

## THE CASE FOR A LIMITED PROTECTION OF TRADEMARK MERCHANDISING

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*Since its judicial creation in the 1970s, strong controversy has surrounded the practice of trademark merchandising. Trademark scholars have generally opposed merchandising rights because of the departure from the traditional interpretation of trademark law—protecting consumers and market competition—in favor of a direct protection of trademark value. Despite this opposition, courts and Congress have favored the acceptance of this practice by broadening the scope of trademark protection and by introducing the concept of confusion as to the products’ “sponsorship” or “affiliation” as part of the standard for trademark infringement. Not surprisingly, trademark scholars have criticized these developments but have not offered, so far, a solution that is responsive to the changes that have affected the role of marks in the past decades. This Article fills this gap and, contrary to the position of the majority of scholars, advocates in favor of providing legal protection to trademark merchandising under the current rule of trademark law. Specifically, this Article accepts that in the modern economy the concept of commercial source can also include products’ sponsorship and affiliation as indicated by the courts and accepted by the legislature. Based upon this premise, this Article recognizes that the use of trademarks on promotional products that are offered for sale can legitimately serve the traditional distinctive function of trademarks and indicate to the public the origin*

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*of the marked products, at least in terms of trademark owners' sponsorship or affiliation. Contrary to common criticism, this recognition of merchandising marks as legitimate source indicators would not negatively affect competition in the market or consumers. Instead, it would finally provide a clear guideline in this important area of the law and subject trademark merchandising to the general rules for the acquisition and enforcement of trademark rights as well as to existing trademark defenses and fair uses.*

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## I. INTRODUCTION

The trademark debate has long been dominated by strong disagreements over the scope of trademark protection.<sup>1</sup> Trademark theorists have argued that trademark law should exclusively protect consumers and market competition, whereas practitioners and trademark owners have supported the position that the law should primarily protect the value of trademarks.<sup>2</sup> In recent decades, as the role of trademarks has reached unprecedented importance in society, these disagreements have grown stronger and created a dangerous divide between trademark theory and practice.<sup>3</sup> In turn, this divide has created increasing uncertainty in fundamental aspects of trademark law and policy to the detriment of fair competition in the marketplace. In previous works, I have considered this uncertainty with respect to trademark assignment<sup>4</sup> and trademark licensing,<sup>5</sup> and I have proposed solutions that could bridge the divide between trademark theory and practice in these areas while still protecting consumers and market competition. In this Article, I advance my efforts to bridge this dangerous divide by addressing one of the most controversial aspects of the trademark debate—trademark merchandising.<sup>6</sup>

A booming trademark practice and a ubiquitous phenomenon in today's society, trademark merchandising made its first appearance a few decades ago in the sports world<sup>7</sup> and has since emerged as one of the most fruitful marketing and sales techniques in the modern economy.<sup>8</sup>

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1. For the historical development of trademark law, see FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* (1925).

2. See discussion *infra* Part III.A. A “trademark” is defined as “any word, name, symbol, or device . . . used . . . to identify and distinguish . . . goods . . . from those manufactured or sold by others” by the Trademark (Lanham) Act of 1946 § 45, 15 U.S.C. § 1127 (2006). The Lanham Act defines a “service mark” similarly. See *id.* This Article will use the terms “trademark” and “mark” interchangeably to refer to any word or symbol protected under the Lanham Act.

3. See, e.g., Thomas D. Drescher, *The Transformation and Evolution of Trademarks—From Signals to Symbols to Myth*, 82 TRADEMARK REP. 301 (1992).

4. Irene Calboli, *Trademark Assignment “With Goodwill”: A Concept Whose Time Has Gone*, 57 FLA. L. REV. 771, 832 (2005) (proposing a rule of assignment “with or without goodwill” that would reflect current judicial decisions and still focus primarily on protecting consumers and market competition).

5. Irene Calboli, *The Sunset of “Quality Control” in Modern Trademark Licensing*, 57 AM. U. L. REV. 341, 396 (2007) (suggesting a change toward licensing “with or without control” in line with current case law and based on the assessment of consistent product quality rather than business control, to the advantage of both trademark owners and consumers).

6. Although trademark merchandising represents a growing business technique in most market sectors, to date no dictionary or other source provides a definition of “trademark merchandising” or “merchandising rights” in the business or legal context. For a criticism of the lack of such definition, and its consequences, see discussion *infra* Part II, where I provide a tentative definition of this practice. This Article will use the terms “trademark merchandising,” “merchandising,” and “merchandising rights” interchangeably.

7. See discussion *infra* Part III.B.1.

8. For a list of the top global brands, see *100 Best Global Brands*, BUS. WK., Sept. 28, 2009, at 50 (reporting that in 2009 the “top five” brands were: COCA-COLA, IBM, MICROSOFT, GE, and NOKIA); see also Christina Binkley, *Like Our Sunglasses? Try Our Vodka!*, WALL ST. J., Nov. 8, 2007, at D1 (“We have entered into an age of luxury-brand extensions gone wild. Luggage companies

Technically, with the expressions “trademark merchandising” or “merchandising rights,” business operators refer to the use of trademarks on products unrelated to trademark owners’ primary activity—HARLEY-DAVIDSON jackets or HARLEY-DAVIDSON key chains, in addition to HARLEY-DAVIDSON motorcycles, for example—directly or more commonly under licensing agreements with professional manufacturers of these promotional products.<sup>9</sup> As this Article elaborates, companies and other entities generally engage in merchandising activities to establish or increase consumer affiliation and build brand image.<sup>10</sup> For the owners of famous marks, merchandising products also represent an increasingly relevant source of additional sales and profits.<sup>11</sup> A visit to any local mall or department store invariably demonstrates the market relevance of merchandising goods. With many possible variations, we could encounter: mugs with the logos of our favorite baseball or basketball teams; jackets or t-shirts with a large choice of college or sports emblems; collector items with a variety of symbols, from the OLYMPIC GAMES to RACE FOR THE CURE; and also calendars, pencils, and key chains with the logos of these stores.

Interestingly, despite the pervasiveness of merchandised products in our society, the scope of the protection of trademark merchandising is not explicitly defined under the rule of trademark law but instead constitutes one of the most controversial issues in the trademark debate.<sup>12</sup> Historically, the validity of trademark merchandising was first addressed by a series of judicial decisions in the 1970s that expanded the interpretation of the traditional requirement for trademark infringement—“likelihood of consumer confusion”—to include confusion as to the products’ “sponsorship” or “affiliation” to directly protect trademarks used on promotional goods.<sup>13</sup> Generally, the majority of scholars criticized this judicial

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make clothes, clothing makers make chocolate, and practically everyone makes watches and perfume.”).

9. See RICHARD RAYSMAN ET AL., *INTELLECTUAL PROPERTY LICENSING: FORMS AND ANALYSIS* § 4.08[2] (2010) (explaining the advantages of licensing, including increased market presence and brand awareness). On the use of licensing in the merchandising context, see W.J. Keating, *Promotional Trademark Licensing: A Concept Whose Time Has Come*, 89 DICK. L. REV. 363, 363 (1985) (noting that promotional licensing has developed into a “substantial line of commerce”). For detailed definitions of this practice, see *infra* note 35. This Article will use the terms “trademark licensing,” “licensing,” and “licensing agreement” interchangeably.

10. See Charles W. Grimes & Gregory J. Battersby, *The Protection of Merchandising Properties*, 69 TRADEMARK REP. 431, 432 (1979). Businesses and other entities also engage in complimentary promotional products as a means for advertising their activities. See *Best Things at Show Are Free?*, USA TODAY, Apr. 5, 1994, at 11E.

11. HARLEY-DAVIDSON has found it financially advantageous, for example, to engage in extensive merchandising activities. Jerry Shriver, *Richer, Older ‘Like Everyone Else,’* USA TODAY, Mar. 8, 2002, at 1A.

12. See, e.g., 4 J. THOMAS MCCARTHY, *MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION* §§ 24:10–12 (4th ed. 2010) (offering a comprehensive analysis of the positions on trademark merchandising).

13. *But see* Stacey L. Dogan & Mark A. Lemley, *The Merchandising Right: Fragile Theory or Fait Accompli?*, 54 EMORY L.J. 461, 473–75 (2005) (arguing that the courts’ reasoning in these cases

shift, arguing that recognizing merchandising rights would result in protecting trademarks beyond their function as indicators of commercial “source” to the detriment of competition.<sup>14</sup> Regardless of these criticisms, courts continued to favor this practice, as merchandising grew in popularity due to changes in the economy, the rise of consumerism, and the globalization of trade.<sup>15</sup> Eventually, this judicial favor for merchandising and for trademarks in general also reached the legislature, and in 1988 the doctrine of “confusion as to the sponsorship” was introduced into the Federal Trademark Act (Lanham Act).<sup>16</sup> The adoption of the Federal Trademark Dilution Act (FTDA) in 1995 continued this trend and enhanced the protection of trademark value for famous marks regardless of any consumer confusion by basing it on a likelihood of dilution of trademark distinctiveness.<sup>17</sup>

Hence, although undoubtedly a “*fait accompli*”<sup>18</sup> in trademark practice, neither the judiciary nor Congress ever adequately framed the protection of merchandising rights in the legal context. Predictably, this has left room for doctrinal opposition. This opposition has in turn created uncertainty in this area also because, while criticizing the courts’ approach to trademark merchandising, opponents have so far not offered an alternative solution that is responsive to the changes that have affected the role of trademarks in the modern economy.<sup>19</sup> This Article argues against this uncertainty and, contrary to the position expressed by the majority of scholars, advocates for explicitly protecting trademark merchandising under current trademark rules. Specifically, this Article accepts that, in the modern economy, the notion of commercial source could also include products’ sponsorship or affiliation—a concept that can no longer be ignored although it needs to be interpreted cautiously.<sup>20</sup>

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was circular and fallible). For the statutory requirement for trademark infringement, see Lanham Act §§ 32, 43, 15 U.S.C. §§ 1114, 1125 (2006).

14. See Veronica J. Cherniak, *Ornamental Use of Trademarks: The Judicial Development and Economic Implications of an Exclusive Merchandising Right*, 69 TUL. L. REV. 1311, 1355 (1995) (“Granting trademark owners exclusive rights to the commercial value of their marks would create inefficient, restricted access markets.”); Dogan & Lemley, *supra* note 13, at 472 (“Rather than indicating something to the consumer about the source . . . of a product, the mark is the product . . .”).

15. See discussion *infra* Part III.B.

16. Trademark Law Revision Act of 1988, Pub. L. No. 100-667, sec. 132, § 43(a), 102 Stat. 3935, 3946 (1988) (amending 15 U.S.C. §§ 1051–1141n); see discussion *infra* Part III.B.2.

17. Federal Trademark Dilution Act (FTDA) of 1995, Pub. L. No. 104-98, secs. 3(a), 4, §§ 43, 45, 109 Stat. 985, 985–86 (codified as amended at 15 U.S.C. §§ 1125, 1127) (effective Jan. 16, 1996). The FTDA has been amended by the Trademark Dilution Revision Act (TDRA) of 2006, Pub. L. No. 109-312, secs. 2, 3(e), §§ 43, 45, 120 Stat. 1730, 1733 (codified as amended at 15 U.S.C. §§ 1125, 1127) (effective Oct. 6, 2006). See discussion *infra* Part III.B.2.

18. Dogan & Lemley, *supra* note 13, at 506.

19. See discussion *infra* Part II.

20. This Article acknowledges that profound changes in product manufacturing have affected the concept of commercial “source” and that “source” legitimately extends to trademark owners’ “sponsorship” of, or “affiliation” with, the marked products as affirmed by the courts and accepted by Congress. This Article does not accept, however, an extensive interpretation of “sponsorship” and “affiliation” beyond situations where marks are actually used to identify products that are offered for sale in the market. See also *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003). “[R]eading the phrase ‘origin of goods’ in the Lanham Act in accordance with the Act’s common-law

Accordingly, this Article recognizes that marks used to identify promotional products could legitimately fulfill the traditional distinctive function of trademarks and indicate to the public the source of these products, at least in terms of products' sponsorship or affiliation. Contrary to common criticism, this explicit protection of merchandising would not unnaturally expand the scope of trademark law. The acquisition and enforcement of trademark rights on promotional products would continue to be subjected to the existing trademark rules and defenses.<sup>21</sup> This explicit recognition of merchandising, however, would benefit the legal system by offering a needed guideline in this important area of the law and the economy, notably by clarifying that trademarks used on merchandising products should follow general trademark principles.<sup>22</sup>

The Article proceeds as follows: Part II addresses the absence, to date, of a satisfactory legal framework for trademark merchandising and clarifies that marks used on promotional products, directly by trademark owners or under licensing, could legitimately identify products' commercial source, at least in terms of business control. Part III reconstructs the history of merchandising, recounts its judicial creation, and considers whether merchandising protection could be framed under existing statutory provisions, in particular antidilution law. Part IV explores the traditional academic criticism against merchandising rights, the established acceptance of this practice in the business world, and stresses the unwelcome consequences of the lack of a clear position on the issue. Part V highlights the flaws of the arguments currently characterizing the merchandising debate and concludes the Article by supporting the case for protecting trademark merchandising under the current norms and doctrines applied to all marks.

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foundations . . . we conclude that the phrase *refers to the producer of the tangible goods that are offered for sale*, and not to the author of any idea, concept, or communication embodied in those goods." *Id.* at 37 (emphasis added). On the concept of "source" in modern trademark law, and the problem therewith, see Mark A. Lemley & Mark McKenna, *Irrelevant Confusion*, 62 STAN. L. REV. 413 (2010) (criticizing the expansion of products' source so as to encompass a large variety of untraditional situations not related to the sale of goods) and Mark P. McKenna, *Trademark Use and the Problem of Source*, 2009 U. ILL. L. REV. 773, 821.

21. On the problems related to the application of defenses and fair use in trademark law, see generally William McGeveran, *Rethinking Trademark Fair Use*, 94 IOWA L. REV. 49, 54 (2008) (offering a comprehensive review of the issues affecting the practical implementation of fair use in trademark law, with particular attention to chilling effects in the market due to competitors' risk aversion and high costs of litigation).

22. This Article focuses on the analysis of trademark merchandising with respect to the use of trademarks on promotional goods that are offered for sale and does not elaborate on the problems surrounding the interpretation of products' "sponsorship" and "affiliation" beyond these uses. This Article also does not specifically address questions purely related to the expressive use of trademarks or freedom of speech and antitrust issues that can derive from the indiscriminate use of trademark merchandising and the non-appropriate use of trademark defenses. For a general discussion on these aspects, see Mark A. Lemley & Mark P. McKenna, *Owning Mark(et)s*, 109 MICH. L. REV. 137 (2010); Lisa P. Ramsey, *Increasing First Amendment Scrutiny of Trademark Law*, 61 SMU L. REV. 381 (2008). On antitrust issues, see *Am. Needle, Inc. v. Nat'l Football League*, 130 S. Ct. 2201, 2208–11 (2010); *Out of Many, One*, ECONOMIST, Jan. 23, 2010, at 32.

## II. DEFINING TRADEMARK MERCHANDISING

Undoubtedly a widespread technique in the business world, trademark merchandising still lacks a precise framework in the legal context. Specifically, while the terms “trademark merchandising,” “promotional merchandising,” and “merchandised products” have been used by courts, academics, and legal practitioners for many years, no dictionary, court decision, or academic article has provided, so far, a precise definition of these terms or has clearly identified the requirements and the legal boundaries of merchandising rights.<sup>23</sup> Not surprisingly, because of the absence of a precise framework for these important aspects, confusion and inconsistent debates have traditionally dominated this area of the law.<sup>24</sup>

Although not comprehensive, general definitions of merchandising can nonetheless be found in major dictionaries, which describe this practice primarily as “promotion of sales (of goods) by advertising and publicity” or as “sales promotion” that could include “market research, development of new products, coordination of manufacture and marketing, and effective advertising and selling.”<sup>25</sup> Unfortunately, these definitions do not elaborate on the nature or the conditions for the validity of this activity of “sale promotion” or address details such as who can legitimately practice it and under what conditions. On the other side, specialized legal dictionaries do not offer any definition of the terms “trademark merchandising,” “merchandising rights,” or “promotional merchandising,” thus corroborating the conclusion that, although widely accepted in the business world, the recognition of this practice in the legal context remains uncertain.<sup>26</sup>

Besides this lack of guidance from legal dictionaries, court decisions and academic writings have also traditionally fallen short of exhaustively defining trademark merchandising or merchandising rights. In particular, courts and scholars have predominately focused their analyses on describing, positively or negatively, the rationale and effect of merchandising as a business technique rather than providing a general legal framework for this practice.<sup>27</sup> Specifically, courts have defined merchan-

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23. Current literature reflects the lack of a precise definition of these terms. For specific definitions by dictionaries, courts, and scholars, see *infra* notes 25–26 and accompanying text.

24. See discussion *infra* Part IV.A.

25. WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY 742 (1983). The Oxford English Dictionary, however, does not define “merchandising” and only provides a definition of “trade-marking” under the word “trade-mark” as “to affix or imprint a trade-mark upon.” 18 OXFORD ENGLISH DICTIONARY 351 (2d ed. 1989).

26. Black's Law Dictionary provides a definition of “merchandise” as “a movable object involved in trade or traffic; that which is passed from hand to hand by purchase and sale.” BLACK'S LAW DICTIONARY 1008 (8th ed. 2004).

27. See Cherniak, *supra* note 14, at 1345–54 (criticizing the possible market distortion resulting from merchandising). But see Robert C. Denicola, *Institutional Publicity Rights: An Analysis of the Merchandising of Famous Trade Symbols*, 62 N.C. L. REV. 603, 627–31 (1984) (arguing that the impact of merchandising rights on market competition would be negligible).

dising as an “attempt to capitalize on public receptiveness to a concept, idea or word which [a company] has been responsible for creating or popularizing,”<sup>28</sup> or as the use of trademarks “to identify and distinguish a ‘secondary source’ in the sense of indicating sponsorship or authorization by a recognized entity.”<sup>29</sup> Similarly, scholars have described merchandising rights as, for example, “affix[ing] a trademark to products primarily to attract customers who wish to express allegiance, association, or sympathy with the trademark owner”<sup>30</sup> or, more negatively, as “‘trafficking’ in trademarks in order to exploit the pure fame and publicity value of a mark.”<sup>31</sup>

Given the importance of merchandising in today’s economy, however, this definitional uncertainty should be addressed. Undoubtedly, as indicated by the various descriptions above, the activity undertaken as trademark merchandising consists of exploiting trademark goodwill, or attractive power, by using trademarks on promotional products, such as sweatshirts, jackets, key chains, or pencils, to create consumer affiliation and increase brand image.<sup>32</sup> Generally, this activity can also be grouped in two different types of merchandising depending on the marks at issue. On one side, “brand exploiter” merchandising is where famous or luxury marks, such as RED SOX, HARLEY-DAVIDSON, or college logos, are used on unrelated products to enhance customer affiliation and to generate profits through the sale of the merchandised goods.<sup>33</sup> On the other side, “advertising” merchandising is where ordinary marks or marks operating in less brand sensitive sectors, such as STATE FARM,

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28. *Am. Footwear Corp. v. Gen. Footwear Co.*, 609 F.2d 655, 660 (2d Cir. 1979).

29. *Univ. Book Store v. Univ. of Wis. Bd. of Regents*, 33 U.S.P.Q.2d (BNA) 1385, 1405 (T.T.A.B. 1994). Similarly, courts have described merchandised products as “properties [that] . . . create consumer demand for products with which they are associated.” *Universal City Studios, Inc. v. Montgomery Ward & Co.*, 207 U.S.P.Q. (BNA) 852, 858 (N.D. Ill. 1980). “Trade-mark merchandising means merchandise that is extensively advertised, and being extensively advertised, must live up to high quality.” *Ely Lilly & Co. v. Saunders*, 4 S.E.2d 528, 533 (N.C. 1939), *overruled by* *Bulova Watch Co. v. Brand Distribs. of N. Wilkesboro, Inc.*, 206 S.E.2d 141, 151 (N.C. 1974).

30. Lisa H. Johnston, *Drifting Toward Trademark Rights in Gross*, 85 TRADEMARK REP. 19, 29 (1995).

31. Neil J. Wilkof, *Same Old Tricks or Something New? A View of Trade Mark Licensing and Quality Control*, 5 EUR. INTEL. PROP. REV. 261 (1996), *reviewed in* 87 TRADEMARK REP. 334, 335 (1997); *see also* Grimes & Battersby, *supra* note 10, at 431 (“‘Merchandising properties’ include any word . . . when used on or in association with a particular product, will create consumer demand therefor.”); Keating, *supra* note 9, at 363 (defining “Promotional Trademark Licensing” as “commercial activity” whereby “the consumer is more interested in identification with the trademark owner than in the quality of the goods bearing the trademark”).

32. *See* Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960, 961 (1993) (noting the “growing tendency to use trademarks not just to identify products but also to enhance or adorn them, even to create new commodities altogether”).

33. *See* Denicola, *supra* note 27, at 604 (arguing that consumers often seem willing to pay a higher price for products carrying their favorite logos). The importance of trademarks as brands and sources of revenue for companies is clearly explained by the growing relevance in the business world of publication such as *100 Best Global Brands*, *supra* note 8, at 50. On the same aspect, *see also* *Licensing Programmes*, INTANGIBLE BUSINESS, <http://www.intangiblebusiness.com/Brand-Services/Marketing-Services/Licensing-78.html> (last visited Mar. 20, 2011) (“Brand licensing generates new revenue streams and other commercial benefits for brands, with little direct cost.”).

COLDWELL BANKER, or grocery store logos, are used on promotional products as an additional form of advertising about the main activity of the entities they represent and where products are distributed to members of those entities or to the public complimentary.<sup>34</sup>

Although partially different in scope, brand exploiter and advertising merchandising nonetheless share the same legal structure and are usually based on licensing agreements.<sup>35</sup> Specifically, rather than producing the promotional products directly, trademark owners commonly outsource this production and authorize professional manufacturers to affix their marks on promotional products, either in exchange for a royalty for brand exploiter merchandising or at cost for advertising merchandising.<sup>36</sup> Not surprisingly, the licensing growth in past decades has played a fundamental role in the rise of merchandising activities and trademark owners have increasingly filed trademark applications with the U.S. Patent and Trademark Office (USPTO)<sup>37</sup> for products to be manufactured exclusively under licensing.<sup>38</sup> Still, as long as trademark owners formally control the quality of the products, the use of the marks by licensees con-

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34. See *Best Things at Show Are Free?*, *supra* note 10, at 11E (noting that in the early 1990s, company “freebies” were a “\$5.2 billion-a-year industry”). Examples of products in this industry include coasters, coffee mugs, t-shirts, hats, pens, desk accessories, notepads, and refrigerator magnets. *Id.*

35. The term “license” is defined by the Oxford English Dictionary as a “formal, usually a printed or written permission from a constituted authority to . . . carry on some trade. . . .” 8 OXFORD ENGLISH DICTIONARY 890 (2d ed. 1989). Black’s Law Dictionary defines “license” as a “permission, usu. revocable, to commit some act that would otherwise be unlawful. . . .” BLACK’S LAW DICTIONARY 938 (8th ed. 2004); see also 3 MCCARTHY, *supra* note 12, § 18:1 (“[A] license of a mark ‘is a limited permit to another to use the mark.’”); JOHN W. SCHLICHER, LICENSING INTELLECTUAL PROPERTY: LEGAL, BUSINESS, AND MARKET DYNAMICS 30–38 (1996) (highlighting the legal and economic factors in favor of trademark licensing).

36. See, e.g., GREGORY J. BATTERSBY & CHARLES W. GRIMES, LICENSING DESK BOOK 3, 4 (1999); see also GREGORY J. BATTERSBY & CHARLES W. GRIMES, LICENSING DESK BOOK, 2003 CUMULATIVE SUPPLEMENT 3, 5 (2003) (providing an overview of merchandising and brand licensing).

37. Trademark applications are filed with the U.S. Patent and Trademark Office (USPTO) identifying specific products under the classification established by the Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks, June 15, 1957, 23 U.S.T. 1336, [http://www.wipo.int/export/sites/www/treaties/en/classification/nice/pdf/trt\\_docs\\_wo019.pdf](http://www.wipo.int/export/sites/www/treaties/en/classification/nice/pdf/trt_docs_wo019.pdf). As this Article elaborates, trademark applications can be filed based on actual use or bona fide intent to use marks in commerce. See 3 MCCARTHY, *supra* note 12, § 19:10 (noting that proof of use is required for the issuing of trademark registrations); *infra* Part IV.2.

38. See, e.g., *In re Olin Corp.*, 181 U.S.P.Q. (BNA) 182, 183 (T.T.A.B. 1973) (stating that a company emblem on a t-shirt may be registered as a trademark for t-shirts); see also Olga Kharif, *Will GE Bring Good Things to Cameras?*, BUS. WK., Mar. 5, 2007, at 10 (discussing a licensing agreement where “eight digital cameras and a photo printer will be designed and marketed by a startup to be sold worldwide under the GE brand.”).

stitutes legitimate trademark use<sup>39</sup> as if trademark owners were using the marks directly.<sup>40</sup>

Based upon this premise, this Article suggests that, in the legal context, the terms “trademark merchandising” and “merchandising rights” explicitly refer to the use of trademarks on unrelated and promotional products directly by trademark owners, or most often under licensing agreements, to identify and distinguish these products in the market, for example a RED SOX hat from a YANKEES hat. As this Article elaborates, to explicitly recognize merchandising rights in these terms would not alter the scope of trademark protection but would instead cabin merchandising under current trademark rules. More importantly, it would provide protection only as long as marks continue to function as indicators of commercial source for products offered for sale even if only in terms of business approval, sponsorship, or affiliation, but not necessarily actual product manufacturing.<sup>41</sup>

### III. HISTORY AND DEVELOPMENTS OF TRADEMARK MERCHANDISING

Although still ill defined by dictionaries, courts, and academics, trademark merchandising constitutes one of the most prominent commercial strategies of today’s society. Whether trademarks are used on promotional products to build consumer affiliation or to exploit such affiliation and increase producers’ shares in unrelated market sectors, merchandised goods surround us everywhere. Still, since it first appeared in the marketplace, trademark merchandising has been somewhat at odds with traditional trademark theory due to the inherent value that this practice confers to trademarks per se.

Part III reconstructs the history of trademark merchandising with particular attention to its creation by courts, the continuing judicial developments, and the tension that this practice has brought to the traditional interpretation of trademark law and policies. Part III also addresses the possibility of framing merchandising protection within the existing norms of the trademark statute, specifically under the current provisions against trademark infringement and trademark dilution.

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39. The general premise for trademark protection is that marks are either in use or are intended to be in use. See Lanham Act § 1, 15 U.S.C. § 1051 (2006). In recent years, much debate has characterized this requirement. See, e.g., Margreth Barrett, *Internet Trademark Suits and the Demise of “Trademark Use,”* 39 U.C. DAVIS L. REV. 371, 378 (2006); Stacey L. Dogan & Mark A. Lemley, *Grounding Trademark Law Through Trademark Use*, 92 IOWA L. REV. 1669, 1675 (2007); cf. Graeme B. Dinwoodie & Mark D. Janis, *Confusion over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597, 1610 (2007).

40. See Lanham Act § 5, 15 U.S.C. § 1055 (“Where a . . . mark . . . is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant . . . and . . . shall not affect the validity of such mark . . . provided such mark is not used in such manner as to deceive the public.”). For the analysis of this requirement, see Calboli, *supra* note 5, at 380.

41. See discussion *infra* Part.V.B.

A. *Trademark Merchandising and Traditional Trademark Protection*

As this Article highlights, strong disagreements have traditionally characterized the debate over the acceptance of trademark merchandising since this practice emerged in the business world. Not surprisingly, the main reason for such disagreements rests on the often opposing views of the general scope of trademark protection among trademark owners and practitioners, who are usually in favor of broader trademark rights and support trademark merchandising,<sup>42</sup> and academics, who generally advocate for minimal trademark protection and oppose merchandising because of its departure from the original purpose of trademark law.<sup>43</sup>

Traditionally, as I have described in previous works,<sup>44</sup> trademark protection has been based on the position that the primary function of trademark law is to safeguard consumers and market welfare.<sup>45</sup> Based upon this premise, trademarks are theoretically protected only as conveyers of commercial information to the public<sup>46</sup> as long as their improper use is likely to confuse the public about the origin of the marked products.<sup>47</sup> Based upon the same interpretation, trademark law protects trademark owners' goodwill merely as a secondary concern, and ultimately only to safeguard the fairness of competition in the market to the advantage of all competitors, rather than for the benefit of individual trademark owners.<sup>48</sup> These limits on the extent of protection have histor-

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42. See Keating, *supra* note 9, at 379 (noting that in the context of promotional trademark licensing the "statutory requirement that the defendant's use of the mark on goods must cause confusion, mistake or deception" does not have to "necessarily relate to the source of the product"); see also Anne Field, *How to Knock Out Knock Offs*, BUS. WK. SMALLBIZ, Spring, 2005, at 71, 71-76 (discussing the value of trademarks and the importance for trademark owners to prevent free riding).

43. See Dogan & Lemley, *supra* note 13, at 481 ("[G]eneral merchandising right[s] unmoored from confusion conflicts with, rather than promoting, trademark law's procompetitive goals."). But see Denicola, *supra* note 27, at 641 ("Analysis of the economic implications of an exclusive merchandising right provides a surprisingly strong case for the trademark owner.").

44. See Calboli, *supra* note 5, at 351; Calboli, *supra* note 4, at 784. As I have done before in the context of trademark assignment and trademark licensing, this paragraph outlines the traditional position on trademark protection and the tension therewith, as critical background materials for framing the acceptance of merchandising rights under current trademark law.

45. Trademark protection has traditionally been justified because marks provide information about the products to which they are affixed, guarantee a predictable quality, and reduce consumer search costs. See William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 265-66 (1987) ("[T]rademark law . . . best can be explained on the hypothesis that the law is trying to promote economic efficiency."); see also Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 526 (1988); William P. Kratzke, *Normative Economic Analysis of Trademark Law*, 21 MEMPHIS ST. U. L. REV. 199, 205 (1991).

46. The acquisition of trademark rights is centered upon the concepts of "distinctiveness" and "priority" and is limited to marks that are in use or are intended to be used. See Lanham Act § 1, 15 U.S.C. § 1051 (2006); see also *Zazú Designs v. L'Oreal, S.A.*, 979 F.2d 499, 503 (7th Cir. 1992) ("By insisting that firms use marks to obtain rights in them, the law prevents entrepreneurs from reserving brand names in order to make their rivals' marketing more costly."); *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976); 2 MCCARTHY, *supra* note 12, § 16:11.

47. For a detailed overview of the standard of "likelihood of confusion" for trademark infringement and "likelihood of dilution" for dilution of famous marks, see *infra* Part III.B.

48. S. REP. NO. 79-1333, at 4 (1946), reprinted in 1946 U.S.C.C.A.N. 1274, 1274, provides the following introduction to the Lanham Act: "Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one

ically been justified by the social cost of trademarks, that is, the right to exclude other parties from using identical or similar words or symbols for a virtually unlimited time period, and the corresponding risk in creating an undesirable monopoly over language and other forms of expression, should such protection extend to marks “in gross” rather than as conveyers of information and indicators of commercial origin.<sup>49</sup>

Despite this traditional account, the position that trademarks constitute important business assets, and accordingly should be protected “in gross” as property of their owners, has always played an important role in the conduct of trade in the commercial world.<sup>50</sup> Trademark protection started precisely based on the premise that trademarks were property of their owners that should be protected against the trespass of unscrupulous competitors.<sup>51</sup> Common law courts initially based their jurisdiction over infringers on defending trademark owners from the invasion of their property and did not require proof of consumer confusion.<sup>52</sup> Courts rejected this position in favor of a confusion-based protection in the early twentieth century,<sup>53</sup> and the adoption of the Lanham Act in 1946 codified this judicial approach into law.<sup>54</sup> The pressure to directly protect trade-

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from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates.”

49. For similar considerations, see Calboli, *supra* note 5, at 352; Calboli, *supra* note 4, at 777. For a detailed analysis of the monopolistic effect of trademarks, see GEORGE J. ALEXANDER, HONESTY AND COMPETITION: FALSE-ADVERTISING LAW AND POLICY UNDER FTC ADMINISTRATION 25–27 (1967); EDWARD CHAMBERLIN, THE THEORY OF MONOPOLISTIC COMPETITION 204–08 (1933); A.G. Papandreou, *The Economic Effect of Trademarks*, 44 CALIF. L. REV. 503, 505 (1956); *see also* Avery & Sons v. Meikle & Co., 81 Ky. 73, 102 (1883).

50. *See* Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 818 (1927). Schechter imported into the United States the idea originally developed in Germany in the late 1800s by Joseph Koeler, one of the patriarchs of intellectual property law, that trademarks should be protected against “diluting” unauthorized uses. *Id.* (“The true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public.”).

51. *See* Daniel M. McClure, *Trademarks and Unfair Competition: A Critical History of Legal Thought*, 69 TRADEMARK REP. 305, 314–16 (1979) (“The development of trademark law in America . . . developed as an offshoot of the tort of fraud and deceit, and was called ‘passing off.’”); *see also* Beverly W. Pattishall, *Two Hundred Years of American Trademark Law*, 68 TRADEMARK REP. 121, 123–33 (1978). Courts based trademark protection on natural rights, arguing that trademark owners acquired the property of their marks through possession and control. Edward S. Rogers, *Comments on the Modern Law of Unfair Trade*, 3 ILL. L. REV. 551, 552–54 (1909) (offering a detailed analysis of relevant decisions until the early 1900s). In the *Trade-Mark Cases*, 100 U.S. 82 (1879), the Supreme Court also referred to the right to use a mark as “a property right.” *Id.* at 92.

52. To avoid private appropriation of common words and symbols, courts divided trademarks into two groups: “technical marks,” or newly created words or logos, which could be protected without consumer confusion, and other marks based upon existing common terms, which could be protected only against unfair competition and required proof of confusion. *See* JAMES LOVE HOPKINS, THE LAW OF TRADEMARKS, TRADENAMES, AND UNFAIR COMPETITION 8–11 (2d ed. 1905) (highlighting the natural principles for their protection).

53. For a reconstruction of this judicial shift, *see* Calboli, *supra* note 4, at 799–803.

54. This position is reflected in a famous passage in the Senate Reports. *See* S. REP. NO. 79-1333, at 3–6 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1274.

The purpose underlying any trade-mark statute is twofold. One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark

marks per se, however, has never abandoned trademark practice and trademark owners have often continued to use marks as “things”<sup>55</sup> in the course of trade, either because of a “widespread ignorance” of the law or by “making the most of [its] exceptions.”<sup>56</sup>

In the past half century, the pervasiveness of this property approach for trademark protection has scored unprecedented victories in the legal world. Not surprisingly, this new wave of trademark protectionism has been driven primarily by the unprecedented increase in mass production and distribution of consumer goods.<sup>57</sup> As a result, recent revisions of the trademark statute have expanded the protection of trademark goodwill and trademarks per se,<sup>58</sup> thus reigniting the discussion over the scope of trademark protection—should trademark law protect the public or safeguard producers’ interests against trespass? Several courts have joined this trend by stating that marks, in particular famous marks, could be protected beyond consumer confusion, and on the sole basis of the impairment of the marks.<sup>59</sup> As detailed below, these statutory and judicial developments have contributed to creating a fertile environment for a growing acceptance of trademark merchandising by courts.

### *B. The Evolving Role of Trademarks and the Birth of Trademark Merchandising*

As in most areas of the law, the role of trademarks and their regulation must be understood within the “social context and economic setting” of a particular time period.<sup>60</sup> Hence, to comprehend the growing favor

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has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats.

*Id.* at 3.

55. See, e.g., Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L.J. 1687, 1687–88 (1999).

56. Nathan Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210, 1210 (1931).

57. See Calboli, *supra* note 5, at 352; Calboli, *supra* note 4, at 777; see also David J. Franklyn, *Debunking Dilution Doctrine: Toward a Coherent Theory of the Anti-Free-Rider Principle in American Trademark Law*, 56 HASTINGS L.J. 117, 122–23 (2005) (noting that the Industrial Revolution changed the marketplace and subsequently required changes to trademark law).

58. The most relevant expansion of trademark law in this sense has been the adoption of the FTDA in 1995, which codified into law the protection of famous marks against dilution. Lanham Act §§ 43(c), 45, 15 U.S.C. §§ 1125(c), 1127 (2006). *But see* Kenneth L. Port, *The “Unnatural” Expansion of Trademark Rights: Is a Federal Dilution Statute Necessary?*, 85 TRADEMARK REP. 525, 549–51 (1995) (criticizing the adoption of the FTDA).

59. See *K Mart Corp. v. Cartier, Inc.*, 485 U.S. 176, 185 (1988) (stating that trademark protection “confers private rights”); *S.F. Arts & Athletics, Inc. v. U.S. Olympic Comm.*, 483 U.S. 522, 532 (1987) (citations omitted) (recognizing “a limited property right” because of “the expenditure of labor, skill, and money”); *Avery Dennison Corp. v. Sumpton* 189 F.3d 868, 875 (9th Cir. 1999) (stating that dilution “tread[s] very close to granting ‘rights in gross’ in a trademark”); *Krebs Chrysler-Plymouth, Inc. v. Valley Motors, Inc.*, 141 F.3d 490, 498 (3d Cir. 1998) (stating that “[t]rademarks are property” and belong to an estate in the case of bankruptcy); *Dall. Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 206 (2d Cir. 1979) (denying First Amendment defense because of the mark’s “property right”). *But see* Lemley, *supra* note 55, at 1697–1700 (criticizing this judicial expansion of trademark protection).

60. For a detailed historical reconstruction of the economic and social role of trademarks, see Drescher, *supra* note 3.

that has characterized trademark merchandising in past decades, it is crucial to understand how dynamic social contexts and economic conditions have transformed the traditional functions of marks from their first usage to today.<sup>61</sup>

Although the use of trademarks dates back to the beginning of trade, the role of marks has profoundly changed since the first signs were used in antiquity.<sup>62</sup> As jurists and historians have documented, trademarks were initially used almost exclusively to identify product manufacturers as indicators of commercial origin, even if they occasionally served also as symbols of manufacturers' goodwill for consumers located in different geographical areas.<sup>63</sup> The advent of the Middle Ages and the creation of guilds brought to trademarks the additional function of certification of quality. Guild members had to affix to their products both the guild mark, to certify compliance with guild standards and the member's individual mark, to indicate commercial origin and also to guarantee the quality of the individual products.<sup>64</sup>

This system, where marks operated as signs of commercial origin and guarantees of quality, continued more or less untouched until the end of the nineteenth century.<sup>65</sup> Then, the Industrial Revolution in the late 1800s brought unprecedented changes and growth in production and distribution. The advent of product packaging and advertising prompted manufacturers to rely on their marks as general advertising tools for their products against competitors.<sup>66</sup> In response to the growing numbers of similar and interchangeable products available in the market, manufacturers started to employ trademarks not just as indicators of source, but also as vehicles to connote positive ideals about the products they identified.<sup>67</sup> In this modernized market system, trademarks thus evolved from

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61. *Id.* at 301–03.

62. For a historical discussion on the ancient role of trademarks, see Benjamin G. Paster, *Trademarks—Their Early History*, 59 TRADEMARK REP. 551 (1969); Gerald Ruston, *On the Origin of Trademarks*, 45 TRADEMARK REP. 127 (1955).

63. Drescher, *supra* note 3, at 310. See generally Edward S. Rogers, *Some Historical Matter Concerning Trade-Marks*, 9 MICH. L. REV. 29 (1910) (reviewing trademark developments from ancient Egypt to the early twentieth century in the United States); Ruston, *supra* note 62 (surveying the history of trademarks from potters in Egypt to the advent of a compulsory system of marking in England).

64. See Mark P. McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1850 (2007) (noting that guilds required “members to affix distinguishing marks to their products so they could police their ranks effectively”); Paster, *supra* note 62, at 556 (detailing that in the Middle Ages, trade and craft guilds “promulgated regulations to control the activities of [their] members”).

65. See SCHECHTER, *supra* note 1, at 140; Sidney A. Diamond, *The Historical Development of Trademarks*, 73 TRADEMARK REP. 222, 264 (1983).

66. See Drescher, *supra* note 3, at 322–25 (pointing to QUAKER oats as an example of this phenomenon). “The industrial revolution was characterized by an enormous growth of industry as modern manufacturing methods replaced the handwork of older times. . . . Along with the growth of distribution came the use of advertising to acquaint the consuming public with the availability of the goods.” Diamond, *supra* note 65, at 237.

67. As Drescher explains:

By 1942, the value of trademarks as commercial symbols had advanced so far that Justice Frankfurter was able to observe in *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge* that the

simple indicators of source and quality into advertising tools, messengers, and overall symbols for the marked products.<sup>68</sup> In other words, trademarks became brands.<sup>69</sup>

This newly developed advertising function of trademarks continued to grow in the following decades thanks to improvements in the economy as well as communication and advertising techniques. The rise of a more affluent middle class, the availability of affordable consumer products, and the growing number of home televisions only magnified the importance of trademarks, which transformed from symbols of products also into symbols of status and experiences—the mark JEEP, for example, no longer indicated merely sports vehicles to consumers, but also outdoor living, freedom, and independence.<sup>70</sup> Not surprisingly, the business world quickly realized the importance of this attractive power of marks. Starting in the 1960s, manufacturers began using marks on a variety of products that could contribute to their overall brand experience—JEEP luggage, sports equipment, etc.—while simultaneously building trademark affiliation and creating revenues.<sup>71</sup> The establishment of licensing and production outsourcing greatly facilitated this exploitation of trademark value.<sup>72</sup> As a result, trademark merchandising as a business technique was born.

Soon, this trend seemed irreversible. An increasing number of companies started to branch off their traditional sectors to sell or distri-

owner of a mark makes “every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol.”

Drescher, *supra* note 3, at 328 (alteration in original) (quoting *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge*, 316 U.S. 203, 205 (1942)).

68. For a detailed reconstruction of the development of advertising and the role of marks, see DANIEL POPE, *THE MAKING OF MODERN ADVERTISING* 68–69 (1983).

69. See, e.g., AL RIES & LAURA RIES, *THE FALL OF ADVERTISING AND THE RISE OF PR* 62 (2002) (“A brand is a name that stands for something positive in the [consumer’s] mind.”); John Diefenbach, *The Corporate Identity As the Brand*, in *BRANDING: A KEY MARKETING TOOL* 159 (John M. Murphy ed., 1987) (“[A] brand dominant system is one in which the individual brands are dominant, and the corporation behind them is subordinate (sometimes anonymous) in most communications.”); *The Year of the Brand*, *ECONOMIST*, Dec. 24, 1988, at 96 (providing several examples of brand acquisitions).

70. Drescher describes this phenomenon as follows:

Using Chrysler’s JEEP mark as an example, we can chart some of the cultural factors involved in a brand extension: MARK: JEEP[;] MYTH: Great Outdoors; war[;] VALUES/THEME: Independence, freedom, unspoiled nature, overcome obstacles, American ‘can-do’ attitude[;] CORE PRODUCT: Four wheel drive vehicle[;] CULTURAL SUBSYSTEM: Recreational travel; rugged adventure[;] POSSIBLE EXTENSIONS: Cosmetics, soaps, deodorant; towels & bedding for camping; tents & hammocks; sleeping bags; leather handbags & luggage; sports equipment, including rods & reels, skis & ski-poles.

Drescher, *supra* note 3, at 332.

71. See David J. Franklyn, *Toward a Coherent Theory of Strict Liability for Trademark Licensors*, 72 S. CAL. L. REV. 1, 13 n.53 (1998) (“Promotional trademark licensing mushroomed in the 1970s, led by ‘such famous merchandising forerunners as BUSTER BROWN, RAGGEDY ANN, SHIRLEY TEMPLE, BATMAN and ROBIN and MICKEY MOUSE’ . . . .” (quoting Alfred M. Marks, *Trademark Licensing—Towards a More Flexible Standard*, 78 TRADEMARK REP. 641, 646–47 (1988))).

72. See Calboli, *supra* note 5, at 360–64 (tracing the history of the acceptance of trademark licensing in American trademark law).

bute complimentary promotional or collateral products bearing their marks.<sup>73</sup> Almost immediately, sports teams, universities, and other entities joined businesses realizing the importance of merchandising for the management—financial and otherwise—of their image in the market.<sup>74</sup> Since then, the popularity of merchandising in the business world has continued to escalate and the use of marks on promotional products has become a reality almost everywhere. As in the past, several social and economic changes contributed to this tendency—the rise of consumerism, the globalization of trade and manufacturing, and the information technology revolution.<sup>75</sup> These changes confirmed the importance of brands and brand awareness, often leading companies to rely on trademarks as the most valuable assets for survival in the global economy.<sup>76</sup> Not surprisingly, these important economic changes ultimately reached courts and Congress, resulting in enhanced trademark protection and mounting support for merchandising rights.

### 1. *Judicial Creation of Merchandising Rights*

The above mentioned transformation of the traditional role of marks strongly impacted the position of courts and legislators on trademark merchandising. Starting in the 1970s, a growing number of courts began to acknowledge the rights of trademark owners to prevent the distribution of unauthorized promotional products, primarily when trademark owners had in place authorized licensing activities.<sup>77</sup> Officially, trademark merchandising was “born” in 1975, with the famous Fifth Circuit decision in *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing*.<sup>78</sup> In that case, the Fifth Circuit reversed the dis-

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73. See Dogan & Lemley, *supra* note 13, at 472 (“[T]he 1970s and 1980s were an era of awakening, in which trademark holders came to realize the economic value of their marks on merchandise and the revenues that they could earn through licensing . . . .”); see also David Kiley, *Best Global Brands: How the BusinessWeek/Interbrand Top 100 Companies Are Using Their Brands to Fuel Expansion*, BUS. WK., Aug. 7, 2006, at 54.

74. “Some of the sports leagues may have come to this realization a bit earlier [than the 1970s and 1980s]. The National Football League, for example, established NFL Properties in 1963 expressly ‘to act as [a] licensing representative for the trademarks and other commercial identifications of the member clubs.’” Dogan & Lemley, *supra* note 13, at 472 n.41 (quoting Nat’l Football League Props., Inc. v. Wichita Falls Sportswear, Inc., 532 F. Supp. 651, 655 (W.D. Wash. 1982)).

75. See, e.g., 1 MCCARTHY, *supra* note 12, § 3:12 (highlighting the advertising function of trademarks in the modern economy).

76. See Alexander Krasnikov et al., *Evaluating the Financial Impact of Branding Using Trademarks: A Framework and Empirical Evidence*, 73 J. MARKETING 154, 156 (2009) (finding that both brand-identification trademarks and brand-association trademarks “provide significant value to firms”); Robert Berner, *The New Alchemy at Sears*, BUS. WK., Apr. 16, 2007, at 58 (“Sears has created \$1.8 billion worth of securities based on the brand names Kenmore, Craftsman, and DieHard.”); see also *Untangling Intangibles: Company Balance Sheets*, ECONOMIST, Feb. 8, 1992, at 84 (“Putting the Coca-Cola logo on a can of drink, or a Mars wrapper around a bar of chocolate, raises at a stroke the price that can be charged for the product.”).

77. See, e.g., 4 MCCARTHY, *supra* note 12, § 24:10 (tracing the history of judicial decisions on merchandising rights).

78. *Bos. Prof’l Hockey Ass’n v. Dall. Cap & Emblem Mfg.*, 510 F.2d 1004 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975).

strict court, which denied relief because of the absence of confusion,<sup>79</sup> and found trademark infringement solely on the basis of the association between consumers and the plaintiff's mark<sup>80</sup>—the “triggering mechanism for the sale” of the defendant's products.<sup>81</sup>

Because of this sudden departure from the traditional infringement standard of consumer confusion, however, *Boston Professional Hockey* was not directly followed by other courts at the time.<sup>82</sup> Still, the growing importance of merchandising in the economy brought another court to rule on a similar case, with a similar result, within a few months of *Boston Professional Hockey*. In 1975, the Illinois Court of Appeals found infringement in *National Football League Properties, Inc. v. Consumer Enterprises*,<sup>83</sup> a case involving the sale of unauthorized products bearing the logos of sports teams.<sup>84</sup> Splitting from the Fifth Circuit, however, the court required confusion for its finding of infringement,<sup>85</sup> yet the court ultimately proposed a broader interpretation of confusion that clearly departed from the past. Notably, the court stated that confusion could also include the “sponsorship” of the products, that is, the fact that the

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79. *Bos. Prof'l Hockey Ass'n v. Dall. Cap & Emblem Mfg.*, 360 F. Supp. 459, 462–63 (N.D. Tex. 1973), *rev'd*, 510 F.2d 1004. “The test is not whether the products in question are duplications of their marks, but whether the defendant's use of [them] would mislead the public as to the source of the goods.” *Id.* at 462–63. The district court, however, issued a limited injunction requiring that defendants disclaim any association with the teams. *Id.* at 465.

80. *Bos. Prof'l Hockey*, 510 F.2d at 1012. The court based its decision on three arguments: (1) the commercial value of the logos was created by plaintiffs' efforts; (2) defendant sought a license and, if obtained, would have enforced it against infringers; and (3) selling reproductions of trademarks per se on emblems is an accepted use for sports teams. *Id.* at 1011. The court acknowledged that its decision “may slightly tilt the trademark laws from the purpose of protecting the public to the protection of the business interests of plaintiffs. . . .” *Id.*

81. *Id.* at 1012. “The argument that confusion must be as to the source of the manufacture of the emblem itself is unpersuasive, where the trademark, originated by the team, is *the triggering mechanism* for the sale of the emblem.” *Id.* (emphasis added). For a position favoring this approach, see Frank P. Presta, *The Boston Professional Hockey Association Case and Related Cases—A Step in the Right Direction*, 66 TRADEMARK REP. 131 (1976).

82. See, e.g., *United States v. Giles*, 213 F.3d 1247, 1250 (10th Cir. 2000) (stating that the Fifth Circuit in *Boston Professional Hockey* relied “upon a novel and overly broad conception of the rights that a trademark entails”); *Int'l Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912, 919 (9th Cir. 1980) (defining *Boston Professional Hockey* as “an extraordinary extension of the protection . . . afforded trademark owners”); *Ky. Fried Chicken Corp. v. Diversified Packaging Corp.*, 549 F.2d 368, 388 (5th Cir. 1977) (“Trademark infringement occurs only when the use sought to be enjoined is likely to confuse purchasers with respect to such things as the product's source, its endorsement by the plaintiff, or its connection with the plaintiff.”); *Bd. of Governors of Univ. of N.C. v. Helpingstone*, 714 F. Supp. 167, 173 (M.D. N.C. 1989) (“[Plaintiff] must provide evidence establishing that individuals do make the critical distinction as to sponsorship or endorsement, or direct evidence of actual confusion.”).

83. *Nat'l Football League Props., Inc. v. Consumer Enters., Inc.*, 327 N.E.2d 242 (Ill. App. Ct. 1975).

84. *Id.* at 246–47. “[W]e reject defendant's contention that no trademark infringement has occurred because the emblems are merely decorative ornaments . . . . [W]e conclude that the trademarks of the teams copied by defendant indicate sponsorship or origin in addition to their ornamental value.”

85. *Id.* at 245–46 (“[A]n unauthorized use of another's valid trademark, which use is likely to cause confusion as to the origin of the goods, may be completely enjoined.”).

public, while aware that plaintiffs did not manufacture the products, could believe that they had sponsored or endorsed them.<sup>86</sup>

During the next decade, courts increasingly accepted this broader concept of confusion, even when they denied trademark infringement. In 1980, in *International Order of Job's Daughters v. Lindeburg & Co.*,<sup>87</sup> the Ninth Circuit stated that the unauthorized use of fraternal emblems did not amount to infringement because their use was ornamental.<sup>88</sup> Still, the court conceded that logos could function both as ornament and product source if consumers “inferred from the insignia that the jewelry was produced, sponsored or endorsed” by plaintiff.<sup>89</sup> In 1982, the Fifth Circuit itself excluded infringement in *Supreme Assembly, Order of Rainbow for Girls v. J.H. Ray Jewelry Co.*,<sup>90</sup> but it drew a distinction between fraternal emblems<sup>91</sup> and sports logos, where “consumer[s] seeing the emblem or name of a team . . . would assume some sort of sponsorship.”<sup>92</sup> Confusion as to sponsorship, or lack thereof, was also at the heart of the 1983 Third Circuit decision in *University of Pittsburgh v. Champion Products Inc.*,<sup>93</sup> where the court denied infringement because unlicensed merchandise had been sold for over forty years and consumers did not seem to attach importance to their sponsor or endorser.<sup>94</sup>

Courts continued to adopt the same approach in following years and, probably because of the above mentioned economic changes, their rulings turned increasingly favorable toward plaintiffs' claims in merchandising cases. In 1985 in *University of Georgia Athletic Association v. Laite*,<sup>95</sup> the Eleventh Circuit seemingly followed *Boston Professional Hockey* and found infringement solely because of the “public's knowledge that the *trademark* . . . originate[d] with the plaintiff.”<sup>96</sup> Although

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86. *Id.* at 246 (“[T]he buying public has come to associate the trademark with the sponsorship of the NFL or of the particular member team involved.”).

87. *Job's Daughters*, 633 F.2d at 919.

88. *Id.* at 917 (“Trademark law does not prevent a person from copying so-called ‘functional’ features of a product which constitute the actual benefit that the consumer wishes to purchase, as distinguished from an assurance that a particular entity made, sponsored, or endorsed a product.”); see also Denicola, *supra* note 27, at 619–20 (“Several decisions have . . . invoked the functionality doctrine to support their refusal to enjoin the ornamental use of another's mark, while others have declined to extend aesthetic functionality to design features whose appeal rests on the associations they conjure.”). *But see In re Penthouse Int'l, Ltd.*, 565 F.2d 679, 681 (C.C.P.A. 1977) (“[P]ossession of a function and of a capability of indicating origin are not in every case mutually exclusive.”).

89. *Job's Daughters*, 633 F.2d at 919.

90. 676 F.2d 1079, 1082 (5th Cir. 1982).

91. *Id.* at 1083 (“[M]ost fraternal associations exercise little control over the manufacture of the jewelry bearing their fraternal emblems . . .”).

92. *Id.* at 1085.

93. 686 F.2d 1040, 1048 (3d Cir. 1982).

94. *Id.* at 1047 (“[T]here is no consumer confusion in the traditional sense. No one would seriously assert that a significant segment of the public believes that Pitt actually manufactured the goods involved.”).

95. 756 F.2d 1535 (11th Cir. 1985).

96. *Id.* at 1546 (citations omitted) (“[C]onfusion’ need not relate to the origin of the challenged product. Rather, ‘confusion’ may relate to the public's knowledge that the *trademark*, which is ‘the triggering mechanism’ for the sale of the product, originates with the plaintiff.”).

the court mentioned the need for confusion in its decision, it eventually equated confusion with simple mental association or recognition of the mark while emphasizing, as the decisive factor for its conclusion, the defendant's desire to free ride on plaintiff's goodwill.<sup>97</sup> In 1989, in *Boston Athletic Association v. Sullivan*,<sup>98</sup> the First Circuit adopted a similar conclusion and weighed misappropriation and free riding of plaintiff's goodwill, far beyond product confusion, against the defendant in finding infringement.<sup>99</sup>

This trend of favorable decisions also continued to characterize merchandising cases through the 1990s and the turn of the century. More recently, in 2006, in two separate cases, *Audi AG v. D'Amato*<sup>100</sup> and *Au-Tomotive Gold, Inc. v. Volkswagen of America, Inc.*,<sup>101</sup> the Sixth Circuit and the Ninth Circuit, respectively, both ruled that the unauthorized sale of promotional goods bearing the marks of a car manufacturer amounted to trademark infringement.<sup>102</sup> The same year, in *Texas Tech University v. Spiegelberg*,<sup>103</sup> the Northern District of Texas granted plaintiff's relief and presumed confusion because defendant used identical, or nearly identical, colors and logos without an official license, and plaintiffs had long-established licensing agreements.<sup>104</sup> In 2008, in *Board of Supervisors of Louisiana State University v. Smack Apparel Co.*,<sup>105</sup> the Fifth Circuit went even further and enjoined defendant from selling "Sugar Bowl" t-shirts bearing the color schemes and slogans associated with Louisiana State University, solely because of likely consumer association.<sup>106</sup> The same year, in *University of Kansas v. Sinks*,<sup>107</sup> the District

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97. *Id.* at 1547 ("[A]s in *Boston Hockey*, the confusion stems not from the defendant's unfair competition with the plaintiff's products, but from the defendant's misuse of the plaintiff's reputation and good will as embodied in the plaintiff's mark."); see also *Mutual of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 400 (8th Cir. 1987) (enjoining defendant from selling t-shirts bearing the phrase "Mutant of Omaha" because "approximately ten percent of all persons surveyed thought that Mutual '[went] along' with [the] products" (citation omitted)).

98. 867 F.2d 22 (1st Cir. 1989).

99. *Id.* at 33 ("[U]nlicensed use of BAA's mark would permit defendant to 'reap where [they] have] not sown.'" (citation omitted)). *But see* Bd. of Governors of Univ. of N.C. v. Helpingstine, 714 F. Supp. 167, 173 (M.D.N.C. 1989) ("[S]imilarity or even identity of marks is not sufficient to establish confusion where non-competitive goods are involved, and the court also rejects the position that intent to capitalize on popularity is sufficient to establish infringement.").

100. 469 F.3d 534 (6th Cir. 2006).

101. 457 F.3d 1062 (9th Cir. 2006); see also *Gen. Motors v. Lanard Toys, Inc.* 468 F.3d 405, 420 (6th Cir. 2006) (ruling the unauthorized sale of toys resembling the HUMMER vehicle produced by GM were infringing upon GM's trade dress).

102. See *Audi AG*, 469 F.3d at 539; *Au-Tomotive*, 457 F.3d at 1078.

103. 461 F. Supp. 2d 510 (N.D. Tex. 2006).

104. *Id.* at 521-23. On the problems of extending merchandising protection to colors, see Jeremiah Kline, *Black and Blue: An Examination of Trademarking University Color Schemes*, 16 SPORTS LAW. J. 47 (2009); Gerald T. Tschura, *Likelihood of Confusion and Expressive Functionality: A Fresh Look at the Ornamental Use of Institutional Colors, Names and Emblems on Apparel and Other Goods*, 53 WAYNE L. REV. 873, 884 (2007).

105. Bd. of Supervisors for La. State Univ. Agric. & Mech. Co. v. Smack Apparel Co., 550 F.3d 465 (5th Cir. 2008).

106. *Id.* at 478 (stressing that the public would "perceive the university as the source or sponsor of the goods because [consumers] want to associate with that source"). *But see* Univ. of Ala. Bd. of Trs. v. New Life Art Inc., 677 F. Supp. 2d 1238, 1240 (N.D. Ala. 2009). In this case, the court denied that

Court of Kansas similarly found that defendant's t-shirts, using marks strikingly similar to plaintiff's marks, were infringing.<sup>108</sup> Still, despite favoring trademark merchandising de facto, no court has officially framed merchandising rights in the legal context, thus leaving room for different interpretations on a case-by-case basis.<sup>109</sup>

## 2. *Protecting Merchandising Rights via the Trademark Statute?*

In addition to influencing courts' decisions, the above mentioned changes in the economy also deeply impacted the statutory regulation of trademarks in past decades. In particular, the adoption of the Trademark Revision Act of 1988 introduced the concept of "confusion as to the sponsorship" directly into the Lanham Act as a type of consumer confusion for the infringement of unregistered trademarks.<sup>110</sup> As elaborated above, courts had already applied the same standard to the infringement of registered marks under section 32(1)(a) of the Lanham Act since the 1960s.<sup>111</sup> Following this line of reasoning, the 1988 amendment changed the text of section 43(a) of the Lanham Act, which now provides that anyone can prohibit the "use" by any person of "any word, term, name, symbol, or device" that "is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person" when he or she "believes that he or she is or is likely to be damaged by such act."<sup>112</sup>

As a result of this change, trademark owners can now legitimately prohibit any use of their marks, whether registered or not, on products that consumers can "reasonably" think of as being related with "the same source, or thought to be affiliated with, connected with, or sponsored by, trademark owner[s]."<sup>113</sup> Not surprisingly, this change in the trademark statute in favor of a broader infringement standard directly added to the already benevolent attitude of the judiciary toward the rec-

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the university had a protectable interest in the color of its football team's uniform with respect to artistic painting but specified that the artist could not reproduce the university's marks in his painting nor reduce and sell its works as promotional products. *Id.*

107. 565 F. Supp. 2d 1216 (D. Kan. 2008).

108. *Id.* at 1254–55 (finding infringement for the "[t]-shirts that the Court has singled out as displaying marks that are overwhelmingly similar to KU's marks"). The court, however, rejected infringing claims for those t-shirts with designs not remarkably similar and acknowledged defendant's use of disclaimers to avoid confusion. *Id.*

109. See, e.g., James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 YALE L.J. 882, 908 (2007) (discussing the uncertainty of judicial outcomes in merchandising cases).

110. Trademark Law Revision Act of 1988, Pub. L. No. 100-667, sec. 132, § 43(a), 102 Stat. 3935, 3946 (Nov. 16, 1988) (amending 15 U.S.C. §§ 1051–1141n (2006)).

111. Lanham Act § 32(1)(a), 15 U.S.C. § 1114(1)(a).

112. Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1).

113. See 4 MCCARTHY, *supra* note 12, § 24:6 (noting that "the modern rule of law" gives trademark owners protection against any "related goods or services").

ognition of merchandising rights.<sup>114</sup> After the adoption of the 1988 amendment, as long as trademark owners can prove that consumers would likely, and erroneously, connect with trademark owners the unauthorized use of their marks on goods, services, or activities carried out by third parties, and that this use could likely damage trademark owners, such use has to be prohibited and considered infringing under the rule of the trademark statute.<sup>115</sup>

Finally, a further push toward the statutory recognition and protection of merchandising came from the adoption of the Federal Trademark Dilution Act (FTDA) in 1995.<sup>116</sup> A concept long known in U.S. trademark theory,<sup>117</sup> and already widely accepted by state trademark laws,<sup>118</sup> protection against trademark dilution was introduced into section 43(c) of the Lanham Act to “expand federal trademark protection beyond the traditional protection against consumer confusion.”<sup>119</sup> Specifically, the new provision aims at recognizing the protection for “famous” marks against either the “blurring” of their distinctiveness or the “tarnishment” of their reputation, which could be caused by unauthorized uses of identical or similar marks not solely on related but also on unrelated products.<sup>120</sup> Furthermore, as clarified by Congress in the 2006 Trademark Dilution Revision Act (TDRA)<sup>121</sup> and, contrary to the position suggested by

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114. The passing of the 1988 Trademark Revision Act underlined Congress’ commitment to protect trademark goodwill in addition to consumers. See S. REP. NO. 100-515, at 4 (1988), *reprinted in* 1988 U.S.C.C.A.N. 5577, 5580 (“America stakes its reputation on its trademarks. They are the most important ambassadors of goodwill America will ever send abroad.”).

115. *Mattel, Inc. v. Walking Mountain Prod.*, 353 F.3d 792, 806–07 (9th Cir. 2003) (citation omitted); see, e.g., *Champions Golf Club, Inc. v. The Champions Golf Club, Inc.*, 78 F.3d 1111, 1122 (6th Cir. 1996); *Dall. Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). *But see Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003) (limiting the interpretation of commercial “origin” to those instances where marks are affixed to products).

116. Federal Trademark Dilution Act (FTDA) of 1995, Pub. L. No. 104-98, §§ 3(a), 4, 109 Stat. 985, 985–86 (codified as amended at 15 U.S.C. §§ 1125, 1127) (effective Jun. 16, 1996); see Terry Ahearn, *Dilution by Blurring Under the Federal Trademark Dilution Act of 1995: What Is It and How Is It Shown?*, 41 SANTA CLARA L. REV. 893, 901–03 (2001) (noting that the FTDA was an attempt by Congress to develop uniformity for the varying state antidilution statutes).

117. See Schechter, *supra* note 50, at 818.

118. The first state antidilution statute was adopted in Massachusetts in 1947. See Robert N. Klieger, *Trademark Dilution: The Whittling Away of the Rational Basis for Trademark Protection*, 58 U. PITT. L. REV. 789, 811 (1997). Subsequently, several other states adopted state antidilution statutes prior to the adoption of the FTDA. *Id.* at 812–13. For a general discussion of dilution protection before the FTDA, see Walter J. Derenberg, *The Problem of Trademark Dilution and the Antidilution Statutes*, 44 CALIF. L. REV. 439 (1956).

119. Jesse A. Hofrichter, Note, *Tool of the Trademark: Brand Criticism and Free Speech Problems with the Trademark Dilution Revision Act of 2006*, 28 CARDOZO L. REV. 1923, 1935 (2007).

120. The FTDA, as amended by the TDRA of 2006, defines “blurring” as an “association arising from the similarity between a mark or trade name and a famous mark that impairs the distinctiveness of the famous mark.” Lanham Act § 43(c)(2)(B), 15 U.S.C. § 1125(c)(2)(B). “Tarnishment” is defined as an “association arising from the similarity between a mark or trade name and a famous mark that harms the reputation of the famous mark.” *Id.* § 1125(c)(2)(C). The FTDA also provides that “a mark is famous if it is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark’s owner.” *Id.* § 1125(c)(2)(A).

121. Trademark Dilution Revision Act (TDRA) of 2006, Pub. L. No. 109-312 §§ 2, 3(e), 120 Stat. 1730 (codified as amended at 15 U.S.C. §§ 1125, 1127) (effective Oct. 6, 2006); see, e.g., Hofrichter, *supra* note 119, at 1938.

the Supreme Court in *Moseley v. Victoria Secret Catalogue, Inc.*,<sup>122</sup> dilution claims can be based on a “likelihood of harm” or “likelihood of dilution” of the marks rather than on a likelihood of confusion on the part of the public without the need to prove any “actual harm” or “actual dilution.”<sup>123</sup>

Once again, these changes confirmed the willingness of the legislature to grant trademark owners strong protection against unauthorized uses of trademarks—particularly for famous marks. Notably, following the adoption of section 43(c) of the Lanham Act, owners of famous marks can claim blurring or tarnishment of their marks when third parties used identical or similar signs on any products, related or not, without their consent, regardless of the existence of any type of confusion.<sup>124</sup> As expected, despite the general criticism of trademark scholars against this unnatural expansion of trademark protection, trademark owners have repeatedly used this cause of action in the past several years to enjoin the use of famous marks on promotional or collateral products.<sup>125</sup> Although opponents of merchandising rights have repeatedly stressed that dilution provisions should not provide relief in merchandising cases, several courts have confirmed the validity of these claims and affirmed protection against dilution with respect to the use of famous marks on unauthorized promotional products.<sup>126</sup>

#### IV. THE CURRENT UNCLEAR STATUS OF TRADEMARK MERCHANDISING

Even if recent decisions, the 1988 amendment to the Lanham Act, and the adoption of a federal antidilution law indicate that recognizing trademark rights on promotional products has become the status quo in most courts and among legislators, the acceptance of this practice re-

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122. 537 U.S. 418, 433–34 (2003). This decision attempted to resolve a circuit split under the 1996 FTDA between the Fourth Circuit, requesting plaintiff to prove specific harm to assess dilution, and the Second Circuit, holding that a successful plaintiff needed only prove a “likelihood of dilution.” *Compare* Nabisco, Inc. v. PF Brands, Inc., 191 F.3d 208, 222–23 (2d Cir. 1999), *with* Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 461 (4th Cir. 1999). The Supreme Court’s decision in *Moseley* confirmed the need for specific harm rather than a “likelihood of dilution.” *See Moseley*, 537 U.S. at 433–34.

123. *See Moseley*, 537 U.S. at 433–34.

124. *See* Scott Fetzer Co. v. House of Vacuums Inc., 381 F.3d 477, 489–90 (5th Cir. 2004) (inferring that confusion is not determinative under dilution). A traditional concern in dilution cases was whether the marks were adequately famous since, prior to the TDRA, the FTDA did not include a definition of “famous mark” and courts occasionally protected marks which were famous only in small segments of the market or in limited geographic locations. *But see* TCPIP Holding Co., Inc. v. Hear Commc’n, Inc., 244 F.3d 88, 98–99 (2d Cir. 2001) (refusing to declare famous a mark which had been used for thirty years in 228 stores and had achieved \$228 million in one year).

125. *See infra* note 126.

126. *See, e.g.*, Audi AG v. D’Amato, 469 F.3d 534, 547 (6th Cir. 2006); Univ. of Kan. v. Sinks, 565 F. Supp. 2d 1216, 1257–60 (D. Kan. 2008); Tex. Tech Univ. v. Spiegelberg, 461 F. Supp. 2d 510, 523–24 (N.D. Tex. 2006). *But see* Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23, 37 (2003); Dogan & Lemley, *supra* note 13, at 499–501 (claiming that dilution would not save merchandising rights after the Supreme Court decision in *Dastar*).

mains controversial. Still, most arguments in favor of or against this practice fail to consider that merchandising marks could legitimately identify commercial source and distinguish promotional products from similar goods and, as such, should be subjected to the current norms and limits set forth for all marks.

Part IV analyzes the current debate on trademark merchandising with particular emphasis on the disconnect that characterizes the positions of opponents and supporters of this practice. This Part also highlights the consequences that the disconnect creates in this area of the law, and specifically the ongoing uncertainty as to whether and to what extent merchandising practices are protected.

#### A. *The Disconnected Debate on Merchandising Rights*

As mentioned before, considering the emergence of merchandised products in every aspect of our lives, not many would doubt that this remarkable business technique also enjoys legal protection. Instead, uncertainty continues to characterize the legal treatment of merchandising rights.<sup>127</sup> Notably, scholars traditionally oppose the recognition of merchandising rights based on the potential consequences for competition, as well as the danger of higher product prices.<sup>128</sup> On the contrary, practitioners and trademark owners generally support merchandising rights based on the unfairness of unscrupulous free riding<sup>129</sup> and goodwill misappropriation, as well as the increasing presumption on the part of the public that promotional products are directly sponsored by trademark owners.<sup>130</sup>

Although undoubtedly detrimental for businesses and their competitors, who are left in a state of uncertainty over the validity of merchandising rights, these disagreements do not come as a surprise and simply reflect the fundamentally distinct interpretations that characterize the trademark debate.<sup>131</sup> As indicated earlier, past centuries have witnessed major doctrinal battles over whether trademark law should directly pro-

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127. See discussion *supra* Part III.A–B.

128. See, e.g., Cherniak, *supra* note 14, at 1355 (“The public interest in encouraging free competition and curtailing monopolistic practices seems to clearly outweigh the business interest of trademark owners in maintaining incentive to create value in their marks.”); Paul J. Heald, *Filling Two Gaps in The Restatement (Third) of Unfair Competition: Mixed-Use Trademarks and the Problem with Vanna*, 47 S.C. L. REV. 783, 788 (1996) (“Granting exclusive rights in the promotional goods context permits monopoly pricing and, therefore, entails a transfer of wealth from consumers to trademark owners.”).

129. For a general discussion on the negative aspects of free riding, see Jerre B. Swann & Theodore H. Davis, Jr., *Dilution, an Idea Whose Time Has Gone; Brand Equity as Protectable Property, the New/Old Paradigm*, 1 J. INTEL. PROP. L. 219, 252–56 (1994). But see Mark A. Lemley, *Property, Intellectual Property, and Free Riding*, 83 TEX. L. REV. 1031, 1046–69 (2005).

130. See, e.g., Keating, *supra* note 9, at 372 (“A recent survey indicated that 45.3 percent of the respondents believed that companies making jerseys corresponding to National Football League jerseys were required to obtain authorization from the NFL.” (citing Nat’l Football League Props., Inc., v. Wichita Falls Sportswear, Inc., 532 F. Supp. 651, 658–59 (W.D. Wash. 1980))).

131. See *supra* Part III.A.

tect trademark goodwill<sup>132</sup> or market competition and the public.<sup>133</sup> Still, even if the latter position has emerged victorious in the early twentieth century—“likelihood of confusion” being the current infringement standard<sup>134</sup>—trademark practice, and the conduct of business in general, has never abandoned the conviction that marks belong to their owners as properties.<sup>135</sup> Recent economic changes have further strengthened this conviction by reasserting the importance of trademarks as business assets, thanks primarily to the growth of merchandising practices.<sup>136</sup>

Ultimately, the courts and legislature have also joined this trend by favoring the recognition of trademark merchandising.<sup>137</sup> Thus far, however, neither the judiciary nor Congress has explicitly framed this practice in the legal context, but instead they have simply expanded the interpretation of consumer confusion to include confusion as to the products’ sponsorship to justify the protection of merchandising rights on a case-by-case basis.<sup>138</sup> Despite the popularity of merchandising as a business practice, this unclear legal framework has left room for uncertainty in this area. This uncertainty has in turn exacerbated the ideological divide between opponents and supporters of this practice.<sup>139</sup> As this Article elaborates, this situation should not continue because it is negatively affecting competition and concerns an unavoidable business reality that should be properly framed under trademark law.<sup>140</sup>

### 1. *Trademark Merchandising as a “Fragile Doctrine” in Trademark Theory*

As repeatedly noted, counter to the enthusiasm from the business world, trademark scholars have often criticized the judicial favor for merchandising rights as a “fragile theory” in trademark law.<sup>141</sup> In particu-

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132. See Schechter, *supra* note 50, at 818 (“The true functions of the trademark are, then, to identify a product as satisfactory and thereby to stimulate further purchases by the consuming public.”); see also McClure, *supra* note 51, at 314–16.

133. See Robert G. Bone, *Enforcement Costs and Trademark Puzzles*, 90 VA. L. REV. 2099, 2100 (2004) (noting that the main purpose of trademark law is to prevent consumer confusion).

134. See Lanham Act §§ 32(1)(a), 43(a)(1)(A), 15 U.S.C. §§ 1114(1)(a), 1125(a)(1)(A) (2006).

135. See DC Comics v. Pan Am. Grain Mfg. Co., 77 U.S.P.Q.2d (BNA) 1220, 1225 (T.T.A.B. 2005) (finding that the applicant’s use of KRIPTONITA for alcoholic beverages was sufficiently related to the opponent’s registration of the use of KRYPTONITE on t-shirts, toys, and sporting goods). See generally Isaacs, *supra* note 56.

136. See 4 MCCARTHY, *supra* note 12, § 24:10 (describing the increasing importance of marks for businesses and the growth of merchandising).

137. On the evolution of the role of trademarks and its impact on trademark law and judicial decisions, see discussion *supra* Part III.B.

138. See Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 478 (5th Cir. 2008); Univ. of Kan. v. Sinks, 565 F. Supp. 2d 1216, 1243 (D. Kan. 2008).

139. See Wendy J. Gordon, *On Owning Information: Intellectual Property and the Restitutory Impulse*, 78 VA. L. REV. 149, 167 (1992) (“A culture could not exist if all free riding were prohibited within it.”).

140. For a detailed discussion, see *infra* Part V.B.

141. Dogan & Lemley, *supra* note 13, at 506 (“While trademark owners, competitors, and perhaps even consumers act as though the merchandising theory is a *fait accompli*, where the courts are concerned it is ultimately a rather fragile theory.”). Dogan and Lemley also note that several decisions in

lar, scholars have expressed skepticism as to whether the use of trademarks on promotional products could legitimately indicate commercial source and accordingly be granted trademark protection.<sup>142</sup> Instead, starting from the premise that the justification for merchandising is commonly termed as unjust enrichment,<sup>143</sup> the majority of scholars have argued that recognizing this practice would result in protecting marks even when “the quality of product-related information in the marketplace has not suffered. . . .”<sup>144</sup> This would shift toward a de facto proper-tization of trademark law.<sup>145</sup> Scholars have further highlighted that the recent tendency of the judiciary to protect merchandising on the basis of consumer “association”<sup>146</sup> between the marks used on promotional goods and their owners conflicts with the Lanham Act, “which makes infringement turn not on a mental association . . . but on confusion, deception, or mistake.”<sup>147</sup>

Generally, scholars have condemned the “if value, then right”<sup>148</sup> ap-proach that has increasingly characterized judicial decisions in this area because it lacks a “coherent limit”<sup>149</sup> and could “turn trademark law from a right designed to facilitate commerce into a right to control lan-guage”<sup>150</sup>—a scarce resource in the business world and society.<sup>151</sup> Schol-ars have stressed the intrinsic difference between trademarks and other intellectual property, and have warned that the protection of this “sur-plus value” of marks beyond their function as product identifiers could

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this area “were simply wrong in concluding that a trademark claim could exist in the absence of confu-sion over whether the trademark holder had made or sponsored the merchandise.” *Id.* at 473.

142. See McKenna, *supra* note 20, at 821.

143. See Bone, *supra* note 133, at 2111 (“‘[U]njust enrichment,’ focuses on sellers rather than con-sumers. It supposes that a seller is unjustly enriched when it appropriates to its own advantage the ‘goodwill’ that another seller has developed in its mark.”); see also Lemley, *supra* note 55, at 1696–97 (stating that a merchandising right, in contrast to traditional trademark law, is similar to a property right).

144. Dogan & Lemley, *supra* note 13, at 481.

145. On the risks of excessive trademark protection, see Ralph S. Brown, Jr., *Advertising and the Public Interest: Legal Protection of Trade Symbols*, 57 YALE L.J. 1165, 1206 (1948), reprinted in 108 YALE L.J. 1619, 1659 (1999) (“In an acquisitive society, the drive for monopoly advantage is a very powerful pressure. Unchecked, it would no doubt patent the wheel, copyright the alphabet, and regis-ter the sun and moon as exclusive trade-marks.”); see also, Jessica Litman, *Breakfast with Batman: The Public Interest in the Advertising Age*, 108 YALE L.J. 1717 (1999).

146. See discussion *supra* Part III.B.1.

147. Dogan & Lemley, *supra* note 13, at 482.

148. Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Peps-i Generation*, 65 NOTRE DAME L. REV. 397, 405, 407 (1990) (“The fallacies in the right/value theory can be revealed in a number of ways . . .”).

149. *Id.* at 405 (criticizing the protection of trademark “value” because this “right lacks a coherent limit”).

150. Dogan & Lemley, *supra* note 13, at 482. Generally, on the concerns that trademarks could create a monopoly on language, see the leading case *Avery & Sons v. Meikle & Co.*, 81 Ky. 73 (1883):

The alphabet, English vocabulary, and Arabic numerals are to man, in conveying his thoughts, feelings, and the truth, what air, light, and water are to him in the enjoyment of his physical being. Neither can be taken from him. They are the common property of mankind, in which all have an equal share and character of interest. From these fountains whosoever will may drink, but an exclusive right to do so cannot be acquired by any.

*Id.* at 90; see also discussion *supra* Part III.A.

151. See discussion *supra* Part III.B.1.

imperil existing defenses and fair uses.<sup>152</sup> Furthermore, scholars have repeatedly argued that this “surplus value” is generally created directly by consumers, who often attach special meaning and significance to their favorite marks, and not by trademark owners, who accordingly should not be allowed to reap benefits that they have not sown.<sup>153</sup>

While rejecting this property-value justification for merchandising, some scholars have also criticized the judicial creation of the doctrine of “confusion as to the sponsorship”—now accepted as part of the Lanham Act<sup>154</sup>—which they have often labeled as a type of “irrelevant confusion.”<sup>155</sup> Specifically, scholars have noted that this unnatural expansion of the traditional infringement standard has added to the presumption that merchandised products are, or have to be, sponsored by trademark owners.<sup>156</sup> This argument is circular according to scholars, but it has led competitors to increasingly seek trademark owners’ permission before using marks in order to avoid any risk of trademark infringement.<sup>157</sup> On the contrary, scholars have generally argued that the use of disclaimers on unauthorized products, specifying the nonaffiliation of these goods with trademark owners, could eliminate any risk of consumer confusion, including as to products’ sponsorship, yet still allow competing promotional goods to coexist in the marketplace along with officially authorized products.<sup>158</sup>

As part of their criticisms, scholars have also repeatedly highlighted the potentially anticompetitive effects of the legalization of trademark

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152. See Dreyfuss, *supra* note 148, at 405 (cautioning that protecting trademarks per se will make it impossible to assert traditional defenses).

153. *Id.* at 407. “If . . . no one has an exclusive right to use the word on a shirt, a supra-competitive price will presumably attract rivals, who will compete it down to cost. In that event, the surplus value will go . . . to purchasers.” *Id.* But see *Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040, 1049 (3d Cir. 1982). “[T]he crucial element is consumer desire to associate with the entity whose imprint is reproduced. This desire is based on success or notoriety which, in turn, is a result of the efforts of that entity.” 4 MCCARTHY, *supra* note 12, § 24:8 (quoting *Univ. of Pittsburgh*, 686 F.2d at 1040); see also Katie Moore, *NFL Orders Shops to Stop Selling ‘Who Dat’ Gear*, WWLTV.COM (Jan. 27, 2010, 9:57 PM), <http://www.wvlw.com/home/Whoownswhodat-82841572.html> (discussing the ownership of the terms “WHO DAT” after the New Orleans Saints’ victory in the 2010 Super Bowl).

154. See discussion *supra* Part III.B.2.

155. Lemley & McKenna, *supra* note 20, at 414 (“[S]ponsorship and affiliation confusion has taken on a life of its own, leading courts to declare as infringing a variety of practices that might be confusing in some sense, but that do not affect consumers’ decision-making process.”).

156. See, e.g., Glynn S. Lunnay, Jr., *Trademark Monopolies*, 48 EMORY L.J. 367, 396 (1999) (arguing that, if courts prohibit unauthorized goods, “consumers will come to expect licensing as the norm, except in obvious bootleg environments.”); cf. *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 483 (5th Cir. 2008) (“[Because] [t]he Universities . . . require all licensed products to contain the licensee’s name. . . . a consumer could believe that Smack’s logo merely indicated that it was a licensee.”); *In re Phillips-Van Heusen Corp.*, 228 U.S.P.Q. (BNA) 949, 950–51 (T.T.A.B. 1986) (stating that it is not unusual for a restaurant to license use of its mark on clothing).

157. Gibson, *supra* note 109, at 906–27.

158. See Bone, *supra* note 133, at 2183 (noting that disclaimers “can prevent both consumer confusion and the acquisition of monopoly power by official licensees”); Lemley, *supra* note 55, at 1708 (discussing the “Dallas Cowboys” trademark and dismissing confusion provided that competitor uses “an appropriate disclaimer and makes no false reference to an ‘official licensed NFL product’”).

merchandising.<sup>159</sup> In particular, while denying that merchandising marks can be used as indicators of commercial origin, scholars have denounced that to recognize merchandising rights would grant trademark owners protection for using marks as ornaments or products per se, which would foreclose competition for expressively or aesthetically functional product features.<sup>160</sup> Scholars have additionally argued that to acknowledge that trademark owners have a “moral claim”<sup>161</sup> against any form of free riding would grant broad control over competition in potentially multiple segments of the market,<sup>162</sup> which in turn would inflate product prices and decrease product quality.<sup>163</sup> Generally, scholars have noted that recognizing merchandising could result in market failures and prevent market access to competitors using the same or similar marks in different sectors of the market for totally different products.<sup>164</sup> Scholars have also criticized the tendency of businesses to include in their trademark applications a growing number of goods and services, often on the basis of intent-to-use for subsequent merchandising, thus monopolizing the use of marks for entire product classes.<sup>165</sup>

Although predominately critical toward this practice, not all scholars have rejected the acceptance of merchandising rights. Instead, some scholars have implicitly supported recognizing this practice, even if they never directly stated that trademarks used on promotional products could legitimately satisfy the distinctive function of trademarks.<sup>166</sup> In particular, in responding to criticism, these scholars have argued that the real impact of merchandising rights on competition would be minimal

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159. Robert C. Denicola, *Freedom to Copy*, 108 YALE L.J. 1661, 1661 (1999) (“[L]aws that restrain copying . . . restrain competition.”).

160. Denicola, *supra* note 27, at 613 (“[If] enjoined from using a well-known insignia on T-shirts or caps [defendants are] effectively excluded from the market for such products.” Specifically, these competitors “can sell to no one, including those who care not the slightest whether their Boston Red Sox cap is licensed or approved.”); *see also* Cherniak, *supra* note 14, at 1352–53 (“As some trademark owners do not merchandise their marks at all, consumers could be completely foreclosed from access to products displaying certain aesthetically appealing marks.”).

161. Dogan & Lemley, *supra* note 13, at 479.

162. *Id.*

163. For a detailed discussion on product prices and market competition, see Lunney, *supra* note 156, at 421–37. Besides the fact that “officially licensed” products are sold at higher prices, “[t]here may be just as many consumers who would rather purchase lower-priced, or receive higher quality, unauthorized goods.” *Id.* at 398; *see* Heald, *supra* note 128, at 788 (“If anyone can sell an Atlanta Braves T-shirt, the median price will be lower than if only one entity has the right to sell that T-shirt.”); *see also* Am. Needle, Inc. v. Nat’l Football League, 130 S. Ct. 2201, 2208–11 (2010).

164. This problem is particularly true for famous marks, which could prevent the use of the same or similar marks with respect to any products, related or unrelated, if a likelihood of dilution is established. Lanham Act § 43(c), 15 U.S.C. § 1125(c) (2006); *see, e.g.*, Simone A. Rose, *Will Atlas Shrug? Dilution Protection for “Famous” Trademarks: Anti-Competitive “Monopoly” or Earned “Property” Right?*, 47 FLA. L. REV. 653, 661–62 (1995).

165. *See* 4 MCCARTHY, *supra* note 12, § 24:9.50 (“The PTO permits the registration of a mark as used on promotional goods if a service company (or a producer of goods) puts its mark on promotional items to be used by recipients . . .”); *see also* discussion *infra* Part IV.A.2.

166. *See, e.g.*, 1 MCCARTHY, *supra* note 12, § 2:31 (characterizing the process of appropriating others’ trademarks as “reaping where one has not sown” and “stealing”); Denicola, *supra* note 27, at 640 (“The trademark owner’s unjust enrichment argument has been particularly persuasive.”).

because promotional products would still face competition against comparable products bearing different marks—a RED SOX t-shirt would still compete against a BOSTON UNIVERSITY t-shirt, for example—even if they are sold exclusively under the control of trademark owners.<sup>167</sup> Similarly, they have noted that merchandising rights could “produce only a relatively modest reduction in access.”<sup>168</sup> On the contrary, according to these scholars, the acceptance of trademark merchandising would allow trademark owners to “extract the maximum benefit from the mark”<sup>169</sup> by avoiding its possible overexposure due to unauthorized access, which could in turn destroy the distinctiveness and uniqueness of a mark.<sup>170</sup> Still, although well constructed, these arguments have not encountered much success in academic circles, and the scholarly debate continues to be characterized by skepticism.

## 2. *Trademark Merchandising as a “Fait Accompli” in Trademark Practice*

Regardless of scholarly concerns over whether merchandising rights are in accordance with the purpose of trademark law, trademark merchandising has long represented a “fait accompli” in trademark practice.<sup>171</sup> In particular, firmly convinced that marks belong to their business as property, trademark owners have generally enforced trademark rights and “traded in their marks”<sup>172</sup> as “things valuable in and of themselves,”<sup>173</sup> also with respect to merchandising rights.<sup>174</sup> The benevolent attitude of the judiciary and the growing number of cases acknowledging trademark rights in merchandised products have buttressed this tendency by making trademark owners increasingly reliant on positive outcomes from litigation in this area, as long as they can prove a likelihood of “con-

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167. Denicola, *supra* note 27, at 634 (stressing that merchandising rights would “result in a fairly elastic demand for any particular mark”). According to Denicola, recognizing merchandising rights could also prevent unnecessary legal actions. *Id.* at 635. “The transaction costs involved in invoking traditional doctrines will generally be substantial—costs that largely could be avoided if the right to ornamental use was exclusive . . .” *Id.* at 640.

168. *Id.* at 635 (“[Often licensors] demand no payment at all from their licensees. Thus, an exclusive merchandising right may at times produce only a relatively modest reduction in access.”).

169. *Id.* at 637.

170. *Id.* at 640 (“As the merchandise bearing a particular name or symbol proliferates, there is a risk that demand for all such items may decrease.”). *But see* Mark A. Lemley, *Ex Ante Versus Ex Post Justifications for Intellectual Property*, 71 U. CHI. L. REV. 129, 144–47 (2004).

171. Dogan & Lemley, *supra* note 13, at 506.

172. Isaacs, *supra* note 56, at 1210; *see also* Daniel E. Newman, *Portraying a Branded World*, 2008 U. ILL. J.L. TECH. & POL’Y 357, 357 (“Using trademarks as an actual product in brand merchandise, rather than to signal product origin, is a longstanding commercial practice . . .”).

173. *See* Lemley, *supra* note 55, at 1687–88.

174. *See* Grimes & Battersby, *supra* note 10, at 431 (noting that trademarks are becoming property). For a recent example of promotional licensing in a specific market sector, the toys industry, *see* Tricia Toney, *Taking Heroes Home: Licensing Trends*, TDMONTHLY (Feb. 2005), <http://www.toydirectory.com/monthly/article.asp?id=1156> (“Licensed products currently account for over one third of the toy industry, and the market segment keeps growing.”).

fusion as to the sponsorship” on the part of the public or, in the case of famous marks, a likelihood of dilution.<sup>175</sup>

As a result of this de facto institutionalization of merchandising, trademark owners and practitioners have generally relied on their presumed merchandising rights and frequently requested other parties, usually with the use of cease-and-desist letters,<sup>176</sup> to halt the production or distribution of most products bearing identical or similar marks,<sup>177</sup> not solely counterfeited goods.<sup>178</sup> Trademark owners and practitioners have often exploited these presumptively valid rights to settle claims for infringement, or dilution, by imposing the acceptance of licensing agreements, usually in exchange for a royalty.<sup>179</sup> Not surprisingly, due to the high costs and fears of litigation,<sup>180</sup> as well as the widespread lack of knowledge of the unclear legal status of merchandising in the business world, trademark owners and practitioners have largely emerged victorious from these disputes, thus reinforcing the—still theoretically “fragile”—recognition of merchandising.<sup>181</sup>

As additional evidence of the established role of merchandising rights in practice, past decades have also witnessed the flourishing of a sizable body of manuals and guides specifically focusing on how to manage trademark portfolios and develop successful merchandising pro-

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175. See *Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co.*, 550 F.3d 465, 483–85 (5th Cir. 2008) (“[Because of] the overwhelming similarity[.] . . . consumers would likely be confused and believe that Smack’s t-shirts were sponsored or endorsed by the Universities.”); *Univ. of Kan. v. Sinks*, 565 F. Supp. 2d 1216, 1254–55 (D. Kan. 2008) (stating that some of marks displayed on defendant’s t-shirts “are overwhelmingly similar to KU’s marks”); *Tex. Tech. Univ. v. Spiegelberg*, 461 F. Supp. 2d 510, 524 (N.D. Tex. 2006) (saying that defendant had “sold unlicensed products with the identical Texas Tech marks since its license was revoked in 2003” and “[t]herefore, Spiegelberg’s use of identical marks constitutes trademark dilution”).

176. See, e.g., 2 BARRY KRAMER & ALLEN D. BRUFKY, *TRADEMARK LAW PRACTICE FORMS* § 23:1 (2009). Trademark manuals often provide sample forms of cease and desist letters. See *id.* §§ 43:3–4; see also Moore, *supra* note 153 (noting that the NFL sent cease and desist letters to unlicensed t-shirt sellers using the term “WHO DAT”).

177. *Univ. of Ga. Athletic Ass’n v. Laite*, 756 F.2d 1535, 1543 (11th Cir. 1985) (preventing the use of plaintiff’s mark on an unrelated good, beer, because of both “the similarity of design [between the two marks] and the defendant’s intent”); *Spiegelberg*, 461 F. Supp. 2d at 520–23 (protecting the use of university color schemes, mascots, and language on several promotional items).

178. Counterfeited goods are forbidden under the Lanham Act. See Lanham Act §§ 32, 43, 15 U.S.C. §§ 1114, 1125 (2006). The statute defines a “counterfeit” as “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127. The Trademark Counterfeiting Act also provides criminal sanctions against the trafficking of counterfeited products. Trademark Counterfeiting Act, 18 U.S.C. § 2320; see, e.g., *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 799 F.2d 867, 872–73 (2d Cir. 1986) (“[I]t is equally clear that post-sale confusion as to source is actionable under the Lanham Act.”).

179. Critically, see Gibson, *supra* note 109, at 913 (noting that because of the harsh penalties imposed for trademark infringement “[i]t should therefore come as no surprise when trademark users who could mount a decent defense against an infringement claim nevertheless choose to seek a license”).

180. *Id.* at 915 (“[R]isk aversion and promotional opportunities combine to create markets for trademark licenses when no license is needed.”).

181. See discussion *infra* Part IV.B.

grams.<sup>182</sup> In particular, the emergence of trademarks as brand builders in an economy evermore dominated by advertising has brought a growing number of publications<sup>183</sup> to stress the importance of evaluating whether a mark has the potential to be used as a premium or promotion apart from its retail life<sup>184</sup> and can appeal to a particular life-style image.<sup>185</sup> Similarly, trademark manuals have increasingly suggested that trademark owners should develop comprehensive marketing strategies, primarily with respect to market expansions and promotional products,<sup>186</sup> and have frequently provided samples of merchandising agreements as models for trademark practitioners.<sup>187</sup>

The adoption of the Trademark Revision Act of 1988,<sup>188</sup> which directly established the possibility to file trademark applications based on bona fide intent to use and not necessarily on actual use, also contributed to this trend.<sup>189</sup> Starting in the 1990s, trademark manuals and practitioners have routinely encouraged trademark owners to “carefully identify those products”—related, collateral, or promotional—for which they could subsequently license their marks, “prior to filing an application under the Trademark Revision Act.”<sup>190</sup> Although frequently criticized by scholars as a further shift toward protecting trademark rights “in gross,”<sup>191</sup> these applications undoubtedly represent the perfect vehicle for trademark owners to preventively secure trademark rights for later uses

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182. See, e.g., STEVEN H. BAZERMAN & JASON M. DRANGEL, GUIDE TO REGISTERING TRADEMARKS (1999); 4 KRAMER & BRUFUSKY, *supra* note 176, § 43:14; RAYSMAN ET AL., *supra* note 9, §§ 4.09, 4.11.

183. 4 KRAMER & BRUFUSKY, *supra* note 176, §§ 43:7, 43:14 (providing general instructions for merchandising and sample forms); RAYSMAN ET AL., *supra* note 9, §§ 4.09, 4.11 (stressing the importance of licensing and including sample agreements).

184. GREGORY J. BATTERSBY & CHARLES W. GRIMES, LAW OF MERCHANDISE AND CHARACTER LICENSING § 1:1 (2009) (“Merchandising now affords small businessmen the opportunity to compete on equal terms with large manufacturers, who historically were the only ones who could afford to invest the substantial sums required by classic marketing techniques.”).

185. *Id.* § 7:10.

186. *Id.* § 11:1 (“It has been said there are only two sure things in life—death and taxes. In the merchandising area, there is a third—successful merchandising properties will be infringed.”).

187. See RAYSMAN ET AL., *supra* note 9, § 4.11 (providing guidelines in drafting, *inter alia*, clauses for compensation, quality control, ownership, enforcement, and termination of contract).

188. Trademark Revision Act of 1988, Pub. L. No. 100-667, 102 Stat. 3935 (1988) (codified as amended at 15 U.S.C. § 1060 (1989)).

189. Lanham Act § 1(b), 15 U.S.C. § 1051(b) (2006). Intent-to-use applications require objective evidence of bona fide intended use and applicants are advised to keep detailed document of these uses. 37 C.F.R. § 2.89(a)(3),(d) (2009); see *Commodore Elecs. Ltd. v. CBM Kabushiki Kaisha Opposition*, 26 U.S.P.Q.2d (BNA) 1503, 1507 n.12 (T.T.A.B. 1993). *But see The Wet Seal Inc. v. FD Mgmt. Inc.*, No. 91157022, 2007 WL 458529, at \*14 (T.T.A.B. Feb. 9, 2007) (“[That the] applicant may not have taken steps to actually launch or introduce a particular product does not mean that applicant otherwise had no intention to develop or market the product.”); *Lane Ltd. v. Jackson Int’l Trading Co.*, 33 U.S.P.Q.2d 1351, 1356 (T.T.A.B. 1994) (noting that the development of a business plan and licensing program is sufficient to show a bona fide intent to use).

190. BATTERSBY & GRIMES, *supra* note 184, § 8:14.

191. See discussion *supra* Part IV.A.1.

on promotional products<sup>192</sup> since they create “constructive use priority for newly registered marks as of the filing date of the application.”<sup>193</sup>

Ultimately, a long established line of reasoning within the USPTO has also confirmed the importance of merchandising rights in practice.<sup>194</sup> Notably, following the leading judicial cases of the 1970s and 1980s,<sup>195</sup> a growing number of decisions from examining attorneys and rulings from the Trademark Trial Appeal Board (TTAB) have routinely allowed registrations for use on merchandised products and upheld oppositions based on the use of marks on collateral goods.<sup>196</sup> Specifically, the examiners and the TTAB have commonly adopted the doctrine of “confusion as to the sponsorship” for assessing the validity of trademark applications and claims opposing registrations.<sup>197</sup> Additionally, the TTAB has repeatedly affirmed that “the licensing of commercial trademarks for use on ‘collateral’ products . . . which are unrelated in nature to those goods or services on which the marks are normally used, has become a common practice in recent years”<sup>198</sup> and that merchandising “has become part of everyday life.”<sup>199</sup> Still, although these decisions have contributed to the de facto recognition of merchandising, the USPTO has followed the posi-

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192. After filing an intent-to-use application, applicants are given a notice of allowance, provided that no opposition has been filed. Applicants have six months to file a statement of use to obtain trademark registration (extendable to one year automatically and up to three years for good cause). See 37 C.F.R. § 2.89.

193. BATTERSBY & GRIMES, *supra* note 184, § 8:20.

194. See, e.g., *In re* 12th Man/Tenn., No. 78020515, 2008 WL 1897548, at \*5 (T.T.A.B. Apr. 22, 2008); *Balt. Ravens Ltd. P’ship v. 12th Man/Tenn. LLC*, No. 91157082, 2007 WL 683781, at \*11 (T.T.A.B. Feb. 28, 2007); *Chi. Bears Football Club, Inc. v. 12th Man/Tenn. LLC*, No. 91150925, 2007 WL 683778, at \*12 (T.T.A.B. Feb. 28, 2007); *DC Comics v. Pan Am. Grain Mfg. Co. Inc.*, No. 91125404, 2005 WL 2093233 (T.T.A.B. Aug. 24, 2005); *Turner Entm’t Co. v. Nelson*, 38 U.S.P.Q.2d 1942, 1945–46 (T.T.A.B. 1996); *Gen. Mills Fun Group, Inc. v. Tuxedo Monopoly, Inc.*, 204 U.S.P.Q. 396, 403 (T.T.A.B. 1979), *aff’d*, 648 F.2d 1335 (C.C.P.A. 1981).

195. See *supra* Part III.B.1.

196. See, e.g., *Turner*, 38 U.S.P.Q.2d at 1945–46 (sustaining an opposition to the unlicensed trademark use based on trademark owners’ use of the mark on collateral items including beach towels); *Gen. Mills*, 204 U.S.P.Q. at 400 (acknowledging the practice to license trademarks on unrelated collateral goods).

197. See *Dreamwerks Prod. Grp., Inc. v. SKG Studio*, 142 F.3d 1127, 1131 (9th Cir. 1998) (“[M]ovies and sci-fi merchandise are now as complementary as baseball and hot dogs.”); *In re Sloppy Joe’s Int’l Inc.*, 43 U.S.P.Q.2d 1350, 1356 (T.T.A.B. 1997) (acknowledging that because of public awareness of licensing practices consumers could be confused as to sponsorship of promotional Hemingway clothing); *Univ. Book Store v. Univ. of Wis. Bd. of Regents*, 33 U.S.P.Q.2d 1385, 1402 (T.T.A.B. 1994) (holding that the licensing of various Wisconsin Badgers trademarks brought the public to consider the University of Wisconsin Madison as a “secondary source” for collateral products). For a recent example involving one of the marks used in the Introduction, see *H-D Mich. LLC v. Broehm*, No. 91177156, 2009 WL 1227921, at \*8 (T.T.A.B. Apr. 28, 2009) (holding that Harley-Davidson’s use of the “bar and shield” logo on clothing would cause consumers to believe that registrant’s use of a similar logo on promotional goods came “from the same source or a source authorized by opposer”).

198. *In re God’s Prop., Inc.*, No. 78739748, 2007 WL 2422992, at \*2 (T.T.A.B. Aug. 20, 2007) (quoting *In re Phillips-Van Heusen Corp.*, 228 U.S.P.Q. 949, 951 (T.T.A.B. 1986)). The TTAB has repeatedly affirmed, for example, that “items of clothing . . . appear to represent a particularly natural area for the ‘collateral products’ use of commercial trademarks.” *In re Phillips-Van Heusen Corp.*, 228 U.S.P.Q. at 951.

199. *DC Comics v. Pan Am. Grain Mfg. Co.*, 77 U.S.P.Q.2d 1220, 1225 (T.T.A.B. 2005).

tion of the courts and has so far left room for different interpretations in this area on a case-by-case basis.<sup>200</sup>

*B. Consequences of the Disconnected Debate on Merchandising Rights*

As elaborated in the previous paragraphs, the profound divide between trademark theory and practice over merchandising rights stems directly from the intrinsically opposite views of opponents and supporters of this practice with respect to the general scope of trademark protection. As a result of these inherently conflicting interpretations, the debate in this area has reached a difficult impasse without providing a satisfactory solution for any of the interested parties—trademark owners, competitors, and consumers.<sup>201</sup> Hence, because of the relevance of promotional products in virtually every sector of today's economy,<sup>202</sup> this situation is not merely a cause of theoretical frustration for scholars and practitioners, but also a source of confusion and a potential detriment for trademark owners and competitors.<sup>203</sup>

Notably, in the absence of an official position on the issue, trademark owners are left wondering about their ability to control and enforce trademark rights with respect to unauthorized promotional goods.<sup>204</sup> Meanwhile, competitors lack clear guidance as to the conditions upon which they can legitimately use trademarks without the consent of trademark owners.<sup>205</sup> Because of the divergence of opinions in this area, competitors also frequently receive conflicting answers about the legitimacy of their actions, which could amount to fair use according to scholars,<sup>206</sup> or constitute infringement or dilution according to practitioners.<sup>207</sup> Not surprisingly, because of this uncertainty and the “widespread ignorance of the law”<sup>208</sup> that largely defines the business world, trademark owners and competitors have generally adopted the interpretations of

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200. See discussion *infra* Parts IV.B, V.A–B.

201. See 4 MCCARTHY, *supra* note 12, §§ 24:7–20 (offering a detailed reconstruction of the various position on the merchandising debate).

202. Drescher, *supra* note 3, at 331 (noting that companies are increasingly using their brand names on new products in different product markets). *But see Brand-Stretching Can Be Fun—and Dangerous*, ECONOMIST, May 5, 1990, at 77 (stressing the importance of brand-stretching's cost-effectiveness, but warning that excessive extension may become detrimental to the brand name).

203. See discussion *supra* Part IV.A.1–2.

204. See Gibson, *supra* note 109, at 908.

205. *Id.*

206. Some scholars criticize the cases granting merchandising rights in line with *Boston Professional Hockey*, and argue that courts should follow the line of cases that started with *Job's Daughters* and *Rainbow for Girls* and reject trademark owners' claims. See Dogan & Lemley, *supra* note 13, at 477–48 (discussing *Bos. Prof'l Hockey Ass'n v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1012 (5th Cir. 1975)).

207. Despite sharp criticism from scholars, practitioners still bring lawsuits on the grounds of *Boston Professional Hockey* and similar decisions. RAYSMAN ET AL., *supra* note 9, § 9.01.

208. Isaacs, *supra* note 56, at 1210.

the facts at issue that best fit their particular needs,<sup>209</sup> thus perpetuating inconsistency in this area.

As a result, trademark owners have increasingly enforced trademarks with respect to unauthorized promotional goods, at times basing their claims on questionable foundations.<sup>210</sup> Recent judicial decisions have facilitated this trend by confirming the validity of these claims, especially in the presence of existing licensing agreements.<sup>211</sup> In addition, the desire to proactively affirm their rights for a large number of products has caused trademark owners to systematically file intent to use trademark applications to reserve vast numbers or even entire classes of goods and services, with dubious effects for market competition.<sup>212</sup> To the contrary, competitors have continued to use other parties' marks on promotional products without authorization,<sup>213</sup> frequently engaging in borderline infringing or diluting activities—at times in good faith, but also intentionally<sup>214</sup>—and thus triggering aggressive trademark enforcement.<sup>215</sup>

Although often based on misunderstandings or convenient interpretations of trademark norms by the various parties, these actions have nevertheless translated into seriously adverse effects for the market and the judicial system.<sup>216</sup> In particular, the mistaken, but persistent, belief of trademark owners that they own marks as properties has frequently re-

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209. For a general discussion on the need to control competitors' opportunistic behaviors, see Michael J. Meurer, *Controlling Opportunistic and Anti-Competitive Intellectual Property Litigation*, 44 B.C. L. REV. 509 (2003).

210. For an exhaustive list of these cases, see Lemley & McKenna, *supra* note 20, at 422–26.

211. See, e.g., Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 485 (5th Cir. 2008) (“Universities annually sell millions of dollars worth of licensed apparel.”); Univ. of Kan. v. Sinks, 565 F. Supp. 2d 1216, 1235 (D. Kan. 2008) (“[Plaintiff’s sales] of licensed products . . . contributed to more than \$12 million in wholesale sales, and at least \$20 million in retail sales of licensed KU products in 2006 alone.”); Tex. Tech Univ. v. Spiegelberg, 461 F. Supp. 2d 510, 516 (N.D. Tex. 2006) (underlining that plaintiff allowed “over 450 licensees to sell these officially licensed products”).

212. Lawmakers have cautioned that excessive use of these applications for one mark may result in a lack of a bona fide intent. S. REP. NO. 100-515, at 23–24 (1988), reprinted in 1988 U.S.C.C.A.N. 5577, 5587. In particular, defensive applications to preempt third party’s uses have frequently been found engaging in bad-faith filing. *Caesars World, Inc. v. Milanian*, 247 F. Supp. 2d 1171, 1182 (D. Nev. 2003); see also David S. Ruder, *New Strategies for Owners of Discontinued Brands*, 3 NW. J. TECH. & INTELL. PROP. 61, 74–75 (2004) (suggesting that intent-to-use applications can prevent third parties from considering the use of a trademark, but also warning that the party may be challenged with a claim of bad faith).

213. For a recent controversy involving the unauthorized use of the New Orleans Saints’ “WHO DAT” marks, see Moore, *supra* note 153.

214. See *Smack Apparel*, 550 F.3d at 482 (“[Defendant] knew that its shirts were sold in the same venues as and sometimes alongside officially licensed merchandise, and it intentionally incorporated color marks to create the kind of association with the Universities that would influence purchasers.”).

215. See, e.g., 4 MCCARTHY, *supra* note 12, §§ 24:7–20.

216. Some scholars have noted that the uncertainty surrounding merchandising has raised both administrative and error costs. See Bone, *supra* note 133, at 2123. Scholars have also highlighted that, because of the large potential damages resulting from findings of infringement, trademark owners engage in rent-seeking behaviors and demand payment for the use of their marks. See Gibson, *supra* note 109, at 920.

sulted in unnecessary trademark enforcement and litigation,<sup>217</sup> which in turn has brought otherwise superfluous claims to the attention of the courts. Besides adding extra costs to the judicial system,<sup>218</sup> these suits have produced high costs for the litigants,<sup>219</sup> which have inevitably been transferred to the market through higher prices, reduced quality or product availability, and, in some instances, the complete cessation of economic activities.<sup>220</sup> Furthermore, as indicated above, because of fears and the costs of litigation, competitors often accept unnecessary, and at times expensive, licensing agreements.<sup>221</sup>

On the other side, the uncertainty surrounding the protection of merchandising rights has offered seemingly valid excuses for competitors who are clearly engaging in acts of unfair competition to the detriment of trademark owners, legitimate licensees, and the public.<sup>222</sup> This uncertainty has also contributed to the aggressive enforcement in this area since, should trademark owners not react promptly to unauthorized promotional products, they could later face claims of trademark abandonment, laches, or acquiescence.<sup>223</sup> Finally, the repeated statement from trade-

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217. For example, although the University of Kansas claimed that an unlicensed t-shirt vendor was infringing Kansas' trademarks on a significant number of t-shirt designs, the court found infringement only on a small number of designs using marks that were "overwhelmingly similar" to plaintiff's marks. *Univ. of Kan. v. Sinks*, 565 F. Supp. 2d 1216, 1254-55 (D. Kan. 2008); *see also* *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 677 F. Supp. 2d 1238, 1258-59 (N.D. Ala. 2009) (denying the university's exclusive rights on the colors of the team uniform).

218. Generally, frivolous claims can be sanctioned under Rule 11 of the Federal Rules of Civil Procedure. FED. R. CIV. P. 11(b)(2) ("By presenting to the court a pleading . . . [a] party certifies that . . . the claims, defenses, and other legal contentions are warranted by existing law or by a nonfrivolous argument . . ."); *see also* *North Face Apparel Corp. v. Williams Pharm., Inc.*, No. 4:09CV2029RWS, 2010 WL 546921, at \*2 (E.D. Mo. Feb. 9, 2010) (denying a motion to dismiss, the judge warned that "[a]lthough this filing may not reach the level of frivolity, it approaches the line").

219. Scholars have repeatedly highlighted the additional costs for litigants of unnecessary trademark litigation. *See* Kenneth L. Port, *Trademark Extortion: The End of Trademark Law*, 65 WASH. & LEE L. REV. 585, 602-06 (2008). Port also denounces trademark owners' "predation," which creates an atmosphere in which potential market entrants believe they will be sued for trademark infringement. *Id.*; *see also* Michael Grynberg, *Trademark Litigation as Consumer Conflict*, 83 N.Y.U. L. REV. 60, 112 (2008).

220. *See* Lunney, *supra* note 156, at 435 ("Even where protection does not go so far as to foreclose competitive entry altogether, protection will necessarily entail some degree of anticompetitive loss . . .").

221. *See, e.g., Out of Many, One*, *supra* note 22, at 32 (noting that after the NFL agreed to only license Reebok to produce clothing bearing NFL teams' trademarks, "the price of caps promptly rose, by 50%, while team jerseys began selling for 40% more.").

222. For a reconstruction of the relevant case law, *see* 4 MCCARTHY, *supra* note 12, §§ 24:7-20.

223. The Lanham Act states that a mark is "abandoned" when "its use has been discontinued with intent not to resume such use" or "[w]hen any course of conduct of the owner . . . causes the mark to become the generic name for the goods or services . . ." Lanham Act § 45, 15 U.S.C. § 1127 (2006). Trademark owners who engage in promotional use of their mark must closely protect their mark. *Emergency One, Inc. v. Am. FireEagle, Ltd.*, 228 F.3d 531, 535-36 (4th Cir. 2000). *But see* *Univ. Book Store v. Univ. of Wis. Bd. of Regents*, 33 U.S.P.Q.2d (BNA) 1385, 1392-93 (T.T.A.B. 1994) (refusing to find abandonment because, despite previous unlicensed uses, the marks still signified the university for the relevant consuming public). In addition, trademark owners must duly enforce their rights to prevent claims of laches and acquiescence. *See* Lanham Act § 19, 15 U.S.C. § 1069; *Kellogg Co. v. Exxon Corp.*, 209 F.3d 562, 569 (6th Cir. 2000) ("[L]aches and acquiescence require proof that the party seeking to enforce its trademark rights has unreasonably delayed pursuing litigation and, as a result, materially prejudiced the alleged infringer . . .").

mark scholars that the simple use of disclaimers on unauthorized promotional products could prevent consumer confusion<sup>224</sup> has dangerously provided some room for counterfeiters to argue that counterfeited products could be legal<sup>225</sup> when accompanied by disclaimers as to their non-affiliation with trademark owners so as to preventively avoid any likelihood of consumer confusion as to the origin of the products.<sup>226</sup>

## V. THE CASE FOR A LIMITED PROTECTION OF TRADEMARK MERCHANDISING

As described in Parts III and IV, despite doctrinal concerns, trademark practices have long adopted a de facto acceptance of trademark merchandising following the increased benevolence from the judiciary and the legislature. Still, neither courts nor Congress have granted clear legal status to this practice and disagreements continue to characterize this area of the law to the detriment of trademark owners and competitors.

Part V considers the shortcomings of the current merchandising debate and offers an alternative solution to the scholarly opposition to trademark merchandising. Notably, Part V advocates for the clear protection of this practice when marks are used to identify and distinguish promotional products offered for sale under the general principles of trademark law. Contrary to criticism, this solution will not adversely affect consumers, but rather will offer a needed guideline about the extent of protection of this practice, which can no longer be ignored or disregarded in our society.

### A. *Flaws of the Disconnected Debate on Merchandising Rights*

As repeatedly noted, most of the disagreement over merchandising rights originates from the fundamentally different positions of opponents and supporters over the scope of trademark law. In particular, whereas scholars have opposed merchandising because of the unnatural expansion of trademark rights, the business world has welcomed this practice as a natural extension of business activities.<sup>227</sup> Adding to this divide, recent statutory and judicial developments have progressively favored merchandising, but only on a case-by-case basis under the doctrine of

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224. See Bone, *supra* note 133, at 2182–83.

225. See, e.g., *Louis Vuitton S.A. v. Lee*, 875 F.2d 584, 588–89 (7th Cir. 1989) (holding that treble damages were appropriate remedy even for innocent infringement as a deterrent for further illegitimate activities); 4 MCCARTHY, *supra* note 12, § 25:10 (noting that counterfeiting is a major concern for luxury goods and health and safety related products); Richard S. Higgins & Paul H. Rubin, *Counterfeit Goods*, 29 J.L. & ECON. 211, 217–26 (1986).

226. See *Malletier v. Burlington Coat Factory Warehouse Corp.*, No. 04 CV 2644(RMB), 2006 WL 1424381, at \*9 (S.D.N.Y. May 23, 2006) (holding that plaintiff's counterfeit claims failed because there was not a likelihood of consumer confusion). *But see* Dogan & Lemley, *supra* note 13, at 491 (denying that clearly counterfeited products could be legally sold or distributed).

227. See discussion *supra* Part IV.A.

“confusion as to the sponsorship.”<sup>228</sup> Not surprisingly, this uncertainty has resulted in increasing criticism in this area.<sup>229</sup> Still, the reasons for this uncertainty can be directly attributed to the flaws of the merchandising debate itself, and particularly to the lack of dialogue among scholars, trademark owners, and practitioners, and their often limited analysis of trademark law and policy.<sup>230</sup>

With respect to the scholarly opposition, for example, scholars have traditionally criticized merchandising based on the assertion that trademark law should focus exclusively on consumer protection. Hence, scholars have frequently ignored the principle that the general scope of trademark law and policy has historically included protecting business goodwill against misappropriation.<sup>231</sup> Notably, the principle that trademarks are both conveyers of commercial information and symbols of business goodwill has been “a milestone in trademark theory.”<sup>232</sup> Courts have repeatedly reinforced this principle in the past century,<sup>233</sup> although they initially protected goodwill only narrowly and in restricted markets.<sup>234</sup> Still, prompted by societal and economic changes, courts and Congress gradually broadened the interpretation of goodwill and the extent of its protection.<sup>235</sup> Accordingly, despite scholars’ ideological opposition to merchandising rights, rather than being based on a “fragile theory,”<sup>236</sup> the judicial and legislative support for this practice reflects an established principle of trademark protection—goodwill misappropriation—which scholars cannot continue to ignore to reach a comprehensive solution in the merchandising debate.

In addition, while criticizing the standard of “confusion as to the sponsorship” adopted by the courts and confirmed by the statute as a dangerous expansion of the traditional requirement of “likelihood of consumer confusion,”<sup>237</sup> scholars have often disregarded the fact that infringement against promotional products can also be found by applying

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228. See discussion *supra* Part III.B.1.

229. See 4 MCCARTHY, *supra* note 12, §§ 24:7–20.

230. *Id.*

231. See, e.g., *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918) (“[A trademark’s] function is simply to designate the goods as the product of a particular trader and to protect his good will against the sale of another’s product as his; and it is not the subject of property except in connection with an existing business.”).

232. Calboli, *supra* note 4, at 782–83. But see Robert G. Bone, *Hunting Goodwill: A History of the Concept of Goodwill in Trademark Law*, 86 B.U. L. REV. 547, 592 (2006) (“[G]oodwill protection has influenced expansions of trademark law, the most troubling of which are linked to a broad conception of goodwill that includes elements unrelated to source identification.”).

233. See discussion *supra* Part III.A.; see also *Prestonettes, Inc. v. Coty*, 264 U.S. 359, 368 (1924) (“A trade-mark only gives the right to prohibit the use of it so far as to protect the owner’s good will against the sale of another’s product as his.”); S. REP. NO. 79-1333, at 4 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275 (“To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.”).

234. See McKenna, *supra* note 64, at 1858.

235. See discussion *supra* Part III.A.

236. Dogan & Lemley, *supra* note 13, at 506.

237. See discussion *supra* Part III.B.1.

the traditional standard to the allegedly infringing products. In particular, scholars have generally ignored that the courts have consistently held that consumer confusion can be expected and implied, without any additional factor analysis, when identical or sufficiently similar marks are used on identical or directly competing goods.<sup>238</sup> Hence, under this interpretation, confusion can easily be expected and implied, and infringement can be found against most unauthorized promotional goods, which are invariably identical or directly compete with officially licensed goods and carry identical or strikingly similar marks.<sup>239</sup> Here again, notwithstanding scholars' reluctance to accept that trademarks can legitimately identify promotional products,<sup>240</sup> no sound reason has so far emerged from the scholarly debate to deny merchandising marks the same protection granted to all marks, as long as these marks are used to distinguish the products to which they are affixed, even if simply in terms of sponsorship, affiliation, or business approval.<sup>241</sup>

Finally, scholars' arguments about merchandising's effects on competition also show a limited analysis of the issue.<sup>242</sup> In particular, although the scholarly debate has highlighted valid concerns with respect to the risk of excessive market control, market failures, and rising product costs, most of this critique applies to trademark protection in general. As trademark commentators have repeatedly observed, all marks,

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238. *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979) ("When the goods produced by the alleged infringer compete for sales with those of the trademark owner, infringement usually will be found if the marks are sufficiently similar that confusion can be expected."); *see also* *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961) (suggesting that confusion can be expected for similar marks when the products are identical). This direct "presumption" of confusion, and thus infringement, for identical products carrying identical marks is also explicitly stated in Article 16 of the Agreement on Trade-Related Aspects of Intellectual Property Right according to which "[i]n case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed." Agreement on Trade-Related Aspects of Intellectual Property Rights art. 16, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 33 I.L.M. 1197, 1203 (1994) [hereinafter TRIPS]. Accordingly, this principle should be considered accepted based upon the obligations of the United States as a member of TRIPS, and confusion shall be presumed when the products and the marks at issue are identical, as most often in the case of unauthorized promotional goods. *See generally* Lanham Act §§ 32, 43, 15 U.S.C. §§ 1114, 1125 (2006).

239. *See, e.g., Audi AG v. D'Amato*, 469 F.3d 534, 542–43 (6th Cir. 2006); *Gen. Motors Corp. v. Lanard Toys, Inc.*, 468 F.3d 405, 412 (6th Cir. 2006); *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*, 457 F.3d 1062, 1074 (9th Cir. 2006); *WSM, Inc. v. Tenn. Sales Co.*, 709 F.2d 1084, 1086–87 (6th Cir. 1983).

240. *See* *Dogan & Lemley*, *supra* note 13, at 471 n.38 (noting that in merchandising cases "the mark has acquired trademark status through use in connection with some other primary activity . . ."); *Dreyfuss*, *supra* note 148, at 408 ("[I]t is somewhat perverse to encourage the trademark owner's primary activity by facilitating the capture of profits from some other goods"). *But see* *Univ. of S.C. v. Univ. of S. Cal.*, 367 F. App'x 129, 132–33 (Fed. Cir. 2010) (treating merchandising marks as product marks while denying the appeal of the University of South Carolina against the TTAB decision to refuse to register the "SC" mark because of direct confusion with the mark from the University of Southern California).

241. By asserting that the use of disclaimers could also dispel any risk of confusion as to the "sponsorship" or "affiliation" of the products, scholars have implicitly admitted that consumers could in fact be confused as to the origin of the products, although scholars have commonly argued that this confusion is simply the result of the increased presumption among the public that licensing agreements and authorization are the norm. *See, e.g., Bone*, *supra* note 133, at 2183.

242. *See* discussion *supra* Part IV.A.1.

whether used on promotional goods or primary products, constitute a limited monopoly and a barrier to entry because their recognition is based on an ad hoc right granted by the law to exclude others from using the same mark under specific circumstances.<sup>243</sup> Still, despite this unavoidable exclusionary component, trademarks have also long been identified as essential tools in the market economy because of their ability to distinguish products from competing ones and to inform the public about product quality.<sup>244</sup> To carefully balance these conflicting interests—“right to exclude” for trademark owners, “right to compete” for competitors, and “right to be properly informed” for consumers—trademark law and policy have cautiously crafted trademark protection by imposing strict limits for the acquisition and enforcement of trademark rights,<sup>245</sup> as well as have created specific defenses to safeguard fair competition and noncommercial uses of marks in society.<sup>246</sup> Accordingly, no additional distortions of competition need to result from the use of marks on promotional products compared to trademark use in general, as long as the courts apply trademark rules correctly and prevent trademark abuses.<sup>247</sup>

Probably even more than scholars, trademark owners and practitioners have also based their arguments in favor of merchandising on a convenient analysis of trademark rules. In particular, while favoring merchandising as a natural expansion of goodwill protection, trademark owners and practitioners have repeatedly downplayed that the primary purpose of trademark protection is to guarantee the fair functioning of the market for competitors and consumers.<sup>248</sup> Notably, trademark own-

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243. Lunney, *supra* note 156, at 421 (“In any form, trademark protection grants to a particular individual a bundle of rights . . . [T]ypically included in this bundle is the right to exclude others from using the mark in certain contexts.”); see also Brown, *supra* note 145, at 1206; Charles E. Mueller, *Sources of Monopoly Power: A Phenomenon Called ‘Product Differentiation,’* 18 AM. U. L. REV. 1, 3 (1968).

244. See Landes & Posner, *supra* note 45, at 265–66 (1987) (resolving the problems related to the justification of trademark protection because trademarks “promote economic efficiency”); see also WILLIAM M. LANDES & RICHARD A. POSNER, *THE ECONOMIC STRUCTURE OF INTELLECTUAL PROPERTY LAW* 166–68 (2003). For a detailed analysis of the conflicting interests at the core of the debate on trademark protection and the acceptance of the position that trademarks play a fundamental role in the competitive process and market economy, see *supra* Part III.A–B.

245. See discussion *supra* Part III.A (noting the conditions of the protection and enforcement of trademarks).

246. See ROBERT P. MERGES ET AL., *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 890–947 (5th ed. 2010) (discussing various defenses in trademark law).

247. Scholars have often advocated that trademark use on promotional products constitutes an anomaly and argued that disclaimers could dispel any relevant confusion. Bone, *supra* note 133, at 2183. Scholars have generally excluded, however, that disclaimers could be used to exclude confusion with respect to products potentially infringing trademark owners’ primary activity. Denicola, *supra* note 27, at 613. “If an impostor markets cameras under the Kodak mark, no purpose is served by an order permitting the use on condition that the defendant also append a disclaimer of connection with the Eastman Kodak Corporation.” *Id.* This Article objects to this position and argues that whether marks are used on “primary” or promotional products, current trademark rules cannot, and should not, discriminate between these uses, as long as marks are effectively used in commerce to identify product origin, also in terms of direct “sponsorship” or “affiliation.” *Contra id.*

248. See McClure, *supra* note 51, at 329. “The result of the realist attack brought about changes in the rhetoric of judges and commentators . . . The property justification of protection was replaced by arguments in favor of protecting business good will or values resulting from use.” *Id.* As a result of

ers and practitioners have often failed to appreciate that trademark law does not grant trademark owners an absolute right to exploit trademark value, but instead carefully limits the extent of trademark protection to prevent the abuse of trademark rights.<sup>249</sup> Thus, as much as scholars should accept the relevance of protecting goodwill as part of the merchandising debate, trademark owners and practitioners should accept that the primary role of trademark law is to guarantee consumers and the market, and not business per se, to facilitate a solution in this area.

Generally, trademark owners and practitioners have also minimized the dangers that unlimited merchandising rights could entail for society, both in terms of appropriation of words and symbols and negative effects for competition.<sup>250</sup> Besides frivolous lawsuits and extra costs for the legal system,<sup>251</sup> this perception has brought trademark owners to increasingly invoke trademark protection beyond consumer confusion and against trademark dilution for not truly famous marks.<sup>252</sup> Additionally, trademark owners and practitioners have frequently ignored that protection against unauthorized promotional products cannot be based on the desire to control marks “in gross” with respect to any imaginable goods and services. Instead, this protection should apply only when trademarks are used to identify promotional products in the market, and based upon an effective likelihood of consumer confusion as to the products’ source, even if at-large,<sup>253</sup> with only the exception of the protection of famous marks against dilution<sup>254</sup> as repeated by the courts.<sup>255</sup> Thus, trademark owners and practitioners should not continue to push the boundaries of trademark protection, already largely benevolent for businesses, to their advantage and to the detriment of competition.

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these changes, “[p]rotecting the public from confusion and deception became a more prominent rationale than protecting property.” *Id.*

249. See discussion *supra* Part III.B.1. See McGeveran, *supra* note 21, at 56–66 (highlighting the increasing conflicts over expressive fair uses in trademark law, and the chilling effect resulting from aggressive and unnecessary litigation); see also Graeme B. Dinwoodie, *Developing Defenses in Trademark Law*, 13 LEWIS & CLARK L. REV. 99, 117 (providing an excellent review of existing defenses, and their limits, and arguing for a clearer use of existing trademark limitations as defenses supporting unauthorized trademark uses).

250. See, e.g., Lunney, *supra* note 156, at 485 (noting that copying and competition are the exception, rather than the rule, in a property-based trademark regime).

251. See discussion *supra* Part IV.B.

252. Port, *supra* note 219, at 589.

253. Courts have denied infringement when trademark owners did not use or abandoned their marks. See, e.g., *Emergency One, Inc. v. Am. FireEagle, Ltd.*, 228 F.3d 531, 535 (4th Cir. 2000); *Silverman v. CBS Inc.*, 870 F.2d 40, 45 (2d Cir. 1989); *Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040, 1049 (3d Cir. 1982); *Supreme Assembly, Order of Rainbow for Girls v. J.H. Ray Jewelry Co.*, 676 F.2d 1079, 1085 (5th Cir. 1982); *Int’l Order of Job’s Daughters v. Lindeburg & Co.*, 633 F.2d 912, 920 (9th Cir. 1980); *De Beers LV Trademark Ltd. v. DeBeers Diamond Syndicate Inc.*, 440 F. Supp. 2d 249, 268 (S.D.N.Y. 2006).

254. Port, *supra* note 219, at 555–56 (“The Supreme Court has continuously held that the trademark right is ‘not in gross’ and not a copyright or a patent, but that any rights to trademarks are appurtenant to the related business.”).

255. See 4 MCCARTHY, *supra* note 12, § 24:11 (providing a comprehensive survey of the relevant cases). *But see* discussion *supra* Part III.A and accompanying notes.

Finally, trademark owners and practitioners have regularly minimized the importance of trademark defenses and fair use and have increasingly enforced trademarks as absolute rights in the marketplace.<sup>256</sup> Yet, as correctly pointed out by scholars, this attitude has brought unnecessary chilling effects to the market, avoidable law suits, and abusive rent-seeking behaviors. Accordingly, even if trademark owners are interested in maximizing the value of trademarks by entering multiple market sectors and establishing large licensing portfolios, trademark owners and practitioners need to accept that trademark protection is not absolute under the law. Instead, they need to acknowledge that this protection is subject to the existing defense of fair use established by statute and the judiciary, whose purpose is to safeguard market competition and the fundamental values of free speech for society, to reach a satisfactory solution to the merchandising debate.

### *B. Calling for a Limited Protection of Merchandising Rights*

As described in Parts III and IV, although largely criticized by trademark scholars, trademark merchandising has become a very successful reality in the business world and in legal practice.<sup>257</sup> Clearly aware of this importance, courts have repeatedly acknowledged the validity of trademark rights on promotional products under the doctrine of “confusion as to the sponsorship.”<sup>258</sup> Congress has also joined this trend and incorporated this doctrine into the statutory language as the general standard for acts of unfair competition.<sup>259</sup> In turn, this judicial and statutory favor has reinforced the presumptive validity of merchandising and triggered large trademark enforcement, at times on the basis merely of the impairment of trademarks per se.<sup>260</sup>

Despite the increasing benevolence of the courts and the legislature, doctrinal opposition continues nonetheless to characterize this area and

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256. Generally, practitioner manuals counsel owners on how to avoid and limit any defenses that unlicensed users may have against infringement claims, thus promoting, perhaps unknowingly, opportunistic behavior by trademark owners and practitioners. See RAYSMAN ET AL., *supra* note 9, § 4.09 (providing a discussion of the major aspects of trademark licensing).

257. See Marks, *supra* note 71, at 646–47. Already in the 1970s and 1980s, “the volume of merchandising activity has grown by several hundred percent.” *Id.* Specifically, “[i]n 1978, Walt Disney Productions reported \$21.3 million in licensing royalties based on \$427 million in retail sales of licensed products. In 1983, Yves Saint Laurent S.A. showed a gross income of \$27 million, of which \$17 million was derived from licensing.” *Id.* at 647 (citation omitted).

258. See, e.g., Bd. of Supervisors for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 490 (5th Cir. 2008); Bos. Athletic Ass’n v. Sullivan, 867 F.2d 22, 29 (1st Cir. 1989); Univ. of Ga. Athletic Ass’n v. Laite, 756 F.2d 1535, 1546 (11th Cir. 1985); Univ. of Ala. Bd. of Trs. v. New Life Art Inc., 677 F. Supp. 2d 1238, 1240–41 (N.D. Ala. 2009); Univ. of Kan. v. Sinks, 565 F. Supp. 2d 1216, 1253–54 (D. Kan. 2008); Tex. Tech Univ. v. Spiegelberg, 461 F. Supp. 2d 510, 519 (N.D. Tex. 2006); Nat’l Football League Props., Inc. v. Consumer Enters., Inc., 327 N.E.2d 242, 246 (Ill. App. Ct. 1975).

259. See discussion *supra* Part III.B.2.

260. See Kozinski, *supra* note 32, at 971 (“If unlicensed items are of poor quality, or portray the product in an unfavorable light, they take away not only from the goods in the secondary market, but in the primary market as well.”).

trademark owners and competitors still lack a precise guideline regarding the legitimacy of their actions.<sup>261</sup> As a result, fears of later claims for trademark abandonment, laches, or acquiescence have frequently brought trademark owners to enforce their rights in doubtful cases, whereas fears and costs of litigation have increasingly brought competitors to seek official licenses, at times unnecessarily.<sup>262</sup> Invariably, the costs of these actions or agreements have been transferred to consumers in terms of inflated prices, reduced product quality or quantity, and, at times, less competition altogether.<sup>263</sup>

This situation must be resolved. As repeatedly noted, today's economy relies heavily on trademark merchandising in every sector of the market for an increasing number of products. Thus, even "[i]f it is true that ambiguities [always] characterize trademark law because of its social, emotional, and irrational basis,"<sup>264</sup> the market and the legal system cannot afford to perpetuate the current disconnect between theory and practice with respect to merchandising. Accordingly, the time has come to resolve the current divide between opponents and supporters of this practice and accept the validity of merchandising rights under current trademark rules, as already suggested by the courts and supported by the statute, to finally indicate to competitors in the market a precise guideline in this contested area.

### 1. *Cabining Trademark Merchandising Under Current Trademark Rules*

In light of the above, the most sensible solution to address the divide that continues to characterize the merchandising debate is to explicitly recognize merchandising rights when marks are used on promotional products by trademark owners or licensees to identify the products' source, as well as the products' sponsorship or affiliation, and to distinguish these products from similar goods.<sup>265</sup> Contrary to common criticism, this protection of merchandising would not further restrict competition in the market because it would not add any ad hoc protection for trademarks used on merchandised products compared to trademarks in

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261. See discussion *supra* Part IV.B.

262. Gibson, *supra* note 109, at 907 (noting that competitors are "risk-averse and do not want to take their chances with trademark's indeterminate doctrines and supracompensatory remedies"); Port, *supra* note 219, at 587 ("[V]irtually all trademark holders use trademark litigation to secure market share . . .").

263. Lunney, *supra* note 156, at 435 ("[B]roader trademark protection generally means higher prices for consumers and more extensive anticompetitive losses for society.").

264. Calboli, *supra* note 4, at 833.

265. For a similar position in the licensing context, see Keating, *supra* note 9, at 363 ("This commercial activity might properly be entitled 'Promotional Trademark Licensing.'"). Although supporting the recognition of "promotional trademark licensing," Keating does not elaborate, however, on the analysis of the fact that trademarks used on promotional products can legitimately indicate products' source and thus be subjected to the general trademark principles.

general.<sup>266</sup> Instead, this protection would finally provide a precise guideline for the validity of this practice, while cabining the recognition of merchandising rights within current norms and defenses.<sup>267</sup>

Undoubtedly, to directly acknowledge the validity of merchandising rights under this premise would immediately solve the uncertainty that defines this area. Competitors would finally be provided with a more precise standard as to the legitimacy of their actions while enforcing or using trademarks with respect to promotional products.<sup>268</sup> This clear acceptance of merchandising rights when marks are used to distinguish promotional products would thus provide a compromising solution to the present controversy based upon the position expressed by the majority of the courts<sup>269</sup> and accepted by the legislature with the 1988 amendment to the Lanham Act.<sup>270</sup> As this Article has repeated, even if the judiciary has increasingly recognized *de facto* merchandising rights and enjoined unauthorized trademark uses on merchandised goods in the presence of official licensing schemes, this judicial line of reasoning has left considerable room for inconsistency and opposition.<sup>271</sup>

Most importantly, to explicitly recognize that marks used on promotional products legitimately qualify as indicators of commercial source would not only acknowledge that these marks are entitled to trademark protection, it would also cabin the extent of this protection under the current rules and limitations applicable to all marks under the Lanham Act.<sup>272</sup> In particular, trademark rights in merchandised products would be protected against unauthorized trademark uses exclusively on the basis that trademark owners or licensees use the marks for which protection is sought.<sup>273</sup> Only upon this use, trademarks used on promotional products would be protected against infringement when confusingly similar marks are used on competing or similar products, provided that a likelihood of confusion as to the origin, sponsorship, or affiliation of the

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266. See discussion *supra* Part V.A.

267. Lanham Act §§ 32, 43(c), 15 U.S.C. §§ 1114, 1125(c) (2006) (stating actions for trademark infringement and dilution, as well as exceptions to dilution protection); *id.* §§ 14, 43, 45 (stating defenses of genericness, functionality, and abandonment); see 4 MCCARTHY, *supra* note 12, § 24:17–20 (suggesting that a trademark owner's rights in markets in which it may explore in the future should be limited by the perception of consumers); see also *Univ. of Kan. v. Sinks*, 565 F. Supp. 2d 1216, 1260–62 (D. Kan. 2008) (examining whether plaintiff's claims were barred by laches, estoppel, waiver, fair use, functionality, and the First Amendment).

268. See discussion *supra* Part IV.B.

269. See discussion *supra* Part III.B.1.

270. See Lanham Act § 43(a)(1), 15 U.S.C. § 1125(a)(1).

271. See discussion *supra* Part IV.A.1.

272. See discussion *supra* Part III.A.

273. *Univ. of S.C. v. Univ. of S. Cal.*, 367 F. App'x 129, 132–33, 135–36 (Fed. Cir. 2010) (treating merchandising marks as “product marks” and finding the respective “SC” logos of the Universities of South Carolina and Southern California confusingly similar). *But see* Dreyfuss, *supra* note 148, at 408; Ramsey, *supra* note 22, at 400–01 (discussing the difficulties of determining whether merchandising use constitutes valid trademark “use”); see also *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 33 (2003).

products could be found on the part of the public.<sup>274</sup> According to the general rule, this protection would not extend, however, to unrelated products,<sup>275</sup> unless the marks at issue are famous<sup>276</sup> and a likelihood of dilution by blurring or tarnishment could be proven.<sup>277</sup> Ultimately, as repeatedly affirmed by the judiciary, both in the case of nonfamous and famous marks, this protection would also not apply when third parties are not using the same or similar marks “as trademarks.”<sup>278</sup>

Equally important, granting merchandising rights legal status when marks are used on promotional products offered for sale by trademark owners or under licensing would also subject this practice to the general trademark defenses and fair uses currently set forth by the law for all marks.<sup>279</sup> Trademark rights in promotional products would thus be explicitly limited by the statutory defenses provided under the Lanham Act and trademark owners would not be able to enforce their rights upon evidence of abandonment, laches, or acquiescence.<sup>280</sup> Likewise, merchandising rights would be subject to the defenses of descriptive and nominative fair use, comparative advertising, parody, and criticism, as repeatedly affirmed by courts<sup>281</sup> and recently confirmed by Congress in

274. Lanham Act §§ 32(1)(a), 43(a)(1)(A), 15 U.S.C. §§ 1114(1)(a), 1125(a)(1)(A); see Dogan & Lemley, *supra* note 39, at 1678 (“[T]he likelihood-of-confusion standard . . . takes for granted that the defendant is using the mark to promote its own sales.”); see also *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348 (9th Cir. 1979); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 21 cmt. a (1995) (“The test for infringement is whether the actor’s use of a designation as a trademark . . . creates a likelihood of confusion . . .”).

275. See *L.E. Waterman Co. v. Gordon*, 72 F.2d 272, 273 (2d Cir. 1934) (“There is indeed a limit . . . It would be hard, for example for the seller of a steam shovel to find ground for complaint in the use of his trade-mark on a lipstick.”); *Quality Inns Int’l, Inc. v. McDonald’s Corp.*, 695 F. Supp. 198, 210 (D. Md. 1988) (“On the other hand, two marks that serve to identify products in two unrelated markets may very well coexist without confusion in the public’s eye.”); *Morgan Creek Prods., Inc. v. Foria Int’l, Inc.*, No. 91173806, 2009 WL 4075479, at \*9 (T.T.A.B. Apr. 28, 2009) (rejecting plaintiff’s infringement claim because of the “dissimilarity of the goods due to their nature, the manners in which they are sold or distributed, and the circumstances under which consumers would encounter them”).

276. Lanham Act § 43(c), 15 U.S.C. § 1125(c).

277. See 4 MCCARTHY, *supra* note 12, § 24:11 (examples include “UNITED airlines and UNITED van lines,” “EAGLE shirts, EAGLE pencils, EAGLE pretzels, EAGLE brand condensed milk,” “CHAMPION spark plugs and CHAMPION sports wear,” “DELTA airlines, DELTA dental insurance and DELTA faucets,” “ACE retail hardware stores and ACE bandages,” “TROPICANA Las Vegas hotel and TROPICANA orange juice,” “[t]he DOW stock market index and DOW chemical company,” and “DELL computers and DELL magazines”). Even if the marks use the same word, the elements of sight and meaning are still relevant to a determination of a likelihood of confusion. *Id.* § 23:21.

278. A large number of courts have affirmed that terms have to be used in a “trademark sense” to infringe. See, e.g., *1-800 Contacts, Inc. v. WhenU.com, Inc.*, 414 F.3d 400, 409 (2d Cir. 2005) (stating that infringement does not apply if defendants are not using the mark to identify product source); see also Dogan & Lemley, *supra* note 39, at 1675–90. Dilution actions are also excluded for noncommercial uses of trademarks. Lanham Act § 43(c)(3)(C), 15 U.S.C. § 1225(c)(3)(C) (excluding dilution actions for “[a]ny noncommercial use of a mark”).

279. See 6 MCCARTHY, *supra* note 12, § 31; MERGES ET AL., *supra* note 246, at 890–942.

280. See Lanham Act §§ 19, 45, 15 U.S.C. §§ 1069, 1127.

281. See 6 MCCARTHY, *supra* note 12, §§ 31:153–156.50 (elaborating on trademark fair uses). Courts have generally accepted parody as fair use. See *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894 (9th Cir. 2002). Courts have also created the doctrine of “nominative fair use” to protect the unauthorized use of a mark to describe competitors’ products to the extent necessary and truthfully. See

the TDRA.<sup>282</sup> In other words, whereas unauthorized identical and similar products would explicitly constitute trademark infringement, unauthorized promotional products using famous or nonfamous marks for the purpose of comparative advertising, parody, commentary, etc., would instead be protected as fair uses under present trademark rules and established case law.<sup>283</sup> To date, courts have not specifically addressed the application of trademark defenses and fair uses in merchandising cases and risk adverse competitors have entered often unnecessary licensing agreements fearing the negative outcomes of litigation.<sup>284</sup> Under the proposed solution, these occurrences could be potentially avoided, or at least limited, if courts apply trademark principles correctly.

Finally, accepting the validity of merchandising rights under current trademark rules would also subject the validity of this practice to the requirement of “quality control” provided for trademark licensing<sup>285</sup> when

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New Kids on the Block v. News Am. Publ'g, Inc. 971 F.2d 302, 307–09 (9th Cir. 1992). For the relationship between trademark law and the First Amendment, see, for example, Cliffs Notes, Inc. v. Bantam Doubleday Dell Pub. Grp., Inc., 886 F.2d 490 (2d Cir. 1989).

282. Section 43(c)(3) of the Lanham Act expressly excludes dilution actions for:

- (A) Any fair use, including a nominative or descriptive fair use, or facilitation of such fair use, of a famous mark by another person other than as a designation of source for the person's own goods or services, including use in connection with—
  - (i) advertising or promotion that permits consumers to compare goods or services; or
  - (ii) identifying and parodying, criticizing, or commenting upon the famous mark owner or the goods or services of the famous mark owner.
- (B) All forms of news reporting and news commentary.
- (C) Any noncommercial use of a mark.

Lanham Act § 43(c)(3), 15 U.S.C. § 1125(c)(3).

283. See, e.g., Century 21 Real Estate Corp. v. Lendingtree, Inc., 425 F.3d 211, 217–21 (3d Cir. 2005) (providing a detailed analysis of fair uses); *Mattel*, 296 F.3d at 907 (holding that defendant's use of Mattel's “Barbie” mark in a song not infringing because of noncommercial use and parody); *Playboy Enters., Inc. v. Welles*, 279 F.3d 796, 802 (9th Cir. 2002) (finding that defendant could use plaintiff's marks to advertise her affiliation with plaintiff's magazine); *Louis Vuitton Malletier S.A. v. Haute Diggity Dog, LLC*, 464 F. Supp. 2d 495, 507 (E.D. Va. 2006), *aff'd*, 507 F.3d 252 (4th Cir. 2007) (affirming fair use because defendant only mimicked the LOUIS VUITTON mark). *But see* *Mut. of Omaha Ins. Co. v. Novak*, 836 F.2d 397, 404 (8th Cir. 1987) (finding consumer confusion in favor of plaintiff). For a general discussion on parody and fair use, see Richard A. Posner, *When Is Parody Fair Use?*, 21 J. LEGAL STUD. 67 (1992).

284. Although courts have confirmed the application of defenses and fair use to trademark merchandising, they have generally found or denied infringement based on likelihood of confusion, and accepted or denied dilution claims based on blurring or tarnishment. See, e.g., *Univ. of Pittsburgh v. Champion Prods., Inc.*, 686 F.2d 1040, 1044–46 (3d Cir. 1982) (focusing primarily on the doctrine of laches); *Supreme Assembly, Order of Rainbow for Girls v. J.H. Ray Jewelry Co.*, 676 F.2d 1079, 1082 (5th Cir. 1982) (providing no discussion of trademark defenses); *Bos. Prof'l Hockey Ass'n, Inc. v. Dall. Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1013 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975) (undertaking a brief discussion of functionality). Still, the effective judicial application of defenses and fair use will prove fundamental to prevent chilling effects in trademark practice and guarantee a lasting solution in this area. See, e.g., *McGeeveran*, *supra* note 21, at 56–57.

285. Lanham Act §§ 5, 45, 15 U.S.C. §§ 1055, 1127; see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 33 cmt. b (1995) (“If the trademark owner exercises reasonable control over the nature and quality of the licensee's goods or services, the benefits of the licensee's use accrue to the trademark owner.”).

merchandising activities are conducted under licensing.<sup>286</sup> Although the judiciary has increasingly drifted away from a strict interpretation of “quality control” and focused primarily on the “consistent quality” of the licensed good,<sup>287</sup> this requirement would additionally cabin the extent of merchandising protection to those promotional products whose quality is guaranteed by trademark owners.<sup>288</sup> Alternatively, should trademark owners not guarantee consistent product quality and deceive consumers, trademark rights could be forfeited.<sup>289</sup>

## 2. *Reconciling Theory and Practice on Protecting Trademark Merchandising*

Undoubtedly an important priority for the business world, any solution to solve the existing uncertainty in the merchandising debate should nonetheless carefully consider the interests of consumers and fair competition in the market.<sup>290</sup> To recognize the validity of merchandising rights when marks are used directly by trademark owners or under licensing to identify and distinguish promotional products would precisely satisfy this need and bring a required legal response to a long established business reality, still within existing trademark norms.<sup>291</sup> Under this standard, trademark owners and competitors would have a precise guideline to compete fairly in the market, and the judicial system would avoid the unnecessary lawsuits that are frequently brought because of basic misunderstandings about the nature of merchandising.<sup>292</sup>

In particular, although recognizing the validity of trademark merchandising when marks are directly used on promotional products would not eliminate the natural tendency of trademark owners to control marks as “things,” this recognition would nonetheless provide competitors with a sound basis to refuse unnecessary licensing. Notably, it would clarify which unauthorized trademark uses do not require trademark owners’

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286. According to section 14(3) of the Lanham Act, lack of quality control can lead to a petition of trademark cancellation, if a mark is used “to misrepresent the source of the goods or services on or in connection with which the mark is used.” Lanham Act § 14(3), 15 U.S.C. § 1064(3); *see, e.g.*, *Barcamerica Int’l USA Trust v. Tyfield Imps., Inc.*, 289 F.3d 589, 598 (9th Cir. 2002).

287. *See Nitro Leisure Prods., LLC v. Acushnet Co.*, 341 F.3d 1356, 1370 (Fed. Cir. 2003) (Newman, J., dissenting) (noting that consistent quality means the product is “bearing the mark” (quoting 1 MCCARTHY, *supra* note 12, § 3:10)); *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1121 (5th Cir. 1991) (noting that consistent quality means “no actual decline in quality standards”), *aff’d*, 505 U.S. 763 (1992).

288. *See, e.g.*, *Univ. of Pittsburgh v. Champion Prods. Inc.*, 686 F.2d 1040, 1047 (3d Cir. 1982).

289. “The lack of litigation in this respect seems to signify that consumers have been generally satisfied with the quality of promotional products.” Calboli, *supra* note 5, at 383 n.250.

290. *See* discussion *supra* Part III.A.

291. As repeatedly noted, scholars have generally opposed the creation of an ad hoc merchandising right. *See, e.g.*, Dogan & Lemley, *supra* note 13, at 506 (“Most cases of consumer confusion can be solved without a merchandising right.”). By recognizing that trademarks, which are used to identify promotional products directly by trademark owners or under licensing, constitute valid trademark rights, this Article agrees with this position because trademark protection under the suggested regulation of merchandising is not based on an ad hoc new right but simply on existing trademark rules.

292. *See* discussion *supra* Part IV.A.1–2.

consent because products are not similar or because of existing defenses.<sup>293</sup> As outlined in the previous paragraph, this recognition would also “ground”<sup>294</sup> the extent of trademark protection on the basis of the fact that merchandising marks are used on promotional goods and subject their enforcement to the traditional tests for consumer confusion or trademark dilution,<sup>295</sup> within the limitations set forth by trademark defenses and fair uses.<sup>296</sup>

Contrary to common criticism, recognition of merchandising rights under the general trademark rules would not necessarily imply increased costs for market competition. As already noted by some scholars, although protecting merchandising could result in slightly higher product prices compared to a system without a legally recognized “right to exclude” in this respect, the “fairly elastic demand”<sup>297</sup> for promotional products in the market would ultimately offset the majority of these costs. Consumers may switch to alternative products or boycott promotional goods altogether if prices become too high.<sup>298</sup> Accordingly, trademark owners would still need to sell products competitively or risk losing market share and potential profits. When merchandising activities are conducted by licensees, the need to cover production costs and create profits in addition to the payment of royalties may also drive licensees away from noncompetitive trademark owners in favor of entities that better respond to market competition. Contrary to scholars’ arguments that protecting merchandising would amount to a monopoly on ornamental product features, the suggested recognition of merchandising under current rules would simply permit trademark owners to receive protection when using trademarks to identify promotional goods, while leaving consumers free to choose among similar products available in the market.<sup>299</sup>

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293. See Rebecca Tushnet, *Why the Customer Isn't Always Right: Producer-Based Limits on Rights Accretion in Trademark*, 116 *YALE L.J. POCKET PART* 352, 356 (2007). “Trademark law’s continued reliance on concepts of free competition, as well as free speech, allows it to keep consumer confusion from turning trademark law into a right to control all references to a mark . . . . Acknowledging and fortifying trademark’s well-established balancing doctrines is the best way to break out of the feedback loops . . . .” *Id.* at 357.

294. Dogan & Lemley, *supra* note 39, at 1675–77.

295. See, e.g., *Univ. of Ala. Bd. of Trs. v. New Life Art, Inc.*, 677 F. Supp. 2d 1238, 1259 (N.D. Ala. 2009) (denying infringement when an artist uses the color of a team’s uniform to depict historically accurate football scenes); *MasterCard Int’l Inc. v. Nader* 2000 Primary Comm., No. 00 Civ. 6068(GBD), 2004 WL 434404 (S.D.N.Y. Mar. 8, 2004) (denying infringement where Ralph Nader parodied the MasterCard “Priceless” slogan for political purposes); see also Lemley & McKenna, *supra* note 20, at 416–22 (listing several examples of trademark owners’ attempts to prevent the unauthorized use of their marks when such uses clearly qualified as fair use).

296. See discussion *supra* Part V.A.

297. Denicola, *supra* note 27, at 634.

298. *Id.*

299. For example, should consumers find that the price of the RED SOX sweatshirt they would like to purchase is too high compared to similar goods, consumers may decide to purchase, instead, a sweatshirt with the logo of another baseball team or a sweatshirt with the logo of a football team, like the GREEN BAY PACKERS, or with the logo of their university. Or, consumers could decide to purchase a sweatshirt with the NIKE logo, or with a different logo or design altogether. In other

Rather than negatively impacting the market, directly recognizing merchandising under the suggested framework could instead benefit consumers by increasing the number of comparable products available to the public. In particular, when prohibited from using third parties' marks on their t-shirts, mugs, or key chains because of likely consumer confusion or dilution, producers of these goods could choose between entering into a licensing agreement with trademark owners, or altogether using an alternative and original design for their products. This alternative design could use the same mark under an established defense—parody, nominative fair use, etc.—or a totally different and original work. Accordingly, consumers could have access to a larger number of similar promotional products—more t-shirts, mugs, or hats with different logos or designs—to the overall benefit of the market competition and societal creativeness.<sup>300</sup>

Based upon these premises, it seems indisputable that the proposed solution would provide the most sensible compromise to the current impasse. Notwithstanding their diverging positions over the extent of trademark protection, trademark scholars, trademark owners, and practitioners would undoubtedly agree that the ultimate function of trademark law is to prevent commercial misconduct in the market and harm to both consumers and businesses.<sup>301</sup> As this Article has demonstrated, protecting merchandising rights when marks are used by trademark owners, directly or under licensing, to identify promotional products against confusingly similar goods or against diluting uses of the marks, would not unnaturally expand trademark protection. Instead, it would simply recognize that trademarks used on promotional products legitimately qualify for trademark protection and straightforwardly apply to these marks the existing trademark principles—protecting consumers, competition, and trademark goodwill.

Despite the reluctance of merchandising opponents to accept the reality of modern trademark law, the role of marks has undergone a profound evolution in the past century, and trademark merchandising is a direct reflection of this process.<sup>302</sup> Major changes in product manufacturing and distribution<sup>303</sup> have deeply transformed the concepts of product origin and consumer confusion. These concepts have long departed from the increasingly remote case of products directly manufactured by

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words, consumers could choose among similar products since the logo affixed on the sweatshirt does not represent the product per se, but only indicates the affiliation of that sweat-shirt with the team, institution, or company which is identified by the logo. Thus, despite scholars' reluctance to accept this reality, recognizing the validity of trademark rights in promotional products as legitimate identifiers of commercial origin would not deprive consumers of alternative choices of similar products identified by other marks.

300. On the theory of incentive to justify trademark protection, see Denicola, *supra* note 27, at 634; Landes & Posner, *supra* note 45, at 270 (stating that protection of trademarks is essential to create an incentive for owners to invest resources and create new marks).

301. See discussion *supra* Part V.A. See generally 1 MCCARTHY, *supra* note 12, § 2 (analyzing the policy rationales of trademark law).

302. Drescher, *supra* note 3, at 321–38.

303. *Id.*; see also discussion *supra* Part III.B.

trademark owners and consumers directly confused about the actual manufacturing source of these products.<sup>304</sup> Instead, the notion of product source unequivocally extends today to multiple forms of business control and approval over manufacturing, including the authorized products' sponsorship and affiliation.<sup>305</sup> Consequently, the concept of consumer confusion today legitimately includes the case of consumers' confusion over this controlled and approved manufacturing process and whether the resulting products have been authorized by trademark owners.<sup>306</sup>

Still, despite these changes in the economy and the rise of a branded world, the belief among many trademark owners that marks represent absolute rights remains erroneous,<sup>307</sup> and the protection of marks used on promotional products should continue to focus primarily on safeguarding market competition and consumers. "With fame often comes unwanted attention,"<sup>308</sup> and although courts should forbid infringing or diluting uses of identical or similar marks affixed to unauthorized promotional products, unauthorized goods carrying nonconfusingly similar marks or products using famous marks for parodies and otherwise established fair uses without trademark owners' consent should be allowed to continue for the benefit of market competition and society.<sup>309</sup>

## VI. CONCLUSION

As this Article has shown, the significance of trademark merchandising in today's economy is unquestionable, both to establish brand image and customer affiliation, or simply as an effective advertising tool. Still, the legal status of merchandising rights continues to be disputed to the detriment of trademark owners, competitors, and consumers in the

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304. For a discussion on the increasing distance between product manufacturers and trademark owners, see McKenna, *supra* note 20, at 821; see also Lynn M. LoPucki, *Toward a Trademark-Based Liability System*, 49 UCLA L. REV. 1099, 1114–15 (2002) (generally advocating the responsibility of franchisors for torts committed by franchisees).

305. Bd. of Supervisor for La. State Univ. Agric. & Mech. Coll. v. Smack Apparel Co., 550 F.3d 465, 483 (5th Cir. 2008); Bos. Prof'l Hockey Ass'n, Inc., v. Dall. Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1011–12 (5th Cir. 1975), *cert. denied*, 423 U.S. 868 (1975); Univ. of Kan. v. Sinks, 565 F. Supp. 2d 1216, 1234 (D. Kan. 2008); Tex. Tech Univ. v. Spiegelberg, 461 F. Supp. 2d 510, 523–24 (N.D. Tex. 2006); see also Lemley & McKenna, *supra* note 20, at 422–26. The NFL and other major sports leagues have consistently produced evidence that a large majority of consumers "believe that emblems and sportswear bearing team names and insignia are sponsored" by the leagues. Denicola, *supra* note 27, at 611–12.

306. Lanham Act § 43(a)(1)(A), 15 U.S.C. § 1125(a)(1)(A) (2006).

307. Extensive marketing literature supports, however, the concept of "brand equity," which directly conflicts with the traditional account for trademark protection in the legal context, that is, that trademarks are not "properties" and cannot be protected "in gross." See, e.g., David A. Aaker, *The Value of Brand Equity*, 13 J. BUS. STRATEGY, July–Aug. 1992, at 27, 28; Cathy J. Cobb-Walgreen et al., *Brand Equity, Brand Preference, and Purchase Intent*, 24 J. ADVERTISING 25, 25–26 (1995). Because of its limited scope, this Article does not address the differences between the marketing and legal approach to the valuation and protection of brands.

308. *Mattel, Inc. v. MCA Records, Inc.*, 296 F.3d 894, 899 (9th Cir. 2002).

309. Cf. McGeveran, *supra* note 21, at 56–66 (highlighting the problems related, in general, to the actual enforcement of fair use exceptions in trademark law).

market. Well aware of the growing importance of merchandising rights, the judiciary has protected the use of marks on merchandising products de facto under the doctrine of “confusion as to the sponsorship.” Congress eventually codified this doctrine into the trademark statute, but neither the judiciary nor Congress explicitly framed merchandising rights in the legal context. This in turn has left room for doctrinal opposition and uncertainty. Because of the relevance of trademark merchandising in the economy, this uncertainty should be resolved to safeguard fair competition in the market and avoid unnecessary legal actions.

As this Article has proposed, the most sensible solution to this uncertainty is to follow the position suggested by the courts and accepted by Congress, and recognize the validity of trademark merchandising when marks are used to identify promotional products in the market by trademark owners or under licensing. As this Article has demonstrated, this solution would not create additional distortions to market competition or negatively impact consumers. Instead, it would provide a needed legal standard for competitors and grant protection to merchandising marks only as long as these marks are used to indicate to the public the source of promotional products, even if also in terms of products’ sponsorship or affiliation. As this Article has underlined, this solution would limit the protection of merchandising marks under the existing norms for infringement and dilution, subject to trademark defenses and fair use. Ultimately, as long as courts apply trademark defenses and fair use correctly, this protection would not trigger abusive trademark enforcement. Rather, it would resolve the divide between trademark theory and practice in one of the most controversial, but also most important, aspects of the modern economy.

