productive investment”); Lemley & Melamed, *supra* note 6, at 2118-25 (“Complaints that trolls are perverting the patent system or interfering with innovation are legion.”).

⁵⁶ See Menell & Meurer, *supra* note 2, at 5.

⁵⁷ See *supra* notes 24-32 and accompanying text.

⁵⁸ See Lemley & McKenna, *supra* note 44, at 173-74.

⁵⁹ See *id.* at 176-77 (discussing incentives to invest in a brand).

and generally firms are less risk-averse and better able to make expected liability calculations.

Still, there are special cases where the vague LOC test might discourage innovative and socially valuable uses of marks. These cases involve users who are risk-averse individuals or small firms with limited resources to defend costly litigation brought by established trademark owners.⁶⁰ As discussed more fully below, these types of users are especially vulnerable to litigation threats, and when those threats discourage socially valuable uses, the chilling costs can be quite substantial.⁶¹

2. Impede Licensing

Licensing is particularly important in patent and copyright because it helps incentivize both upstream and downstream creativity. It helps incentivize upstream creativity by making it possible for innovators to obtain economic returns on their investments, and thereby finance their fixed costs of creation, even when they cannot commercialize innovations on their own.⁶² It helps incentivize downstream creativity by facilitating the diffusion of IP to downstream inventors and authors.

By creating uncertainty, notice problems can impede effective licensing. For example, uncertainty about ownership, boundaries, and rights-scope can lead parties to assign such different estimates to the value of a license that they are unable to reach agreement.⁶³ Also, uncertainty about rights reduces the value of any license, which reduces the royalty payments that upstream innovators receive and thus dampens incentives to create.⁶⁴

Licensing, however, plays a much less important role in trademark law because trademark is not about incentivizing innovation.⁶⁵ To be sure, there are some settings in which trademark licensing is important. The modern franchise

⁶⁰ See William T. Gallagher, *Trademark and Copyright Enforcement in the Shadow of IP Law*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 453, 478-79 (2012) (describing how small companies are vulnerable to IP lawsuits); Leah Chan Grinvald, *Policing the Cease and Desist Letter*, 49 U.S.F. L. REV. 411, 427-37 (2015) (examining the difficulties small businesses face in responding to litigation threats).

⁶¹ See *infra* notes 71-99 and accompanying text.

⁶² See BESSEN & MEURER, *supra* note 2, at 178-81 (positing that licensing “might alleviate the difficulties that small inventors face in developing and commercializing inventions”).

⁶³ See *id.* at 182-83.

⁶⁴ See *id.* at 183-86.

⁶⁵ Historically, trademark law allowed only very limited licensing of marks. See 3 MCCARTHY, *supra* note 27, § 18:39. It is true that trademark law helps firms sell their innovations and can also help them secure a head-start advantage, which facilitates the recouping of fixed creation costs. But this is a byproduct of trademark law, not a central goal.

arrangement, for example, depends critically on licensing marks.⁶⁶ But franchising takes place today without any apparent ill effects from notice problems. Also, firms today count on licensing popular brands for use on T-shirts, coffee cups, and other merchandise.⁶⁷ But there is no reason to believe that willing licensees have trouble reaching agreement because of uncertainty about the ownership or scope of trademark rights.⁶⁸

3. Increase in Information Costs

When formal notice fails, parties might try to obtain the same information in more costly ways. For example, greater uncertainty about liability might lead prospective trademark users to consult lawyers more often.⁶⁹ But it is unclear how much this would increase information costs.⁷⁰ Trademark law is technical enough that a prospective user worried about potential liability and able to afford a lawyer has good reason to seek legal advice entirely apart from any notice problems. Moreover, changes that make the LOC test more certain can produce costs of their own. For example, formulating liability in terms of simple and clear rules improves notice, but it also generates problems of under- and over-inclusion. I shall argue later in this Article that modifying the LOC test is desirable, but not because it reduces information costs.

4. Increase in Litigation-Related Costs

This leaves litigation-related costs. It is important to distinguish between the direct costs of litigation and the indirect costs of litigation threats. Direct costs include the actual costs of litigating and deciding a case. Indirect costs include the social costs created when parties are discouraged by litigation threats from making lawful uses of a work, invention, or mark because of the fear of incurring high direct costs. For example, trademark owners regularly send

⁶⁶ See *id.* § 18:65.

⁶⁷ See generally Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461 (2005).

⁶⁸ Moreover, it is not at all clear how much trademark law ought to care about this type of licensing. *Id.* at 471-89. In any event, the use of trademark law to protect merchandising markets is highly controversial, lies quite far from trademark's traditional core, and fits trademark policies rather poorly. *Id.*

⁶⁹ See Louis Kaplow, *Rules Versus Standards: An Economic Analysis*, 42 DUKE L.J. 557, 580-81 (1992) (discussing the incentives to seek legal advice under rules and standards).

⁷⁰ The same might be true for copyright and patent, though for different reasons. Today, copyright rights are uncertain, yet it seems likely that authors do not routinely consult lawyers in advance of creating works. Nor does it seem as though they would do so more frequently if uncertainty increased marginally. Inventors probably consult lawyers more often than authors do, but it is not clear how sensitive their incentives are to the degree of legal uncertainty. And in the case of patents, whatever advice is rendered in advance might save costs in preparing the patent application, so total costs might not increase by much.

cease-and-desist letters threatening litigation.⁷¹ These threats might not have a major impact on large and wealthy companies, but they can intimidate risk-averse individuals and small firms.⁷²

The effectiveness of a litigation threat depends on two variables: (1) the probability that a lawsuit will be filed, survive early dismissal, and proceed far enough into discovery to impose meaningful costs on a defendant, and (2) the magnitude of those costs if this litigation were to occur. As for the first variable, it should be fairly easy in most cases for a trademark owner to allege enough to survive a motion to dismiss and push the suit into discovery, even when the challenged use is perfectly lawful.⁷³ To be sure, litigation is costly for a trademark owner too, but there are reasons why trademark owners would be willing to incur these costs. For one thing, a trademark owner might not know for sure that its lawsuit is meritless, given the uncertainty associated with the LOC test.⁷⁴ More importantly, a trademark owner has reason to file even a clearly meritless suit in order to leverage a favorable settlement and bolster a credible threat to sue in the future.⁷⁵ As a result, someone contemplating use of a mark should anticipate a significant probability of having to litigate at least through the discovery stage if he ignores a cease-and-desist letter.⁷⁶

The second variable—the magnitude of the litigation costs incurred when a trademark suit survives early dismissal and proceeds to discovery—requires a bit more discussion. There are reasons to expect discovery and summary judgment costs to be quite high in trademark suits. The LOC test places a

⁷¹ See McGeveran, *supra* note 11, at 64.

⁷² See Gallagher, *supra* note 60, at 478-79; Grinvald, *supra* note 60, at 427-37.

⁷³ Of course, litigation threats are not a problem when they chill uses that are actually infringing under the substantive legal standard, at least when the infringement produces substantial trademark-related harm. Indeed, stopping an infringing use before it takes place is a social benefit. The problem is that the LOC test does a poor job of signaling prospective users whether their contemplated use infringes or not.

⁷⁴ This uncertainty would have to be fairly large, however, for the lawsuit to have positive expected value. For example, the AIPLA cost figures mentioned below, *see infra* notes 79-80 and accompanying text, estimate a total cost of \$300,000 per side to litigate a case worth about \$1 million all the way through trial. With these figures, the probability of success would have to exceed 30% for suit to have positive expected value.

⁷⁵ For an analysis of incentives to file frivolous suits, see Robert G. Bone, *Modeling Frivolous Suits*, 145 U. PA. L. REV. 519 (1997).

⁷⁶ And possibly beyond summary judgment given the LOC test's heavy reliance on case-specific facts. *See* 6 MCCARTHY, *supra* note 27, § 32:120. A more rigorous analysis of filing incentives would have to take into account that a user's response to a cease-and-desist letter and the resulting decision of the trademark owner whether to sue are actually strategic moves in a signaling game. Thus, a refusal to comply with a cease-and-desist letter should prompt the trademark owner to update its prior beliefs about the defendant's willingness to fight a lawsuit.

premium on expensive surveys and expert testimony⁷⁷ and creates many opportunities for adversarial litigation.⁷⁸

The empirical information we have on the costs of trademark litigation, while limited, is consistent with these predictions. A 2013 survey of IP practitioners conducted by the American Intellectual Property Law Association (“AIPLA”) provides some information about the costs of trademark suits through discovery (and also through trial).⁷⁹ The median figures vary from lows of \$150,000 through discovery (and \$300,000 through trial) for suits with less than \$1 million at risk, up to highs of \$750,000 through discovery (and \$1.5 million through trial) for suits with more than \$25 million at risk.⁸⁰

These figures are substantial.⁸¹ To be sure, they are less than the comparable figures for patent suits—anywhere from one-half to one-quarter as much according to the AIPLA study.⁸² But they are probably greater than costs in most other types of litigation, except perhaps for litigation involving very high stakes.⁸³ In the end, what matters most for chilling effects is the subjective

⁷⁷ On surveys generally and the increasing judicial demand for survey evidence, see 6 MCCARTHY, *supra* note 27, §§ 32:158, 32:173.50, 32:195.

⁷⁸ A recent multivariate analysis conducted by the Federal Judicial Center found that litigation costs increase significantly, for both plaintiffs and defendants, with the size of the stakes, factual complexity, and the importance of nonmonetary stakes. This study also found that costs increase for plaintiffs with the number of expert depositions, and for defendants with the level of discovery in general. EMERY G. LEE III & THOMAS E. WILLGING, LITIGATION COSTS IN CIVIL CASES: MULTIVARIATE ANALYSIS 5-8 (2010).

⁷⁹ See AM. INTELL. PROP. LAW ASS’N, REPORT OF THE ECONOMIC SURVEY 35 (2013). The results are reported as medians for four different categories of suit depending on the amount at risk: (1) those with less than \$1 million at risk, (2) those with \$1 million to \$10 million at risk, (3) those with \$10 million to \$25 million at risk, and (4) those with over \$25 million at risk. *Id.* The amount at risk “refers to the financial impact of an adverse judgment.” *Id.* app. B at 7.

⁸⁰ *Id.* at 35. The other median figures are \$350,000 through discovery and \$550,000 through trial for suits with \$1 million to \$10 million at risk, and \$500,000 through discovery and \$1 million through trial for suits with \$10 million to \$25 million at risk. *Id.*

⁸¹ However, one should be cautious about using the AIPLA survey results. For one thing, surveys are susceptible to respondent bias and have other methodological limitations. Also, it is unclear to me whether the AIPLA results include cases that settle before discovery, so selection effects might produce results that are either higher or lower than the true median depending on what types of cases settle.

⁸² Compare AM. INTELL. PROP. LAW ASS’N, *supra* note 79, at 35 (providing medians for trademark litigation), with *id.* at 34 (providing medians for patent litigation). This is important because the most intense concerns about IP litigation costs today tend to focus on patent cases. See, e.g., BESSEN & MEURER, *supra* note 2, at 120-46.

⁸³ I say “probably” because it is difficult to find reliable empirical data comparing IP litigation costs to those in other types of cases. Several Federal Judicial Center (“FJC”) studies shed some light on the subject, although the results are only suggestive. For example, a recent multivariate study of litigation costs, based on survey results, found that

impression of the prospective user, and while impressions vary with the user and type of use, six- to seven-figure litigation costs should intimidate many prospective users.

B. *Evaluating the Sufficiency of Trademark Notice*

Thus, the chief problem with poor trademark notice involves the chilling effects of trademark litigation. The vague LOC test contributes to this problem by making it difficult to predict in advance whether a use will be held infringing and by making it costly to defend a trademark suit. Still, the question is whether the chilling effect problem is serious enough to warrant a regulatory response. The answer to that question depends on the social value of the uses that are placed at risk and the probability that a socially valuable use will be chilled. Both factors are discussed below.

IP cases impose substantially higher costs than other types of litigation. LEE & WILLGING, *supra* note 78, at 8 (“Intellectual Property cases had costs almost 62% higher . . . than the baseline [for defendants].”). A now somewhat dated study from 1997, which, like the other studies, relies on attorney surveys, provides some data to compare with trademark cases. THOMAS E. WILLGING ET AL., DISCOVERY AND DISCLOSURE PRACTICE, PROBLEMS, AND PROPOSALS FOR CHANGE: A CASE-BASED NATIONAL SURVEY OF COUNSEL IN CLOSED FEDERAL CIVIL CASES (1997). This study found that “[d]iscovery expenses typically amount to about 3% of the monetary stakes” across all cases in which some discovery takes place (including but not limited to IP cases). *Id.* at 15-16. Using this 3% figure, the average discovery costs for cases with \$1 million at stake is \$30,000 (.03 × \$1 million). This estimate is much lower than the AIPLA median of \$150,000 through total discovery for trademark cases in this range. *See* AM. INTELL. PROP. LAW ASS’N, *supra* note 79, at 35. Doing the same for cases with \$10 million at stake yields an average amount for discovery of \$300,000 (.03 × \$10 million), which is less than the median figure of \$350,000 for trademark cases in the \$1 million to \$10 million range. *Id.* The results for cases in the two high-stakes AIPLA categories show little difference. *Id.* But that is to be expected for very high-stakes litigation, given the declining marginal utility of litigation investment.

One should bear in mind that there are important differences between the AIPLA and FJC studies. For instance, the 2010 FJC multivariate study does not break out trademark cases and includes patent cases, which are notoriously costly. *See* LEE & WILLGING, *supra* note 78, at 11-14. Moreover, the 1997 FJC study reports only discovery costs, whereas the AIPLA figures include *all* costs through discovery. In addition, the 3% FJC figure for discovery costs as a percentage of stakes focuses only on suits for monetary relief. *But see* WILLGING ET AL., *supra*, at 17 (reporting that discovery costs are not affected by the presence of nonmonetary stakes). Finally, the FJC results are not broken down by stakes in the way the AIPLA results are. Still, the data suggest that discovery costs and total litigation costs might be significantly higher for moderate-stakes trademark suits than for non-IP litigation.

1. Socially Valuable (Favored) Uses

Most of the concern today focuses on four types of use: (1) the use of similar product-design trade dress (i.e., product features that add significant consumption value to a product) to sell competing products when that trade dress is also used by consumers as a source-identifying mark; (2) the use of marks of any kind by third parties to communicate accurate information about their own goods or services; (3) the use of marks in socially valuable technological innovations; and (4) the use of marks for parody or other expressive purposes.⁸⁴ These uses, which I shall call “favored uses,” are singled out because they have special social value and because they are thought to be particularly vulnerable to the threat of a trademark lawsuit.⁸⁵

In particular, allowing competing firms to copy trade dress enhances product market competition and prevents trademark owners from monopolizing features that consumers want when they buy a product.⁸⁶ Similarly, allowing

⁸⁴ See, e.g., McGeeveran & McKenna, *supra* note 10, at 257-58 (offering a similar list of socially important uses).

⁸⁵ There is a distinct, but related, problem that I do not discuss here, but that is addressed in Professor Dogan’s article for this Symposium: the problem of trademark bullying. See Stacey Dogan, *Bullying and Opportunism in Trademark and Right-of-Publicity Law*, 96 B.U. L. REV. 1293 (2016). Roughly speaking, trademark bullying refers to a situation where a large trademark owner “beats up” on an individual or small business that uses its mark in a relatively low-key way unlikely to cause injury. For example, Starbucks once sued a small coffee shop in New Hampshire for calling its dark roast coffee “Mister Charbucks.” See *Starbucks Corp. v. Wolfe’s Borough Coffee, Inc.*, 736 F.3d 198, 200 (2d Cir. 2013). Chick-fil-A once sent a cease-and-desist letter to a Vermont folk artist who sold T-Shirts displaying the phrase “Eat More Kale,” and then fought the artist’s attempt to register the phrase. See Jessica M. Kiser, *To Bully or Not to Bully: Understanding the Role of Uncertainty in Trademark Enforcement Decisions*, 37 COLUM. J.L. & ARTS 211, 213-15 (2014). Although trademark bullying overlaps with my topic, it is different in important respects. In general, trademark bullying, as the term is used by commentators and courts, seems to require (1) a large disparity of size, power, and wealth between the trademark owner and the user, and (2) either a frivolous trademark claim, or a legitimate claim brought against a use that is not causing any significant trademark-related harm. Thus, trademark bullying need not involve a favored use. Moreover, the favored use cases need not involve the sort of disparity that typifies trademark bullying. More generally, protecting favored uses is about the special value of the use, whereas objections to trademark bullying have more to do with the overly aggressive conduct of the trademark owner.

⁸⁶ I focus here on so-called “product design trade dress,” which includes product features with significant consumption value, that is, features that help fulfill what consumers want when they buy the product. Trademark problems arise when these features also act as source-identifiers. For example, consumers might assume that all clothing with a distinctive and attractive floral design, or all wrenches with a certain shape useful for leveraging, come from the same source. In these cases, the floral pattern and the wrench shape add consumption value to their respective products, but they also act as source-identifying marks

firms to use marks to identify competitors in comparative advertising supplies valuable information to the marketplace, as does allowing firms to use marks to identify products as used versions of an original trademarked product and allowing them to rely on the marks of others to truthfully describe their own products.⁸⁷ All these uses are valuable because they promote vigorous competition.

Technological uses implicate similar competition values, but with an additional concern about deterring innovation. For example, the Internet makes it possible to collect and present information about competing brands in ways that facilitate easy comparisons of price and quality.⁸⁸ If the only reasonable way to identify products is by brand name, the operators of these sites must use trademarks to communicate effectively with consumers. Trademark owners who object to the more intense price competition that these Internet sites create often threaten litigation in an effort to stop the use and make the site more difficult to operate.⁸⁹ As a result, potential innovators faced with these risks might invest less or not invest at all, in which case society loses the benefit of socially valuable Internet uses.⁹⁰

The use of marks for core expressive purposes involves different considerations. Expressive use triggers the right to freedom of expression. For example, the use of the BARBIE mark in the title of a song parodying Barbie dolls implicates free speech values, as does the use of the University of Alabama logos and uniforms in paintings commemorating great moments in Alabama football history.⁹¹ Gripe sites critical of a firm or its products

for consumers. *See* Robert G. Bone, *Trademark Functionality Reexamined*, 7 J. LEGAL ANALYSIS 183 (2015) (analyzing the functionality doctrine).

⁸⁷ *See, e.g.*, Nitro Leisure Prods., L.L.C. v. Acushnet Co., 341 F.3d 1356 (Fed. Cir. 2003) (dealing with used goods); R.G. Smith v. Chanel, Inc., 402 F.2d 562 (9th Cir. 1968) (dealing with comparative advertising).

⁸⁸ *See, e.g.*, Toyota Motor Sales, U.S.A., Inc. v. Tabari, 610 F.3d 1171 (9th Cir. 2010); Century 21 Real Estate Corp. v. LendingTree, Inc., 425 F.3d 211 (3d Cir. 2005).

⁸⁹ *See Tabari*, 610 F.3d at 1175 (“Toyota is using this trademark lawsuit to make it more difficult for consumers to use the Tabaris to buy a Lexus.”). Trademark owners argue that the appearance of the mark on the site will confuse consumers into believing that the site belongs to the trademark owner, or more commonly that the trademark owner endorses the site or is involved with it or its owner in some other way.

⁹⁰ The user might prevail in the end, but the open-ended LOC test makes it difficult to predict in advance.

⁹¹ *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 900 (9th Cir. 2002) (recognizing free speech values implicated by the use of “Barbie” in the “Barbie Girl” song); *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1276 (11th Cir. 2012) (recognizing the importance of artistic expression in the use of Alabama football team trade dress in paintings of Alabama football scenes).

implicate both expression and competition values.⁹² When a trademark owner threatens to sue, claiming that the expressive use risks sponsorship confusion—i.e., that consumers might believe the trademark owner endorses the expression or has authorized the use—the owner’s threat can chill socially valuable forms of expression.

This distinction between competition-enhancing uses and expressive uses is important. Competition-enhancing uses, such as the use of a mark to identify products on a comparative shopping website, are valued mainly for efficiency reasons, and as such can be limited on efficiency grounds.⁹³ By contrast, expressive uses are protected by the right to freedom of expression, which, as a right, trumps or significantly constrains reliance on efficiency as a justification for limiting a use. Uses protected by rights can be limited only on narrow grounds: the use must interfere with other rights of comparable moral worth or produce extremely high social costs. Part III develops these points in more detail.

2. Probability of Chilling Socially Valuable Uses

The second factor affecting the seriousness of the chilling effect problem is the likelihood that a favored use will be chilled. While reliable empirical evidence is limited, it seems reasonable to suppose that chilling effects could be severe in many cases, although their magnitude is likely to vary by type of use and type of user.⁹⁴

For example, chilling effects are more likely to be serious for expressive uses than for trade dress uses. Defendants in trade dress suits are often corporate competitors of the trademark owner, who are likely to have sufficient resources to defend a frivolous suit vigorously.⁹⁵ By contrast, many of the

⁹² See, e.g., *Boseley Med. Inst., Inc. v. Kremer*, 403 F.3d 672, 676-80 (9th Cir. 2005) (finding no liability for operating a noncommercial gripe site).

⁹³ To be sure, the use on a comparative shopping website also performs an expressive function by communicating information to consumers, but ordinary uses of trademarks do that as well and ordinary use is not treated as core expression within the First Amendment. At best, it is commercial speech deserving much more limited constitutional protection.

⁹⁴ See, e.g., *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 213-14 (2001) (referring to the risk of “anticompetitive strike suit[s]” and concluding that “[c]onsumers should not be deprived of the benefits of competition with regard to the utilitarian and esthetic purposes that product design ordinarily serves by a rule of law that facilitates plausible threats of suit against new entrants”); McGeveran, *supra* note 11, at 61-66 (noticing that many critics believe that cease-and-desist letters chill a good deal of socially valuable use). There is even a website devoted to compiling information about cease-and-desist notices. CHILLING EFFECTS, <https://chillingeffects.org/> [<https://perma.cc/7MU2-C6DL>].

⁹⁵ *But see* McGeveran, *supra* note 11, at 63 (pointing out that even large corporations sometimes modify their clearance practices in response to litigation threats). To be sure, small firms also copy trade dress, but I do not know of any empirical evidence shedding

expressive use cases involve risk-averse individuals or small firms with limited resources, who are much less able to handle the risks and costs of litigation.⁹⁶ Moreover, trade dress defendants are economically motivated and have much to gain from copying the plaintiff's trade dress, whereas those who make expressive use are likely to be artistically motivated and may be more willing to switch to a different artistic theme rather than take the chance of being sued.

Similarly, the probability of chilling effects can be substantial for technological innovations, such as web-based shopping sites, if many of the major innovators are start-ups or small firms.⁹⁷ Start-ups are likely to be sensitive to litigation risk because risk impedes access to capital markets, and small firms are likely to be heavily resource-constrained.

To be sure, the Lanham Act authorizes fee shifting, which can help vulnerable defendants recover the costs of litigation. But fee shifting is allowed only in "exceptional cases."⁹⁸ Some noteworthy lawsuits might attract pro bono representation, but a prospective user would be unwise to count on this possibility.⁹⁹ In sum, while much more empirical information is needed, we cannot reject out-of-hand the possibility of serious chilling effects in some important cases.

light on the proportion of large and small firms in these cases. It is also worth mentioning that the observation in the text assumes that courts are unlikely to grant preliminary injunctions in frivolous or very weak trade dress suits. *See infra* notes 197, 199-200 and accompanying text (describing the uncertainty surrounding preliminary injunction practice in trademark cases after *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006)). If this assumption is incorrect, then even large companies might experience chilling effects when the costs of complying with a preliminary injunction are likely to turn a potentially profitable venture into one not worth pursuing at all.

⁹⁶ For example, the University of Alabama sued Daniel Moore and his company, New Life Art, over paintings of some of the University's famous football scenes displaying its uniforms and logos. *See Univ. of Ala. Bd. of Trs.*, 683 F.3d at 1269-70. Mattel sued Thomas Forsythe, a photographer over parody photographs of Barbie dolls. *Mattel, Inc. v. Walking Mountain Prods.*, 353 F.3d 792, 796-97 (9th Cir. 2003). It is worth mentioning, however, that well-heeled companies or groups also use marks expressively. For example, Mattel sued MCA Records over the use of BARBIE in the parody song "Barbie Girl," *MCA Records*, 296 F.3d at 899, and Anheuser-Busch sued Balducci Publications over the use of Michelob marks in a parody advertisement. *Anheuser-Busch, Inc. v. Balducci Publ'ns*, 28 F.3d 769, 772 (8th Cir. 1994).

⁹⁷ *Cf. BESSEN & MEURER, supra* note 2, at 167-73.

⁹⁸ 15 U.S.C. § 1117(a) (2012); *see* McGeeveran, *supra* note 11, at 62 n.63 (pointing out that although there are some notable cases where plaintiffs have obtained substantial fee awards, in general fee shifting is unusual in trademark cases).

⁹⁹ Pro bono representation made it possible for John Forsythe to successfully defend protracted litigation brought by Mattel seeking to prevent him from using Barbie dolls in parody photographs. *See Walking Mountain Prods.*, 353 F.3d at 796-97; McGeeveran, *supra* note 11, at 62.

III. SOLUTIONS TO NOTICE FAILURE IN TRADEMARK LAW

Assuming there is a chilling-effect problem worth addressing—and I think this is a sensible assumption despite the thin empirics—the question is what to do about it. The following discussion examines three proposals. The first, discussed in Section III.A, relies on targeted defenses that exclude liability for specific types of uses.¹⁰⁰ The second, discussed in Section III.B, relies on sanctions and fee shifting to deter frivolous trademark suits.¹⁰¹ The third, discussed in Section III.C, is a new proposal that focuses on adjusting the liability standard. The first two proposals, though useful to some extent, have serious limitations. The third has considerable promise and should be part of any regulatory response.

A. Targeted Defenses

One of the most popular ways to protect favored uses is to create use-specific defenses. By a defense, I mean an exception to liability that applies even when LOC exists. In particular, I do not limit defenses to those liability exclusions that the defendant has the burden to plead and prove.¹⁰² The assignment of burdens is a distinct issue, although one that is also important to the analysis. For example, the functionality doctrine qualifies as a defense in my sense even though a plaintiff who owns unregistered trade dress has the burden to prove nonfunctionality.¹⁰³

The following discussion first argues that targeted defenses aimed at substantially reducing chilling costs should be structured as categorical rules that limit liability without regard to LOC. It then explains why categorical rules of this sort work reasonably well for expressive use and also perhaps for product-design trade dress use, but not at all well for other types of favored use because of classification and justification problems. Standards that employ balancing tests fit these other uses better, but their ability to reduce chilling costs is extremely limited.

Before proceeding, it is important to distinguish between two related but distinct problems that are sometimes confused—the problem of inadequate notice, which is our concern, and the analytically distinct problem of excessively broad trademark rights. Trademark rights have expanded

¹⁰⁰ See McGeeveran & McKenna, *supra* note 10, at 301-06; McGeeveran, *supra* note 11, at 115-21; Lisa P. Ramsey, *Reconciling Trademark Rights and Free Expression Locally and Globally*, in INTERNATIONAL INTELLECTUAL PROPERTY: A HANDBOOK OF CONTEMPORARY RESEARCH 341, 381-82 (Daniel J. Gervais ed. 2015).

¹⁰¹ McGeeveran, *supra* note 11, at 123.

¹⁰² Typically the defendant has the burden to plead and prove a defense, but it is also possible to place the burden on the plaintiff. In that case, the plaintiff would have to plead and prove that the exception to liability recognized by the defense is not available on the facts.

¹⁰³ See 15 U.S.C. § 1125(a)(3).

dramatically over the past forty years. Trademark law now protects any symbol capable of source-identification, including product shape and appearance, colors, smells, sounds, and other unusual source identifiers.¹⁰⁴ Moreover, actionable confusion has expanded from confusion about the actual source of a product to confusion about sponsorship or affiliation, and from confusion at the point of sale to confusion before sale (“initial-interest confusion”) and confusion after sale (“post-sale confusion”) as well.¹⁰⁵ Many critics complain that these expansions have gone too far, and many of those critics propose cutting back by adopting rules that limit the scope of liability.¹⁰⁶ I agree that the scope of liability should be reduced, but it is important to bear in mind that limiting liability does not necessarily improve notice.¹⁰⁷ For example, substituting a balancing test for a clear and predictable rule that makes any use actionable would limit liability, but it would do so only by sacrificing the rule’s predictive certainty. While it is important to cut back on trademark law, it is also important to do so in a way that improves notice and reduces chilling effects.

1. Rules Versus Standards

Liability limitations can take the form of general rules or more case-specific standards.¹⁰⁸ Standards, especially those that incorporate an LOC factor, do a much poorer job than rules in providing notice and facilitating early exit from litigation. For example, some courts protect expressive uses with a fact-sensitive standard that balances “the public interest in avoiding consumer confusion” against “the public interest in free expression.”¹⁰⁹ This standard

¹⁰⁴ See, e.g., *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 163-64 (1995) (holding that any symbol capable of source-identification can serve as a mark and thus a pure color can qualify).

¹⁰⁵ See 4 MCCARTHY, *supra* note 27, §§ 23:5-:8, 24:6; Bone, *supra* note 38, at 1316-40.

¹⁰⁶ See, e.g., Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60 (2008); Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413 (2010).

¹⁰⁷ The reverse is also true: those measures that improve notice do not necessarily limit the scope of liability. For example, imposing liability for *any* use of an identical mark would improve notice, but it would also expand the scope of liability.

¹⁰⁸ For general discussions of the choice between rules and standards, see Colin S. Diver, *The Optimal Precision of Administrative Rules*, 93 YALE L.J. 65 (1983), and Kaplow, *supra* note 69.

¹⁰⁹ *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989). As we shall see, however, there is a strong trend in favor of a more rule-like formulation. See *infra* note 149 and accompanying text.

limits liability, but it also incorporates an LOC inquiry that generates considerable uncertainty and produces high litigation costs.¹¹⁰

It follows that use-targeted defenses should be structured, insofar as possible, in the form of simple and clear rules that depend on facts easily knowable in advance and easily verifiable without resort to discovery.¹¹¹ Despite its attractiveness, however, this is not the approach most courts have taken. Indeed, almost all trademark defenses currently employ balancing tests that incorporate LOC in some way.¹¹²

To illustrate, consider the descriptive fair use defense.¹¹³ This defense allows others to use a mark with descriptive meaning in its ordinary descriptive sense. For example, the term FISH-FRI describes a batter mix used to fry fish, and it also happens to be a trademark owned by Zatarain's, Inc.¹¹⁴ The descriptive fair use defense allows competitors of Zatarain's to use the phrase "fish fry" to describe their own batter mixes even when doing so creates some likelihood of confusion.¹¹⁵ The purpose is to prevent trademark owners from monopolizing descriptive terms to gain a competitive advantage.¹¹⁶

¹¹⁰ To be sure, uncertainty can be reduced by placing a heavy weight on the free-expression side of the balance and requiring a large likelihood of confusion risk for liability. But this does little to reduce litigation costs. Proving a high LOC puts a premium on surveys and expert testimony and is likely to require extensive discovery, all of which will increase direct litigation costs and strengthen a trademark owner's ability to leverage cease-and-desist threats in frivolous and weak cases.

¹¹¹ For example, Professor McGeeveran proposes a rule that categorically excludes from liability any use of a mark in news reporting or artistic works. McGeeveran, *supra* note 11, at 115-21.

¹¹² *Id.* at 112. The most notable exception is the functionality doctrine for trade dress. Neither the traditional rule applicable to trade dress uses nor the competitive necessity test includes an LOC inquiry, at least not explicitly. *See* *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 34 (2001). Nevertheless, I would not be surprised if proof of an unusually high LOC influenced judges to find trade dress nonfunctional and thus suitable for trademark protection. In particular, it might incline a judge to find adequate alternatives for purposes of the competitive necessity test or non-centrality of the trade dress for purposes of the traditional rule.

¹¹³ 15 U.S.C. § 1115(b)(4) (2012) (providing a defense for "a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party, or their geographic origin"); *see also, e.g.*, *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 117-18 (2004) (applying the fair use defense of § 1115(b)(4)).

¹¹⁴ *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 788 (5th Cir. 1983).

¹¹⁵ *Id.* at 796.

¹¹⁶ *KP Permanent Make-Up*, 543 U.S. at 122 ("The common law's tolerance of a certain degree of confusion on the part of consumers followed from . . . the undesirability of allowing anyone to obtain a complete monopoly on use of a descriptive term simply by grabbing it first.").

Although it is possible to formulate this defense in a more rule-like way, courts have not done so.¹¹⁷ Under current law, a descriptive fair use includes three elements: the defendant must use the descriptive term (1) otherwise than as a mark (2) only to describe its own goods or services and (3) fairly and in good faith.¹¹⁸ Most significantly for our purposes, the degree of likely confusion is relevant to the third element, whether the use is “objectively fair.”¹¹⁹

The situation is similar for other favored-use doctrines. The first sale doctrine, which lets others sell used or reconditioned goods with the original mark, also incorporates an LOC inquiry.¹²⁰ And while some courts apply a more categorical approach when determining protected expressive use and nominative fair use,¹²¹ other courts employ doctrines that treat LOC as relevant to whether an expressive use “explicitly misleads” consumers or whether a nominative use falsely suggests source or sponsorship.¹²² Even the abandonment doctrine counts LOC, if only implicitly, when it credits residual goodwill to counter an abandonment finding.¹²³

¹¹⁷ For a possible rule-like reformulation, although not one free of problems, see *infra* notes 129-38 and accompanying text.

¹¹⁸ 15 U.S.C. § 1115(b)(4); see, e.g., *Kelly-Brown v. Winfrey*, 717 F.3d 295, 308 (2d Cir. 2013).

¹¹⁹ See, e.g., *KP Permanent Make-Up*, 543 U.S. at 123. It might also be necessary to inquire into consumer confusion in order to determine whether the defendant is using the term “otherwise than as a mark” for purposes of the first requirement. *Id.*

¹²⁰ See *Nitro Leisure Prods., L.L.C. v. Acushnet Co.*, 341 F.3d 1356, 1362-64 (Fed. Cir. 2003) (stating that LOC is the benchmark for applying the first sale doctrine).

¹²¹ See *infra* notes 149-50 and accompanying text. The nominative fair use doctrine allows use of a mark to identify the trademark owner or its product when there are no effective alternative ways of doing so. See 4 MCCARTHY, *supra* note 27, § 23:116; 6 *id.* § 31:156.50 (describing a disagreement between the Third and Ninth Circuits over the precise way the doctrine should operate). In the Ninth Circuit, for example, a use is protected by the nominative fair use doctrine when three requirements are satisfied: “(1) the product [must not be] ‘readily identifiable’ without use of the mark; (2) defendant [must not] use[] more of the mark than necessary; [and] (3) defendant [must not] falsely suggest[] he was sponsored or endorsed by the trademark holder.” *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1175-76 (9th Cir. 2010).

¹²² See *McGeveran*, *supra* note 11, at 95-97, 100-04.

¹²³ Courts sometimes protect marks that still have secondary meaning—so-called “residual goodwill”—even when the plaintiff has no obvious intent to resume use. See 3 MCCARTHY, *supra* note 27, § 17:15. Although courts seldom refer to LOC explicitly when making the residual goodwill determination, it makes sense to think that the plaintiff’s LOC evidence would be influential, especially since the only sensible reason for protecting a discontinued mark is to prevent consumer confusion. *Id.* Put differently, a plaintiff would be wise to refer to strong evidence of LOC when opposing an abandonment finding on the ground of residual goodwill.

2. The Difficulty with Categorical Rules in Trademark Law

Thus, there is a strong push in trademark law toward standards even when rule-like formulations would do a better job of managing chilling effects.¹²⁴ The question is why. If there is something about trademark law that resists rule-like defenses, relying on targeted defenses in the form of categorical rules to deal with chilling effects might be ill-advised.

Some commentators have a fairly simple answer to the “why” question. They attribute LOC’s tenacious grip to a belief on the part of judges that the ultimate goal of trademark law is to eliminate consumer confusion, wherever and however it occurs.¹²⁵ According to this explanation, judges who are single-mindedly committed to this goal impose liability for any confusion, whether or not it causes harm and regardless of competing values.¹²⁶

This explanation has some force. It is true that judges today are preoccupied with LOC and tend to ignore harm.¹²⁷ However, it is implausible that these judges are blind to competing values. Indeed, the development of new defenses in recent years proves otherwise. Over the past twenty years, judges have expressed growing concern for First Amendment values in expressive use cases and for competition values in other cases. Yet many still use balancing tests that incorporate an LOC inquiry.

This strongly suggests that the preference for LOC-contingent balancing runs deeper than a simple preoccupation with confusion. I believe balancing tests strike judges as desirable because balancing seems to fit trademark law’s normative foundations better than rules that ignore LOC. Trademark law aims not to prohibit morally bad acts or acts taken with a bad intent, but to prevent bad consequences that ensue when consumers are confused.¹²⁸ This consequentialist focus creates two problems for categorical rules in many of the favored use cases. It can make it difficult to define a favored use in a clear and easily administrable way. And it can make it difficult to justify a rule that

¹²⁴ The use of flexible standards in trademark and unfair competition law has deep historical roots. For example, unfair competition, which protected many different types of marks in the late nineteenth and early twentieth centuries, was designed as a highly flexible tort capable of addressing new commercial practices. *See* Bone, *supra* note 7, at 566-67. However, history goes only so far in explaining current law. Judges are not trapped in the past even if they are influenced by it.

¹²⁵ *See, e.g.,* McGeveran & McKenna, *supra* note 10, at 254-56, 267-74.

¹²⁶ *Id.*

¹²⁷ Bone, *supra* note 38, at 1347-48.

¹²⁸ I have argued in previous writing that moral principles against deliberate lying support liability for those uses of a mark that are subjectively intended to deceive consumers. *Id.* at 1350-53. However, the types of favored uses that prompt concerns about chilling effects do not involve morally culpable intent. Rather, they are motivated by competition, innovation, and expression.

protects favored uses without also taking account of LOC. The following discussion considers each problem in turn.

a. *Defining Favored Uses*

To improve notice and reduce chilling effects, a categorical rule must define the category of protected use clearly enough so that classification is relatively easy and inexpensive. This can be difficult to do, however, because the nature of the use depends on what consumers understand the use to be.

To see this point clearly, let us return to the descriptive fair use example discussed briefly above.¹²⁹ Consider the following attempt to reformulate the descriptive fair use defense in a more rule-like way: “[N]o person shall be liable for using a term with descriptive meaning to describe that person’s own goods or services regardless of whether the term is also a mark with secondary meaning and regardless of the impact on consumers.” At first glance, this reformulation might seem to solve the notice problem. The new rule has only two requirements—that the term have descriptive meaning and that it be used by the defendant to describe its own goods or services—and neither seems overly complicated to evaluate. In particular, it eliminates the “fairly and in good faith” requirement under current law, which, as we have seen, incorporates LOC.

But there is a problem with applying this rule. Even if it is easy to determine whether a term has descriptive meaning, it is not easy to determine whether a use is descriptive.¹³⁰ That depends on what the use means, and meaning depends on perspective and context.¹³¹ No matter whose perspective one adopts—the user’s or the consumer’s—there will be myriad factual disputes that undermine the simplicity and predictability of the rule. For example, if what counts is whether the user intended a descriptive meaning, then courts will have to investigate user intent, which will often require costly discovery and make summary judgment difficult to obtain.¹³² If what counts instead is whether an ordinary consumer understands the use to be descriptive—which seems more appropriate for a defense aimed at assuring that consumers have accurate product information—then courts will have to determine what the use

¹²⁹ See *supra* notes 113-19 and accompanying text.

¹³⁰ In fact, it can sometimes be difficult to determine whether a mark has descriptive meaning.

¹³¹ Cf. Richard Craswell, *Interpreting Deceptive Advertising*, 65 B.U. L. REV. 657, 668-78 (1985) (emphasizing the importance of pragmatic inferences in interpreting the meaning of advertisements).

¹³² 10B CHARLES ALAN WRIGHT ET AL., FEDERAL PRACTICE AND PROCEDURE (CIVIL) § 2730 (3d ed. 2015) (“Questions of intent, which involve intangible factors including witness credibility, are matters for the consideration of the fact finder after a full trial and are not for resolution by summary judgment.”).

means to consumers, which will depend on many contextual factors.¹³³ Indeed, determining consumer meaning might even require an LOC-type analysis, complete with surveys and expert testimony, if a trademark owner argues that consumers understand the use as source-identifying rather than descriptive.¹³⁴

To be sure, a use that conforms to a conventional or paradigmatic form of description is more likely to pass muster. Recall that Zatarain's sells a batter mix used to fry fish under the FISH-FRI mark.¹³⁵ Suppose that a competitor refers to its product as "a fish fry batter mix" without highlighting or emphasizing "fish fry" in any way. Consumers are very likely to understand this use as descriptive because it fits the conventional way that descriptive terms are used in ordinary language. Thus, it might seem that a prospective user who adopts a conventional form can count on establishing descriptive use and exiting litigation early, thereby avoiding high litigation costs.¹³⁶

However, the matter is not quite so simple. Because meaning depends on context, a conventional form of description might mean different things in different settings. In our "fish fry" example, for instance, we assumed that the term was not highlighted or otherwise made to appear any different than a conventional description. But determining how the term appears to consumers requires an examination of the overall context of its use. A trademark owner might argue, for example, that contextual elements accompanying the use, such as other features on the label, lend the term a different meaning in the market and convert the case from an easy one into a much harder one.¹³⁷

¹³³ Even if a user intends its use to be descriptive, allowing the use does not further the goal of descriptive fair use unless consumers also understand it that way. User intent can be probative of consumer understanding, but consumer understanding should still control.

¹³⁴ An obvious way to prove that defendant's use is source-identifying is to show that consumers are likely to be confused by it. *Cf.* Mark P. McKenna, *Trademark Use and the Problem of Source*, 2009 U. ILL. L. REV. 773, 775-76 (arguing that efforts to distinguish a source-identifying use from other uses of marks slide into a likelihood-of-confusion analysis).

¹³⁵ *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 788 (5th Cir. 1983).

¹³⁶ This assumes that a conventional form will support a conclusive presumption of descriptive use. In that case, a judge should be willing to grant a motion for judgment on the pleadings and maybe even a motion to dismiss for failure to state a claim. If instead the presumption were rebuttable, a trademark owner could threaten to litigate the rebuttal issues, thereby protracting the litigation and increasing the risks.

¹³⁷ *See, e.g., Fortune Dynamic, Inc. v. Victoria's Secret Stores Brand Mgmt., Inc.*, 618 F.3d 1025 (9th Cir. 2010). In *Fortune Dynamic*, the plaintiff, Fortune Dynamic, owned the mark DELICIOUS for footwear sold to young women. To promote the introduction of its new line of Beauty Rush personal care products, Victoria's Secret gave away Beauty Rush lip gloss and a pink tank top with the word "Delicious" on the front. Victoria's Secret argued that its use of "delicious" was descriptive of the taste of its lip gloss and also playfully described something about women wearing the tank top. In reversing the grant of summary judgment for the defendant, the court focused on the prominence of the use and

Of course, a trademark owner's success in pursuing this strategy depends on its ability to find contextual cues that complicate meaning. But this might not be all that difficult to do in many cases. A user wishing to communicate descriptive information to consumers is likely to feature the use prominently, and a prominently displayed use invites just this sort of contextual argument. Moreover, it does not matter that the argument is weak. All that matters is that it is strong enough to advance the suit past the pleading stage and into discovery. In that case, the trademark owner can credibly threaten to impose substantial litigation costs, and as a result prospective users will have to take the threat seriously even when a suit is frivolous or weak.¹³⁸

Thus, our rule-like formulation runs into classification problems that complicate its application and undermine its ability to reduce chilling effects. When the meaning of a use depends on the perspective of an ordinary consumer in the market, determining whether the use is descriptive is likely to involve factual disputes that weaken the notice benefits of a seemingly clear rule. Competitors might be able to reduce these risks by sticking very closely to conventional descriptive forms, but conventional forms are not always effective for communicating information to consumers and deviations from convention invite factual disputes and breed litigation costs.

b. *Justifying Categorical Exclusions*

Even if it is possible to define a favored use in a way that permits easy classification and verification, there is another problem: categorical exclusions that ignore LOC are difficult to justify in trademark law. The seriousness of this problem depends on whether the defense is designed to protect rights or to promote economic efficiency. The former fit categorical rules much better than the latter.

To see this point clearly, let us begin by focusing on one type of use—expressive use—that easily fits a categorical defense because it is valued on rights-based rather than efficiency grounds. As noted above, the reason for insulating expressive uses from liability has to do with protecting a user's freedom of expression. Moreover, freedom of expression is not just a highly valued interest; it is a right. And as a right, it trumps or substantially constrains the pursuit of aggregate social welfare.

the lack of precautionary measures taken to mitigate any confusion risk. *Id.* at 1040-43. It also held that the "descriptive purity" of the use matters for the descriptive fair use defense. *Id.* at 1042.

¹³⁸ This is especially true in a world where trademark owners are willing to file frivolous and weak trademark suits just to maintain credible litigation threats. It is true that in some asymmetric information models, the probability of trial success in a meritorious suit can indirectly affect the incentives to file frivolous and weak suits. Bone, *supra* note 75, at 542-50. However, litigation costs and risks are major drivers.

This point is critical. It is tempting to think of a right as simply an interest that weighs heavily in a utilitarian balance.¹³⁹ But this misses the crucial feature of rights. Rights are not simply factors to be balanced against social benefits in an ordinary utilitarian way. Rather, rights trump, or at least severely constrain, utilitarian balancing. In theory, a right must be respected even if restricting it will yield substantial social benefits—unless honoring the right interferes with other rights of comparable moral worth.¹⁴⁰ For example, the state cannot restrict a person’s core freedom of expression unless the restriction can be justified as necessary to further a compelling state interest.¹⁴¹

The fact that expressive uses are protected by rights goes far toward justifying a rule-like categorical defense that ignores LOC. Expressive uses pit the right to freedom of expression against the utilitarian benefits of protecting marks (including reducing consumer search costs, improving allocative efficiency, and maintaining incentives to sell high quality products). The right prevails because rights are supposed to trump the pursuit of utilitarian goals. In other words, LOC can be ignored in the defense because preventing LOC promotes economic efficiency, which is trumped by the right that justifies the defense.¹⁴²

¹³⁹ While it is not entirely clear from their discussion, Professors McGeeveran and McKenna seem to treat the expressive right in this way. McGeeveran & McKenna, *supra* note 10, at 305-06. For further discussion, see *infra* note 142.

¹⁴⁰ See, e.g., DWORKIN, *supra* note 20, at 193; RAWLS, *supra* note 20, at 3. I say “in theory” because it is not possible to adhere strictly to this principle in practice. There are many situations in which rights are limited because the social costs of honoring them are extremely high. This might seem to convert rights into interests with great weight, but it does not. It is important that a right be understood as a moral trump rather than a weighty interest. It is for this reason, after all, that we can feel moral regret when we have to restrain or limit a right for reasons of social cost.

¹⁴¹ See, e.g., *Perry Educ. Ass’n v. Perry Local Educators’ Ass’n*, 460 U.S. 37, 45 (1983).

¹⁴² Thus, I believe that my argument provides a stronger justification for a categorical rule than the one Professors McGeeveran and McKenna make. McGeeveran and McKenna argue that LOC-related harm to the trademark owner is very minor in these cases and the chilling effect on expressive uses is likely to be serious. As a result, they argue, the balance will almost always strike in favor of the expressive use, and “decision theory” therefore supports a categorical rule. McGeeveran & McKenna, *supra* note 10, at 305-06 (“Given this cluster of cases with predictable results, the importance of the threatened communication value, and the low error costs of allowing some increment of confusion about affiliation, decision theory would call for a cut-and-dried rule.”). It is not clear what sort of argument this is. The reference to “decision theory” suggests a utilitarian balance, as does the assumption that LOC harms will be minor. The authors do mention the importance of avoiding conflicts with the First Amendment, but they do not develop this point with any care. *Id.* at 306. My argument, by contrast, does not assume trademark owners suffer only minor LOC-related harm or that expressive use cases generate “predictable results” under the regular LOC test. Indeed, my argument, at its core, does not depend on balancing harms

To be sure, this is just the sketch of an argument, which needs to be developed more rigorously than there is space to do here.¹⁴³ For example, the moral basis for a right to free expression is arguably strongest for critical commentary, artistic creation, political speech, and other core forms of expression.¹⁴⁴ This suggests that the case for categorical exclusions might be strongest for uses that involve a core expressive form.¹⁴⁵ Thus, paintings of the Alabama football team portraying Alabama uniforms, logos, and other protectable marks would be suitable for categorical exclusion, but the parodic rendition of LOUIS VUITTON and Louis Vuitton's trade dress in the form of the "Chewy Vuitton" trademark for dog toys might not be.¹⁴⁶

Nevertheless, the main point stands: a general rule categorically absolving expressive uses from liability without regard to likelihood of confusion makes sense because expressive use is protected by the right to freedom of expression.¹⁴⁷ The problem discussed in the previous section of determining

against benefits at all. It depends instead on two propositions: (1) that trademark law's goals are utilitarian, and (2) that rights trump the pursuit of utilitarian goals.

¹⁴³ In particular, a more careful analysis should probe the normative justification for the right. There are several candidates. A deontological justification focuses on the centrality of expression to individual dignity and autonomy. Consequentialist justifications focus on the importance of free speech to open dialogue, criticism, and commentary, which promote a vibrant democracy, the advancement of ideas, and relationships necessary to community more generally.

¹⁴⁴ For example, the right gives commercial speech weaker protection. *See, e.g.*, *Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n of N.Y.*, 447 U.S. 557, 562-63 (1980) ("The Constitution . . . accords a lesser protection to commercial speech than to other constitutionally guaranteed expression. The protection available for particular commercial expression turns on the nature of both the expression and of the governmental interests served by its regulation.").

¹⁴⁵ Other uses that do not lie at the First Amendment core but still have significant expressive value could be handled under my modified LOC approach outlined in Section III.C combined with a balancing test that weighs First Amendment values against trademark-related harm.

¹⁴⁶ *Compare* *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1266 (11th Cir. 2012) (use of Alabama trademarks in paintings and prints of famous football scenes), *with* *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 507 F.3d 252, 252 (4th Cir. 2007) (use of "Chewy Vuitton" on dog toys). The *Haute Diggity Dog* court did conclude that the defendant's use of "Chewy Vuitton" was a parody. *Haute Diggity Dog, supra*, at 260-61. But the court ultimately based its holding not on an expressive use defense, but on a finding that the use was not likely to cause consumer confusion or dilution because consumers would recognize it for what it was, a humorous parody. *Id.* at 263, 267-68. Thus, while First Amendment concerns no doubt influenced the court, the result in fact was based on a finding of no LOC (and no likelihood of dilution).

¹⁴⁷ Confusion can become so serious that it creates harms properly measured in moral terms. But it is hard to imagine an expressive use creating this type of harm. It is also important to bear in mind that the rights-based analysis I develop here assumes that the

whether a use fits in the favored category—here whether a use is “expressive”—still remains. But this is not likely to be all that difficult for core expressive uses, since their expressive nature is usually pretty obvious.¹⁴⁸

It is worth noting that the trend of the cases seems to be in this direction; i.e., in favor of adopting a categorical defense for core expressive uses. More and more courts are applying a rule, first introduced by the Second Circuit for uses of marks in titles of works, which imposes liability only if “the title has no artistic relevance to the underlying work whatsoever, or, if it has some artistic relevance . . . the title explicitly misleads as to the source or the content of the work.”¹⁴⁹ In recent years, this rule has been extended beyond titles to uses of marks in the body of expressive works, and many courts have improved its predictability and shielded it from an LOC inquiry by crediting even minimal

primary goals of modern trademark law are utilitarian, for only then can First Amendment rights act as trumps or constraints on trademark goals. This assumption is sensible given the law’s focus on protecting marks as devices to communicate information to the marketplace. However, some trademark decisions seem influenced by a different principle, one that assumes it is morally wrong for others to free ride on a seller’s goodwill. *See, e.g.*, *Nissan Motor Co. v. Nissan Computer Corp.*, 378 F.3d 1002, 1019 (9th Cir. 2004); *Ferrari S.P.A. v. Roberts*, 944 F.2d 1235, 1243 (6th Cir. 1991). These decisions are controversial—and for good reason. The anti-free-riding principle is very difficult to justify without resort to Lockean natural rights, which are extremely problematic, especially in trademark law. Moreover, the anti-free-riding principle cannot account for trademark law’s traditional focus on consumer confusion; the law has never made goodwill appropriation a basis for liability by itself. *See Bone, supra* note 38, at 1357-61 (criticizing the anti-free-riding view and the appeal to Lockean natural rights); *Lemley & McKenna, supra* note 44, at 181-84 (same).

¹⁴⁸ It is much less obvious for arguably expressive uses not lying at the First Amendment core. For example, should Haute Diggity Dog’s use of Chewy Vuitton be classified as an expressive use because it parodies LOUIS VUITTON or as an ordinary use because Haute Diggity Dog uses it to sell dog toys? If it should be treated as an expressive use, then what about “Bagzilla” for heavy-duty garbage bags or “Gucchi Goo” for diaper bags? *See Toho Co. v. Sears, Roebuck & Co.*, 645 F.2d 788 (9th Cir. 1981) (finding no infringement where consumers were unlikely to believe that garbage bags were sponsored by the creators of Godzilla); *Gucci Shops, Inc. v. R.H. Macey & Co.*, 446 F. Supp. 838 (S.D.N.Y. 1971) (finding infringement where consumers were likely to be confused by colors and stripes similar to Gucci’s on diaper bags).

¹⁴⁹ *Rogers v. Grimaldi*, 875 F.2d 994, 999 (2d Cir. 1989); *see also* *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 902 (9th Cir. 2002) (applying the *Rogers* rule and finding that “the use of Barbie in the song title clearly is relevant to the underlying work, namely the song itself” and that the defendant did nothing to explicitly mislead). The *Rogers* court derived this rule for uses in titles of expressive works from a more general balancing test weighing the public interest in free expression against the public interest in avoiding confusion. *Rogers*, 875 F.2d at 999.

artistic relevance and by focusing on the defendant's conduct to determine whether a use "misleads" rather than on consumer perception.¹⁵⁰

However, most favored uses are not protected by rights. Rather, they are valued for utilitarian reasons, for their positive effect on market competition and allocative efficiency. In the trade dress cases not involving expressive use of trade dress, for example, permitting use by others has value when it promotes competition and prevents the trademark owner from securing a product monopoly.¹⁵¹ So too, the reason for allowing nominative uses, outside of the expressive use cases, is to promote competition. For example, the Internet use of LEXUS in the *Tabari* case is justified as necessary to support a service that facilitates comparative shopping and reduces consumer search costs.¹⁵² The same is true for most descriptive and resale uses, which are valued primarily for their efficiency benefits (again outside of the expressive use context).¹⁵³

Without a right protecting the use, the normative analysis is strictly utilitarian. The competition benefits of protecting the mark must be balanced against the competition benefits of allowing the use. Unlike a rights-based analysis, which starts with the trumping force of an individual right, the utilitarian analysis begins—and ends—with the balance of social benefits and costs. And this balance *must* take the degree of likely confusion into account

¹⁵⁰ See, e.g., *Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1243-46 (9th Cir. 2013) (finding a likeness of Jim Brown artistically relevant to Electronic Arts's video game and holding that the degree of relevance need "merely . . . be above zero"); *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 683 F.3d 1266, 1277-79 (11th Cir. 2012) (applying the *Rogers* balancing test with a focus on the defendants' conduct); *Louis Vuitton Malletier S.A. v. Warner Bros. Ent. Inc.*, 868 F. Supp. 2d 172, 178 (S.D.N.Y. 2012) ("The threshold for 'artistic relevance' is purposely low and will be satisfied unless the use has *no* artistic relevance to the underlying work *whatsoever*." (internal quotations marks omitted)). However, not all courts seem willing to embrace this trend. See, e.g., *Radiance Found. v. NAACP*, 786 F.3d 316, 321-27 (4th Cir. 2015) (extensively analyzing an expressive use by relying on the Lanham Act's requirements that the use be "in connection with" goods or services and produce a likelihood of consumer confusion, when a broad application of the *Rogers* rule would have readily justified the result).

¹⁵¹ Some commentators argue that it also protects a *right* to copy product features not protected by patent or copyright. However, as I have argued elsewhere, there is no such thing as a right to copy capable of trumping or constraining trademark protection for trade dress. Bone, *supra* note 86, at 218-21. When courts refer to a "right to copy," they are only emphasizing the importance of the public domain policies at stake. See *id.* at 221.

¹⁵² See *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1174-75 (9th Cir. 2010).

¹⁵³ See Grynberg, *supra* note 106, at 78-82 (explaining that when justifying nominative use or descriptive fair use defenses "[j]udges often cite, for example, the need to preserve a free marketplace in which consumers enjoy competition in price and quality").

because the magnitude of the social benefit from protecting the mark depends on the amount of confusion that protection avoids.

Still, a utilitarian analysis does not always call for *case-specific* balancing. It can support categorical rules if the cost-benefit balance justifies them. On the benefit side, a categorical rule reduces expected litigation costs as well as chilling effects. On the cost side, it allows some uses to escape liability that a case-specific balance would deem unlawful. This means that a categorical exclusion might make sense on utilitarian grounds if favored uses produced little risk of harmful consumer confusion. Under these circumstances, the number of errors on the cost side would be very small, since few of the favored use cases would result in liability even under a case-specific balancing standard.¹⁵⁴

However, it is not clear that non-expressive favored uses necessarily produce little harmful confusion. Consumer response to a favored use is difficult to predict with confidence. Even an ordinary nominative use might signal some consumers that the user has obtained permission from, or is somehow associated with, the trademark owner. If confused consumers then blamed the trademark owner for a bad experience, the owner's reputation and the mark's ability to communicate accurate information would be impaired.¹⁵⁵ Dynamic effects must also be considered. A rule excluding liability without regard to LOC creates incentives for users to push the limits by crafting uses that fit within the rule but still confuse consumers. One might add a limited LOC inquiry to guard against this practice, but then LOC would become an issue in every trademark case, undermining the benefits of the categorical rule.¹⁵⁶

One might be tempted to craft more refined rules if there are subsets of favored uses where the risk of confusion is clearly low and the benefits of

¹⁵⁴ More precisely, the expected false negative error costs—i.e., the cost of a false negative discounted by the probability that a false negative will occur—would be unlikely to outweigh the expected benefits of a categorical rule.

¹⁵⁵ Moreover, even if the junior user's goods or services are of high quality so there is no reputational harm, a trademark owner still would have to monitor the junior use in order to sue promptly should quality decline, and this adds monitoring costs.

¹⁵⁶ In fact, even proponents of categorical rules sometimes feel the need to create exceptions to handle unusual cases presenting serious confusion risks. But exceptions invite fact-specific disputes about the applicability of the exception in every case, and this, in turn, produces litigation costs and makes early exit difficult. Nor will it work to address residual confusion risks at the remedy stage by ordering precautions to prevent unfair competition. See McGeeveran & McKenna, *supra* note 10, at 310-17. The reasonableness of precautions depends on a balance of marginal benefits and marginal costs. Therefore, a user would have difficulty determining in advance whether her precautions were reasonable. Even a disclaimer can trigger disputes about proper wording and reasonable efficacy. In short, shifting the confusion inquiry from the liability stage to the remedy stage changes timing without necessarily reducing notice costs substantially.

reducing chilling effects high. But to work effectively, these refined rules would have to point to features of a use that correlate strongly with likelihood of confusion, are easily ascertainable in advance, and are readily verifiable in litigation. It is not easy to identify features of this sort. Consumer reaction is simply too variable and contextual.

Trade dress is different, and it is instructive to see why. The reason has to do with an important feature unique to the trade dress cases that makes it possible to justify categorical rules on utilitarian grounds.¹⁵⁷ A product's trade dress is never the primary source-identifier for the goods or services with which it is associated. There is always some other mark, usually a word mark, that consumers can use to identify source. For example, in *TrafFix Devices*, the pivotal modern Supreme Court functionality decision, the primary source-identifier was the word mark WINDMASTER, not the dual-spring-design trade dress.¹⁵⁸ This makes a difference for the risk of error created by a categorical rule. Because consumers can switch to the word mark, any confusion is likely to dissipate over time. As a result, a rule might produce very little error once consumers learn to rely on the word mark rather than the trade dress.¹⁵⁹ The other favored uses, by contrast, always involve the use of a primary source-identifying mark, and there is nothing else that consumers can rely on for source-identification if they are confused by the favored use.

To sum up, targeted defenses operate well to reduce chilling effects when they can be crafted as categorical rules. Moreover, categorical rules work best when classification is reasonably easy and justification fits the nature of a categorical rule. These conditions hold for core expressive uses where rights are at stake, and also perhaps for trade dress where an exclusion is likely to minimize litigation and error costs over the long run. But the arguments for rule-like exclusions are much weaker for other types of favored use, those not protected by a right and subject to an uncertain social cost-benefit balance.

B. *Sanctions and Fee-Shifting*

Some commentators propose greater use of sanctions and fee shifting to deter weak and frivolous filings and reduce chilling effects.¹⁶⁰ There are, however, three main problems with this approach.

¹⁵⁷ Bone, *supra* note 86, at 241-42. I mean to include trade dress that adds substantial aesthetic value to a product as well as trade dress that performs a practical utilitarian function.

¹⁵⁸ See *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 26 (2001).

¹⁵⁹ Moreover, as consumers shift toward the word mark, firms will have stronger incentives to advertise the word mark, which in turn will feed back to reinforce the word mark as the source-identifier and divert even more consumers from the trade dress. Bone, *supra* note 86, at 242.

¹⁶⁰ See, e.g., McGeeran, *supra* note 11, at 122-23 (discussing fee shifting and heightened burdens of proof).

First, as a practical matter, the current sanctioning rules in federal court, including 28 U.S.C. § 1927 and Rule 11 of the Federal Rules of Civil Procedure, are not terribly effective as deterrents.¹⁶¹ Judges are reluctant to impose sanctions except in extreme cases, and Rule 11 has a safe harbor that allows plaintiffs to avoid penalties if they remove the offending material in a timely manner.¹⁶² As for fee-shifting, the Lanham Act limits it to “exceptional cases.”¹⁶³

Second, even if sanctions and fee shifting are made more widely available, their effectiveness as deterrents depends on the parties’ information about the merits. As we have seen, the current open-ended LOC test makes it difficult for a recipient of a cease-and-desist letter to determine whether her use is lawful, and also difficult for an honest trademark owner to determine whether its demand is meritorious. As a result, trademark owners will sometimes send cease-and-desist letters to perfectly lawful users, and some fraction of those users will discontinue their use rather than face the risks and costs of litigation—even if sanctions are strengthened and fee shifting expanded.

Third, even trademark owners who actually know their suits are frivolous have incentives to threaten litigation.¹⁶⁴ When a user cannot determine the merits in advance, she might discontinue the use rather than incur the high costs of litigation and face the risk of paying the plaintiff’s fees should she lose. Anticipating this response, those trademark owners who are unmoved by moral or reputational concerns will send cease-and-desist letters and

¹⁶¹ See generally Manta, *supra* note 11, at 858-65 (evaluating the use of sanctions to deter trademark bullying).

¹⁶² See *id.* at 860 (“[J]udicial sanctions have rarely been granted in trademark actions [and] . . . the threshold for bad faith has been very high.”). For the safe harbor, see FED. R. CIV. P. 11(c)(2). A trademark owner should be able to argue that the uncertainty of the LOC test made it impossible to know for sure in advance that the suit was frivolous, which would go a long way toward avoiding sanctions.

¹⁶³ 15 U.S.C. § 1117(a) (2012). It is possible to change these rules, of course, but the politics of the situation make it extremely unlikely.

¹⁶⁴ There are a number of explanations for frivolous litigation. See generally Bone, *supra* note 75 (describing standard models of frivolous litigation). The model most directly relevant to the trademark scenario described in the text is Professor Avery Katz’s asymmetric information model, in which plaintiffs have private information about the merits of the suit. Avery Katz, *The Effect of Frivolous Lawsuits on the Settlement of Litigation*, 10 INT’L REV. L. & ECON. 3 (1990); see also Lucian Arye Bebchuk, *Suing Solely to Extract a Settlement Offer*, 17 J. LEGAL STUD. 437 (1988) (presenting an asymmetric information model of settlement). Using that model, Professor Katz shows that plaintiffs with private information about the merits will file frivolous suits even when they know the suit lacks merit, and defendants will offer substantial settlements at least some of the time. Katz, *supra*, at 19-20. The Katz model focuses on suits for damages, but its logic applies to injunctions as well.

sometimes follow up with lawsuits when those letters are ignored.¹⁶⁵ Sanctions can help deter this practice if they are imposed regularly, but substantial sanctions can also chill meritorious suits when trademark owners are uncertain about the merits. Moreover, fee shifting contingent on trial success can never have a direct impact on incentives to file frivolous suits in cases where a trademark owner knows suit is frivolous. This is so because a trademark owner with a frivolous suit will always drop and never go to trial if the defendant refuses to settle (since at best it has only a tiny chance of winning) and thus will never have to pay the defendant's fees.¹⁶⁶

C. *Modifying Liability Standards*

What is needed for those favored uses not involving expressive use or product-design trade dress—and thus not suitable for a categorical rule—is an approach that does three things: (1) makes it possible for those contemplating favored uses to determine with reasonable confidence whether their contemplated use is likely to infringe a mark; (2) allows those making non-infringing uses to exit litigation early without incurring significant litigation costs and gives them confidence in advance that they can do so; and (3) carves out room for imposing liability in an exceptional case where confusion-related harm is unusually serious. The key to striking an optimal balance among these three goals is to focus on the LOC test for liability.¹⁶⁷ Since the LOC test is the main source of the problems, it should not be surprising that it is a big part of the solution. In the following discussion, I first examine a proposal along these lines made by Professors McGeeveran and McKenna. I then outline a different and more promising approach.

1. Limiting Actionable Confusion

In a recent article, Professors McGeeveran and McKenna propose limiting the LOC test to source confusion for promotional uses of marks, nominative uses on Internet shopping sites, and uses in connection with resale of genuine goods.¹⁶⁸ Under their proposal, a trademark owner would have to prove source confusion at the point of sale—in other words, that consumers are likely to believe the defendant's goods or services actually *originate* with the plaintiff—

¹⁶⁵ Reputation signals are also likely to be noisy because of notice problems and the uncertainty associated with the LOC test.

¹⁶⁶ Katz, *supra* note 164, at 18. However, fee shifting can have a direct effect if fees are also shifted when the plaintiff drops the suit and when the suit terminates adversely to the plaintiff in some other way. And fee shifting can have indirect effects on settlement in legitimate suits.

¹⁶⁷ I refer to an “optimal balance” because it is not possible to satisfy all three conditions perfectly. For example, identifying exceptional cases requires factual inquiries that can undermine predictability and impede early exit.

¹⁶⁸ See McGeeveran & McKenna, *supra* note 10, at 307-10.

and would not be able to rely on sponsorship, initial interest, or post-sale confusion theories.¹⁶⁹

The McGeveran-McKenna proposal has some attractive features, but it suffers from two significant shortcomings. First, it is not adequately justified. Second, it does not do enough to address chilling effects.

a. *Inadequate Justification*

McGeveran and McKenna defend their proposal by arguing that confining LOC to source confusion will allow more room for favored uses and do so by eliminating types of confusion that are not likely to occur or not likely to be harmful if they do occur.¹⁷⁰ Thus, society can secure the benefits of favored uses without incurring much in the way of confusion-related costs.

While the assumption of little additional cost holds for initial-interest and post-sale confusion, it is much more dubious for sponsorship confusion, which is the main confusion theory other than source. Recall that sponsorship confusion exists when the use of a mark leads consumers to believe that the trademark owner sponsors, endorses, or is affiliated with the defendant or its products in some way—even when those consumers know that the trademark owner is not actually selling the defendant’s product (so there is no source confusion). For example, sponsorship confusion could have been a serious risk in the *Tabari* case if the Tabaris had used the domain names “e-lexus.com” or maybe even “lexusbroker.com” to identify their web-based broker services to Lexus buyers, instead of the domain names they did use.¹⁷¹ These alternative domain names are likely to support a much stronger belief that the site is at least sponsored by Lexus. Moreover, this sponsorship confusion might also survive to the point of sale even with disclaimers at the site.¹⁷²

I am skeptical that sponsorship confusion necessarily creates very little trademark-related harm. If a consumer believes that the trademark owner sponsors or endorses the defendant’s product or is in some other way

¹⁶⁹ *See id.*

¹⁷⁰ *See id.* at 267-68, 307 (“Other more ephemeral confusion-based harms [apart from source confusion] are outweighed by the competitive importance of comparative advertising, descriptive fair use, and other such marketplace uses of a mark.”). As I explain in the text, Professor McKenna has taken the position in another article that sponsorship confusion seldom produces any significant trademark-related harm. *See, e.g.,* Lemley & McKenna, *supra* note 44, at 423-27, 447-50.

¹⁷¹ *Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171, 1179 (9th Cir. 2010). The Tabaris used the domain names “buy-a-lexus.com” and “buyorleaselexus.com.”

¹⁷² Disclaimers will help to reduce the risk, but consumers might not notice or read a disclaimer. In general, courts are skeptical of the efficacy of disclaimers in trademark cases, although they are more willing to credit disclaimers in favored use cases. *See, e.g.,* Laura A. Heymann, *Reading the Product: Warnings, Disclaimers, and Literary Theory*, 22 *YALE J.L. & HUMAN.* 393, 395-96, 400-03 (2010).

connected with the defendant, and the consumer has a seriously bad experience with the defendant's product, it seems sensible that the consumer might blame the trademark owner. If this happens, the reputation of the trademark owner suffers and the reputational information communicated by the mark is impaired.

Professor McKenna claims to the contrary, and he provides support in another article.¹⁷³ There he relies on marketing studies to argue that consumers usually do not blame the trademark owner when they are confused about association rather than about actual source.¹⁷⁴ If this is true, it would make sense to eliminate sponsorship confusion not just in favored-use cases, but across-the-board in all trademark cases. But, as I have argued in other writing, I have serious doubts that consumers do not transfer blame in these circumstances, and in any case, it seems to me that the claim is so counterintuitive that it needs much stronger empirical support before it is used to justify major changes in trademark law.¹⁷⁵

Although it is not entirely clear from their article, it seems that Professors McGeeveran and McKenna also rely on an historical argument to justify their proposal.¹⁷⁶ They claim that the early law of trademark and unfair competition limited liability to source confusion and that this limitation nicely aligned the liability theory with the then-prevailing trademark law policy which focused narrowly on preventing unfair trade diversion.¹⁷⁷ There was no need for special defenses during this period because the narrow scope of liability avoided conflicts with competition and speech values.¹⁷⁸ As judges in the early twentieth century broadened the policy rationale from preventing trade diversion to preventing consumer confusion, they also expanded the law to include all forms of confusion—and these expansions gave rise to value conflicts.¹⁷⁹ The implication is clear. Limiting liability to source confusion would return trademark law to its relatively unproblematic core, eliminate broader confusion theories with a questionable pedigree, and reduce conflicts with favored uses.

There are problems with this argument. For one thing, while trademark law was limited to source confusion by direct competitors in its early stages,

¹⁷³ See, e.g., Mark P. McKenna, *Testing Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63, 92-115 (2009) (relying on marketing studies to argue that sponsorship confusion is unlikely to produce significant reputational harm to a trademark owner).

¹⁷⁴ *Id.* at 115-17.

¹⁷⁵ See Bone, *supra* note 38, at 1367-68.

¹⁷⁶ McGeeveran and McKenna do not make this historical argument explicitly. Instead, they lay out a history of trademark law that emphasizes narrow liability theories in the early stages and then argue that trademark law went awry when it embraced broader theories.

¹⁷⁷ McGeeveran & McKenna, *supra* note 10, at 259-67.

¹⁷⁸ *Id.* at 261.

¹⁷⁹ *Id.* at 267-70.

preventing unfair trade diversion has never been its sole focus; protecting consumers from fraud has always been at least equally important.¹⁸⁰ Furthermore, sponsorship confusion took hold not because of some ill-conceived preoccupation with consumer confusion, but because methods of marketing changed in the early twentieth century. Firms began to integrate horizontally and consumers came to expect that sellers might be linked through association. Trademark law responded by imposing liability for sponsorship (and even source) confusion when the defendant used a mark on noncompeting products that were sufficiently related.¹⁸¹ In short, the core trademark policies remained the same, but confusion theories expanded to deal with changing market conditions and consumer expectations.¹⁸²

There is another problem with the historical argument. It draws its force largely from the assumption that trademark law was relatively free of value conflict early on, when its narrow liability theory supposedly fit its underlying rationale tightly. But there was never a time when trademark law was conflict-free in this way. Even when liability was limited to source confusion, there were cases in which trademark protection collided with pro-competition values or competing rights.¹⁸³ This was the reason, after all, why secondary meaning was required for descriptive marks and why courts originally developed what we today call the functionality doctrine.¹⁸⁴

¹⁸⁰ See JAMES L. HOPKINS, *THE LAW OF UNFAIR TRADE* § 15 (1900) (explaining that trademark law serves two purposes: protecting sellers and protecting the consuming public); HARRY D. NIMS, *THE LAW OF UNFAIR BUSINESS COMPETITION* § 19 (1909) (same); FRANCIS H. UPTON, *A TREATISE ON THE LAW OF TRADEMARKS* 97-98 (1860) (same); Bone, *supra* note 7, at 560-61 (discussing the importance of both purposes).

¹⁸¹ See Edward C. Lukens, *The Application of the Principles of Unfair Competition to Cases of Dissimilar Products*, 75 U. PA. L. REV. 197, 204-05 (1927).

¹⁸² This describes the situation at the turn of the century, but it is important to note that it is only part of a broader story. By the 1930s, courts and commentators were also influenced by the idea that trademark law ought to protect trademark owners from free riding, as well as the closely related idea of protecting trademarks from blurring dilution. See Bone, *supra* note 7, at 592-99.

¹⁸³ In the late nineteenth century, these conflicts were often framed in terms of competing rights: the right of the trademark owner to its mark or goodwill (or to be free from deception) was set against the public's right to use a descriptive term or to copy product features not protected by patent or copyright. These rights were conceived as natural rights. See *id.* at 562-67; Bone, *supra* note 86, at 191-202. By the 1940s, many courts and commentators rejected the natural rights formalism of the earlier period and focused instead on achieving an optimal balance of social interests, featuring most prominently the social interest in preserving robust market competition. See Bone, *supra* note 7, at 585-89; Bone, *supra* note 86, at 202-08.

¹⁸⁴ Courts developed the functionality doctrine in the late nineteenth century to protect the public's right to copy and in the early twentieth century to promote competition. See

b. *Inadequate Efficacy*

The more significant problem with the McGeeveran-McKenna proposal is that it does not do enough to mitigate chilling effect problems. To be sure, confining liability to source confusion frees more room for favored uses by reducing the scope of trademark liability. But it still retains the vague and litigation-intensive LOC test. If a favored use is similar enough to activities of the trademark owner, consumers might very well believe the owner is actually behind the use, giving the trademark owner enough to allege source confusion.¹⁸⁵ This does not mean that the trademark owner will win a threatened trademark suit, but it does mean that limiting liability to source confusion is unlikely to reduce litigation costs and chilling effects substantially.

To illustrate, consider descriptive uses. In cases where a direct competitor uses a descriptive mark to describe its own products, the trademark owner should have no trouble framing a source confusion theory simply by alleging that consumers are likely to believe that the trademark owner is selling the competitor's goods.¹⁸⁶ The same is true for the sale of used or reconditioned goods; the trademark owner need only allege that consumers might believe that it sells used or reconditioned goods as well as new ones. Even nominative uses can be framed under a source confusion theory.

2. Adjusting the Likelihood-of-Confusion Test

A better approach to the chilling effect problem for favored uses not subject to categorical exclusion is to give favored users some way to exit litigation at the pleading stage, before the trademark owner can force the suit into costly discovery. The challenge is to find a way to do this that still allows for the imposition of liability in exceptional cases. There is a rather straightforward solution: require trademark owners to demonstrate at the pleading stage that the case is exceptional—that is, that there is a good reason to believe it involves very serious confusion as well as serious harm. More precisely, a trademark owner bringing a favored use case should have to plead (and prove) the following three elements for infringement: (1) the mark actually has

Bone, *supra* note 86, at 191-208. Expressive uses did not produce conflicts, but that is probably because marks were not used in the range of expressive ways they are today.

¹⁸⁵ Some favored uses are sufficiently different from anything the trademark owner would conceivably engage in that source confusion is highly implausible. But this is not true in general. And if McGeeveran's and McKenna's proposal is adopted, lawyers for trademark owners will have strong incentives to reframe sponsorship confusion theories in terms of source confusion.

¹⁸⁶ The *KP Permanent Make-Up* case, for example, can be framed in terms of source confusion. *KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc.*, 543 U.S. 111, 116 (2004). So too can the *Zatarains* case in which the court found descriptive fair use. *Zatarains, Inc. v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 787-89 (5th Cir. 1983).

secondary meaning, (2) the defendant's use is actually producing substantial source or sponsorship confusion, and (3) this confusion creates a significant risk of serious trademark-related harm.¹⁸⁷

To satisfy the first element, the trademark owner would have to allege secondary meaning in all these favored-use cases, even those involving inherently distinctive marks. The purpose of this requirement is to assure that the mark actually serves as a source identifier so that its use by others is capable of generating trademark-related confusion.¹⁸⁸ When the Supreme Court incorporated a secondary meaning requirement into the test for protecting product design trade dress in *Walmart Stores, Inc. v. Samara Bros., Inc.*,¹⁸⁹ it justified its holding as a way to reduce the risks of anti-competitive strike suits.¹⁹⁰ My proposal shares a similar goal.

The second and third elements are the most important. The second element requires that the trademark owner plead (and prove) actual confusion (not just a likelihood) for a substantial fraction of the consumer group. The purpose is to assure that there is enough support for a serious confusion risk to warrant discovery and a more intensive factual inquiry. The current LOC test does not require evidence of actual confusion, and this makes it too easy for a trademark owner to get past the pleading stage even when the case involves no significant confusion at all.

Also, the trademark owner must plead source or sponsorship confusion in my proposal, and not initial-interest or post-sale confusion. The reason for excluding the latter confusion theories is that they are too easy to allege and the types of confusion they target are unlikely to produce significant trademark-related harm in favored use cases.¹⁹¹ In addition, my proposal also

¹⁸⁷ The use must still be classified as a favored use, which we saw created problems for categorical exclusions. But it should be less problematic here. With the modified LOC test available to catch serious confusion, courts can be more generous with classification and include any use that is even arguably favored.

¹⁸⁸ A mark has "secondary meaning" when a substantial number of consumers actually use the mark to designate a single source of a product, i.e., when the mark actually functions as a source-identifier. See 2 MCCARTHY, *supra* note 27, § 15:5 (explaining the secondary meaning concept). This requirement should not be difficult to satisfy in most cases. For example, descriptive marks always require secondary meaning, so the use of a descriptive term that also describes the plaintiff's product is already covered, and nominative use makes sense only when the plaintiff's mark actually serves as a source identifier for the plaintiff. However, marks on used or reconditioned goods can be inherently distinctive and thus protectable without proof of secondary meaning. Therefore, my proposal would change current law in these cases.

¹⁸⁹ 529 U.S. 205 (2001).

¹⁹⁰ *Id.* at 213-14 (discussing the proposed requirements and how they minimize the negative effects of anticompetitive strike suits).

¹⁹¹ Initial-interest confusion without any point-of-sale confusion is not likely to create substantial harm, especially over the Internet. See Bone, *supra* note 7, at 612-14 (discussing

requires that the trademark owner allege reliable factual support for the existence of actual confusion.¹⁹² While any type of direct evidence will do, trademark owners will probably have to conduct consumer surveys in most cases.

The third element requires the trademark owner to plead (and prove) a significant risk of serious trademark-related harm. By “trademark-related harm,” I mean harm that threatens the information-transmission function of marks. For example, there is trademark-related harm when the defendant’s product competes directly with the plaintiff’s and the defendant’s use leads consumers to believe that the plaintiff is actually selling the defendant’s product. In that case, the mark cannot identify a single source, cannot perform its information-transmission function, and therefore cannot generate the social benefits that trademark law is supposed to produce. Even sponsorship confusion with noncompeting products can produce trademark-related harm when the confusing use is on a lower quality product and thus distorts the trademark owner’s reputation and thus impairs the mark’s ability to communicate accurate reputational information to consumers.¹⁹³ In sponsorship confusion cases, however, the trademark owner will have to actually plead (and prove) a significant risk of serious reputational harm.

To make this proposal work effectively, judges must be willing to apply the plausibility pleading standard aggressively in favored-use cases.¹⁹⁴ The reason

the emergence of the initial-interest confusion theory). Moreover, post-sale confusion does not create serious trademark harm unless the defendant’s product is a prestige good or has conspicuous features that are low quality compared to what consumers have come to expect from the trademark owner. *See id.* at 607-12 (discussing the rise of post-sale confusion theory).

¹⁹² The purpose is to avoid circumstantial evidence that ends up supporting only a likelihood of confusion without any evidence of actual confusion, and also to rule out anecdotal stories from unrepresentative consumers.

¹⁹³ The trademark owner is also foreclosed from entering the defendant’s market with its own mark. It is not clear, however, whether trademark law should prevent harm from market foreclosure. *See Bone, supra* note 38, at 1369-70; Lemley & McKenna, *supra* note 44, at 170-77. In any event, this type of harm is not likely to arise in favored use cases. For example, Lexus is not foreclosed from using its LEXUS mark for brokerage services just because the Tabaris refer to Lexus nominatively in connection with their brokerage service. *See Toyota Motor Sales, U.S.A., Inc. v. Tabari*, 610 F.3d 1171 (9th Cir. 2010). The only conceivable sponsorship confusion harm in that case is harm to the reputational signal of the LEXUS mark, not to Toyota’s ability to use that mark in other market contexts. Descriptive use is the same. And the problem in the resale use cases is not that the original seller is unable to enter the resale market, but rather that consumers of used or reconditioned goods will blame the trademark owner when those goods do not meet the owner’s quality standards.

¹⁹⁴ *See Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (declaring that a properly pleaded complaint must plausibly suggest that the complaining party is entitled to relief); Bell Atl.

to be aggressive at the pleading stage—to screen frivolous suits and thereby reduce the chilling effects produced by the threat of high litigation costs—generally matches one of the main reasons the Supreme Court adopted the plausibility standard in the *Twombly* and *Iqbal* cases.¹⁹⁵ Indeed, some courts have been willing to apply the plausibility standard fairly strictly to trademark cases.¹⁹⁶

It is also important that courts be very careful about granting preliminary injunctions. The easy availability of preliminary relief enhances the effectiveness of a litigation threat since it prevents the favored user from earning profits while the lawsuit is ongoing. In particular, before granting a preliminary injunction, courts should require trademark owners to demonstrate a substantial likelihood of proving both actual confusion *and* a significant risk of serious trademark-related harm, and also insist on actual proof of irreparable injury that outweighs the competition harm in enjoining the use.¹⁹⁷ It is important that each of these elements be actually proved and not just presumed, and that courts refrain from inferring irreparable injury merely from proof of likely or actual confusion.¹⁹⁸ Some courts have moved in this direction

Corp. v. *Twombly*, 550 U.S. 544, 557 (2007) (same). See generally Robert G. Bone, *Plausibility Pleading Revisited and Revised: A Comment on Ashcroft v. Iqbal*, 85 NOTRE DAME L. REV. 849 (2010).

¹⁹⁵ *Twombly*, 550 U.S. at 557-59 (expressing concerns about high discovery costs pressuring parties to settle frivolous and weak cases); see also *Iqbal*, 556 U.S. at 686 (mentioning the need “to give real content to the concept of qualified immunity for high-level officials who must be neither deterred nor detracted from the vigorous performance of their duties”).

¹⁹⁶ See, e.g., *Fair Wind Sailing, Inc. v. Dempster*, 764 F.3d 303, 305, 312 (3d Cir. 2014) (affirming a Rule 12(b)(6) dismissal for failure to state a claim in a trade dress case); *Fortres Grand Corp. v. Warner Bros. Ent. Inc.*, 763 F.3d 696, 700-01, 706 (7th Cir. 2014) (affirming a Rule 12(b)(6) dismissal for failure to state a claim in a case involving the use of the plaintiff’s trademark in a movie); *Brown v. Elec. Arts, Inc.*, 724 F.3d 1235, 1247-48 (9th Cir. 2013) (affirming a Rule 12(b)(6) dismissal of an expressive use case for failure to state a claim).

¹⁹⁷ Courts assess several factors when deciding whether to grant a preliminary injunction, including whether the plaintiff is likely to suffer irreparable injury while the lawsuit is pending, the likelihood of success on the merits, the balance of hardships (in granting versus denying the preliminary injunction), and the effect on the public interest. See, e.g., *Winter v. Nat’l Res. Def. Council, Inc.*, 555 U.S. 7, 20-22 (2008). In my proposal, the trademark owner would have the trial burden to prove actual confusion and a significant risk of serious trademark-related harm. Therefore, these two factors would also be relevant to likelihood of success on the merits at the preliminary injunction stage. Moreover, irreparable injury is a standard preliminary injunction requirement, and weighing the harms on both sides is required by the balance-of-hardships factor.

¹⁹⁸ In the *Tabari* case, for instance, some significant fraction of consumers might actually have believed that the Tabaris were authorized Lexus brokers, but the resulting confusion was unlikely to produce any trademark-related harm as long as the Tabaris’ service was of

after the Supreme Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*,¹⁹⁹ but not all courts have.²⁰⁰ It is important that they all do—by insisting that the requirements for granting a preliminary injunction be separately established without relying on presumptions.²⁰¹

My proposal will not eliminate all chilling effects. A prospective user might still worry that its use will mistakenly incur liability even with these additional requirements in place. But errors under my proposal are highly unlikely for standard forms of nominative use, descriptive use, resale use, and the like. Moreover, the user can reduce the residual error risk by adding disclaimers or taking other precautions. It is impossible to eliminate all risk and still catch exceptional cases, but a stiffer pleading burden coupled with careful review at the preliminary injunction stage should go a long way in the right direction.

Under my proposal, trademark owners with meritorious suits might have to incur substantial costs before filing. For example, they might have to conduct surveys and consult experts to gather enough information to make the necessary allegations and support preliminary relief. But that is exactly the point. The goal is to force a trademark owner to make a more careful investigation of the facts before filing suit.

high quality. *See Tabari*, 610 F.3d 1171. Lexus might worry about reputation harm if quality were to decline while its suit is pending, but the Tabaris have an obvious incentive to maintain high quality. In any event, this is a risk that the trademark owner must bear in order to create breathing room for favored uses.

¹⁹⁹ 547 U.S. 388 (2006). The *eBay* Court held that it was improper to grant a permanent injunction in a patent case merely on proof of patent validity and infringement without considering the equitable factors, including irreparable injury, adequacy of the available remedies at law, balance of hardships, and the public interest. *Id.* at 391-94. And two years later, the Court made clear in a non-IP case that the mere possibility of irreparable injury was insufficient to support preliminary injunctive relief. *See Winter*, 555 U.S. at 22.

²⁰⁰ *See, e.g., Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc.*, 645 F.3d 26, 33-35 (1st Cir. 2011) (leaving the question undecided whether it is proper after *eBay* to presume irreparable injury from likelihood of success on the merits); *North Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211, 1227-28 (11th Cir. 2008) (same); 5 MCCARTHY, *supra* note 27, §§ 30:45-30:47.70 (stating that some lower courts presume irreparable injury on a strong enough showing of likelihood of success in proving LOC at trial, reasoning that LOC puts a firm's business reputation at risk and harm to reputation, once it occurs, is virtually impossible to reverse). However, there seems to be a trend toward requiring actual proof of irreparable injury. *See, e.g., Herb Reed Enters., LLC v. Fla. Entm't Mgmt., Inc.*, 736 F.3d 1239, 1249 (9th Cir. 2013).

²⁰¹ Moreover, a showing of loss of control over goodwill should not be sufficient alone to establish irreparable injury without additional proof that the loss of control is likely to produce serious harm (for example, because the defendant sells low quality products).

This proposal could increase total litigation costs.²⁰² Judges will spend more time and effort reviewing complaints and preliminary injunction motions when the requirements are stricter. Moreover, parties will spend more resources on briefing and arguing motions.²⁰³ Still, it is also possible that fewer suits will be filed if the stricter pleading and preliminary injunction review works the way it is supposed to and screens frivolous filings.²⁰⁴ In that case, total litigation costs might not increase all that much—and might even decline.

It is possible that trademark owners will continue to send cease-and-desist letters even with a stiff pleading burden and strict preliminary injunction review. If those letters intimidate prospective users, the trademark owner might never have to deal with the additional litigation burden. However, as long as prospective users know about the new requirements—and websites and lawyers should be able to inform them fairly easily—cease-and-desist letters will have to include some evidence of actual confusion and reputational harm in order to be credible. Therefore, a letter that contains only bare allegations of likely confusion should signal a prospective user that the trademark owner is bluffing.

One problem with this proposal is that trademark owners might not be able to prevent harm in advance. Since a trademark owner must allege actual confusion and support the allegation with facts, confusion must actually exist before suit is filed. If this confusion causes serious harm, a trademark owner would have to bear some of that harm before being able to sue to prevent it. This is a legitimate concern, but it is hardly decisive against my proposal. Recall that a trademark owner need only plead a significant *risk* of serious trademark-related harm, not the existence of actual harm itself. This means that suit can be filed and a preliminary injunction obtained before much, if any, harm actually materializes. In fact, trademark owners today often discover infringing uses only after those uses have begun and thus already placed the owner at risk of harm.

²⁰² This point might seem a bit odd, since it is the high costs and risks of litigation that fuel cease-and-desist strategies today. But if litigation threats succeed in chilling all uses, then no lawsuits would be filed and no litigation costs would be incurred. Thus, the fact that lawsuits are costly when litigated does not necessarily mean that total litigation costs are high.

²⁰³ It is useful to note that the increase in upfront expenditures will not necessarily increase costs if the pre-filing factual investigations would have been conducted anyway later in the litigation process. Shifting these costs to the pleading stage will increase total litigation costs only if the parties would have settled before incurring those costs at a later stage.

²⁰⁴ Those trademark owners bent on filing strike suits might fabricate the necessary allegations to get past the pleading stage. But this should be much more difficult when judges insist on strong factual support and carefully examine the merits before granting preliminary relief.

In sum, the approach endorsed here follows McGeeveran and McKenna in eliminating initial-interest and post-sale confusion, but it parts company with them in retaining sponsorship confusion. Substantively, it alters the requirements for infringement to include secondary meaning, substantial actual confusion, and a significant risk of serious confusion-related harm. And procedurally, it imposes a stiff burden on the trademark owner to plead these new elements and admonishes courts to be strict about granting preliminary injunction motions.

CONCLUSION

This Article has argued that notice failure plays out differently in trademark law than in copyright and patent, and that those differences call for a different analysis and a different regulatory response. The primary notice problems in trademark law involve uncertainty about the scope of rights, and the principal culprit is the vague LOC test for liability. This test makes it hard for a prospective user to have confidence in advance that its use is lawful. More importantly, it generates high litigation costs. As a result, trademark owners can discourage perfectly lawful and socially beneficial uses by sending threatening cease-and-desist letters.

The seriousness of these chilling effects varies with the user and type of use. Favored uses are particularly significant because they confer large social benefits, but not all favored uses are equally susceptible to chilling effects. This depends on the user's ability to handle litigation cost and risk. Indeed, it is hard to know without more empirical information just how serious the chilling effect problem is for different types of uses.

Assuming chilling effects are serious enough to warrant some type of regulation, the optimal regulatory response involves a mix of categorical defenses and stricter liability standards enforced through stiff pleading and preliminary injunction requirements. Core expressive use and also perhaps the non-expressive use of product-design trade dress should be protected by defenses in the form of categorical exclusions. But nominative, descriptive, and resale uses should be handled by a modified LOC test. In particular, trademark law should impose liability only for source or sponsorship confusion at the point of sale; it should require the trademark owner to plead (and prove) secondary meaning, actual confusion, and confusion-related harm, and it should insist on a careful judicial review of preliminary injunction motions. These measures will not eliminate all chilling effect problems, but they should have a major positive impact while still leaving open the possibility of trademark relief in exceptional cases.

Thus, notice is important in trademark law just as it is in other IP fields. We understand today, perhaps more clearly than we did in the past, that litigation costs can combine with notice defects to produce chilling effects. The solution is to reduce the costs of litigation for lawful users, and the best way to reduce costs is through a mix of substantive and procedural measures. The result will be a better policy balance and a superior system of trademark rights.