TO BULLY OR NOT TO BULLY: UNDERSTANDING THE ROLE OF UNCERTAINTY IN TRADEMARK ENFORCEMENT DECISIONS

Jessica M. Kiser*

ABSTRACT

Companies like Starbucks and Chick-fil-A are routinely labeled trademark bullies. The term "trademark bully" is typically used to describe a large company that uses aggressive intimidation tactics and threats of prolonged trademark infringement litigation to stop small businesses and individuals from using their own trademarks where the stated claims of infringement are likely spurious or non-existent. Trademark bullying harms competition and chills the free speech interests of those seeking to use trademarks for criticism and parody as permitted by the fair use doctrine. This Article identifies two fundamental causes that interact to encourage the aggressive tactics used by trademark bullies. First, trademark law imposes a vague duty on trademark owners to "police" third party trademark use for potential infringement. This uncertain duty renders trademark owners unable to accurately predict the risk of harm that third parties pose to their trademarks. Secondly, inherent cognitive biases affecting evaluations of such risk lead to systematic judgment errors and overestimation of the risk involved, thereby encouraging aggressive trademark enforcement.

This Article uses prospect theory, an empirical social science approach to understanding human decision making, to characterize the psychological phenomena, including loss aversion and overestimation of risk, that motivate trademark bullies. Prospect theory explains apparently irrational decision making by trademark bullies. Recently proposed solutions for trademark bullying mistakenly assume that the trademark bully conducts a rational cost-benefit analysis prior to acting. Better solutions require an understanding of the actual psychological processes that underlie these aggressive tactics.

* Assistant Professor of Law, Gonzaga University School of Law. I wish to thank the faculty of Seattle University School of Law and the Gonzaga University School of Law for their thoughtful advice on an earlier version of this article. This article benefitted greatly from the comments and insights provided by the participants of the Junior Scholars Virtual Colloquium. Thanks also to Sean Wright for his tireless support and to Matthew Meade, Mitchell Wayerski and Charles Allen for their research and editorial assistance.

INTRODUCTION

Choosing a trademark to represent your business or your product can be a risky undertaking. Consider the example of Jim Clark and the "Charbucks" trademark that he selected for one of his coffee products. In a March 2012 article in *New Hampshire Magazine*, author Jeff Woodburn described Jim Clark's New Hampshire business:

> Along with his wife, Annie, he owns Black Bear Micro-Roastery, a tiny coffee roaster in the small town of Tuftonboro on the back side of Lake Winnipesaukee. They have one part-time employee and sales of less than $200,000 annually. Nearly all of their twenty-two specialty roasts are sold online directly to customers and through a few stores in northern New England—including the Lebanon Co-op Food Store. They thrive on being small, authentic and responsive to their customers. Back in 1996, some of Clark's customers asked for a stronger blend. So on a lark, he made one—so strong, Clark admits, "I won't drink it."[1]

In this quote, Clark is referring to the dark roasted coffee that he began selling under a "Charbucks" trademark, a nod to the "charred" coffee beans used in this blend.[2] This mark[3] ultimately led to his company being embroiled in a sixteen-year long trademark dispute with the large coffee retailer Starbucks.[4] Starbucks contacted Clark in 1997 and requested that he cease use of the "Charbucks" mark, because they believed that it was infringing upon and diluting the value of their famous "Starbucks" mark.[5] After years of discussions and settlement proposals between Clark, his attorneys and the attorneys for Starbucks, Starbucks brought suit against Clark and his business on July 2, 2001**.**[6] Over the next ten years, this case went to trial and was appealed and reversed several times.[7] The latest decision,

1. Jeff Woodburn, *Starbucks, Charbucks: Beware of Tangling with Corporate Giants*, NEW HAMPSHIRE MAGAZINE, Mar. 1, 2012, *available at* http://www.nhmagazine.com/March-2012/Starbucks-Charbucks.

2. Clark has mentioned that he knew of the connection to Starbucks when he chose the "Charbucks" trademark for his coffee. *See Starbucks Litigation—What It's All About?*, THE BLACK BEAR MICRO ROASTERY, http://blackbearcoffee.com/resources/99 (last visited July 16, 2013) ("Since George felt so strongly that Starbucks 'over roasted' all of their coffee, he began to refer to Starbucks as 'Charbucks' extensively."); *see also* Letter from Jim Clark, Corp. Rep., Black Bear Micro-Brewery, to John Rawls, Att'y Starbucks Corp. (June 5, 2001), *available at* http://www.blackbearcoffee.com/ Starbucks/Faxes&Letters/6-5-01ResponseToRawls.htm ("[T]he term was indeed directed at Starbucks, and was indeed meant to be derogatory."). Black Bear contends, however, that Charbucks is actually a term in common usage in the Coffee industry and the public domain. *Id.* ("[T]he term 'Charbucks' is clearly in the public domain.")*; see also* Answer & Countercl., Starbucks Corp. v. Wolfe's Borough Coffee, Inc., 2005 WL 3527126 (S.D.N.Y. Dec. 23, 2005) (No. 01 Civ. 5981), *vacated*, 477 F.3d 765 (2d Cir. 2007), *available at* http://www.blackbearcoffee.com/resources/102 (last visited July 16, 2013) ("Charbucks is a widely known and commonly used term in the coffee trade and is meant to refer to the very dark roasted coffees made popular by west coast coffee purveyors.").

3. The words "trademark" and "mark" will be used interchangeably throughout this article.

4. *Starbucks Litigation—What It's All About?*, *supra* note 2.

5. *See Wolfe's Borough Coffee, Inc.*, 2005 WL 3527126, at *3*; see also Starbucks Litigation—What It's All About?*, *supra* note 2.

6. *See History of Events—Starbucks Litigation*, THE BLACK BEAR MICRO ROASTERY http://blackbearcoffee.com/resources/100 (last visited July 16, 2013).

7. There have been three victories for Black Bear in the District Court for the Southern District

from the U.S. Court of Appeals for the Second Circuit, came down on November 15, 2013 in favor of Clark and his Black Bear Micro-Roastery.[8] The court held that Starbucks had not met its burden of proving that the "Charbucks" mark, as it is consistently used in connection with the "Black Bear Micro Roastery" mark and logo, dilutes the famous "Starbucks" mark in violation of the Federal Trademark Dilution Act.[9]

For a somewhat similar scenario involving a large corporation in a trademark dispute with a much smaller business, one only has to look to the "Eat More Kale" dispute. Bo Muller-Moore is a Vermont folk artist and small-scale T-shirt designer who received a cease and desist letter in 2006 from Chick-fil-A, a nearly national fast food chain.[10] Chick-fil-A demanded that Muller-Moore stop selling one of his T-shirt designs, alleging that the slogan on the shirt—"Eat More Kale"—infringed upon their "Eat Mor Chikin" mark.[11] After receiving a letter from Muller-Moore's pro bono counsel explaining the small scale of Muller-Moore's T-shirt business, including the fact that the shirts were primarily sold at a Montpelier, Vermont farmer's market, Chick-fil-A appeared to have allowed the matter to drop.[12] Then, Muller-Moore filed a trademark application with the United States Patent and Trademark Office (the "USPTO") on August 31, 2011 for his "Eat More Kale" trademark.[13]

This trademark application prompted Chick-fil-A to resume its dispute with Muller-Moore by sending a new cease and desist letter in October 2011, again demanding that Muller-Moore cease use of the "Eat More Kale" mark, abandon his trademark application, and transfer his eatmorekale.com domain name to Chick-fil-A.[14] Chick-fil-A noted in this letter that it had already successfully stopped third

---

of New York. The first and second victories were met with an appeal to the Second Circuit Court of Appeals in which Starbucks Corp. was victorious in having the case remanded. The latest victory by Black Bear was affirmed on appeal. *See Wolfe's Borough Coffee, Inc.*, 2005 WL 3527126, at *3, *vacated*, 477 F.3d 765 (2d Cir. 2007), *remanded to* 559 F. Supp. 2d 472 (S.D.N.Y. 2008), *aff'd in part, vacated in part*, 588 F.3d 97 (2d Cir. 2009), *remanded to* No. 01 Civ. 5981, 2011 WL 6747431 (S.D.N.Y. Dec. 23, 2011), *aff'd*, No. 12-364, 2013 WL 6037227 (2d Cir. Nov. 15, 2013).

8. Starbucks Corp. v. Wolfe's Borough Coffee, Inc., No. 12-364, 2013 WL 6037227 (2d Cir. Nov. 15, 2013).

9. *Id.* ("[Starbucks] has failed to carry its burden of proving that [Black Bear]'s use of its marks, as evidenced on the record before the Court, is likely to cause dilution by blurring.").

10. Dan D'Ambrosio, *'Eat More Kale' Trademark Flap More Complex Than Simple Slogan*, BURLINGTONFREEPRESS.COM (Nov. 24, 2011), http://www.burlingtonfreepress.com/article/20111124/BUSINESS08/111240307/-Eat-More-Kale-trademark-flap-more-complex-than-simple-slogan*; see also* Jess Bidgood, *Chicken Chain Says Stop, but T-Shirt Maker Balks*, N.Y. TIMES, Dec. 5, 2011, at A12, *available at* http://www.nytimes.com/2011/12/05/us/eat-more-kale-t-shirts-challenged-by-chick-fil-a.html?_r=1&.

11. D'Ambrosio, *supra* note 10.

12. *Id.*

13. *See* U.S. Trademark Application Serial No. 85,412,053 (filed Aug. 31, 2011), *available at* http://tsdr.uspto.gov; *see also* Pete Mason, *The Difference Between "Eat More Kale" and "Eat Mor Chikin,"* HUFFINGTONPOST.COM (May 3, 2012, 5:05 PM), http://www.huffingtonpost.com/pete-mason/eat-more-kale_b_1469661.html (stating that Muller-Moore sought registration of the trademark as a way of combating "online copycats").

14. D'Ambrosio, *supra* note 10.

parties from using marks such as "Eat More Goat" and "Eat More Beer."[15] Muller-Moore's pro bono counsel refused Chick-fil-A's demands, noting that there is no likelihood of confusion between Muller-Moore's handmade T-shirts and Chick-fil-A's fast food chain, especially in light of the fact that the closest Chick-fil-A location to Muller-Moore's home business is 120 miles away in New Hampshire.[16] Unlike Clark, who selected the "Charbucks" mark for his coffee while aware of the more famous "Starbucks" mark, Muller-Moore claimed to have never heard of Chick-fil-A's "Eat Mor Chikin" advertising campaign; instead, he made the first "Eat More Kale" shirt at the request of a fellow farmer's market vendor that grew and sold kale.[17] Despite the fact that an Office Action from the U.S. Patent and Trademark Office (USPTO) dated December 18, 2011 stated that the attorney reviewing Muller-Moore's "Eat More Kale" trademark application noted no "similar registered or pending marks that would bar registration,"[18] Muller-Moore's application was flagged to be reviewed again on December 21, 2011 after an anonymous party filed a Letter of Protest with the USPTO.[19] On March 27, 2012, and again on March 7, 2013, the USPTO sent Muller-Moore Office Actions refusing the registration of his "Eat More Kale" mark based on a likelihood of confusion with Chick-fil-A's various "Eat More Chikin" trademark registrations.[20] Because Muller-Moore may still respond to this last Office Action, his trademark application is still pending. Additionally, Muller-Moore seems eager to win this

15. *Id.*; *see also* Krystal Allan, *Chick-Fil-A Threatens to Sue Ocean Springs Bar*, WLOX.COM, http://www.wlox.com/story/11423722/chick-fil-a-threatens-to-sue-ocean-springs-bar (last updated Nov. 2, 2009).

16. D'Ambrosio, *supra* note 10.

17. Bidgood, *supra* note 11; *see also* D'Ambrosio, *supra* note 10.

18. Letter from Caryn Glasser, Trademark Examining Att'y, United States Patent and Trademark Office 108, to Robert Muller-Moore (Dec. 18, 2011), *available at* http://tsdr.uspto.gov/documentviewer?caseId=sn85412053&docId=OOA20111218185952#page=1.

19. Memorandum from Charles G. Joyner, Trademark Examining Att'y, Office of the Deputy Comm'r for Trademark Examination Policy, to Andrew D. Lawrence, Trademark Examining Att'y, United States Patent and Trademark Office 108 (Dec. 22, 2011), *available at* http://tsdr.uspto.gov/documentviewer?caseId=sn85412053&docId=ADR20111222172742#docIndex=12&page=1. It seems clear to some parties following this dispute that Chick-fil-A is likely behind this Letter of Protest. Steve Baird, on his DuetsBlog, opined that Chick-fil-A may have utilized the Letter of Protest as a way to quietly solve this trademark dispute in light of all of the bad press they have received based on their cease and desist letters to Muller-Moore. *See* Steve Baird, *Chick-fil-A Goes Stealth in "Eat More Kale" Trademark Dispute?*, DUETS BLOG (Mar. 5, 2012), http://www.duetsblog.com/2012/03/articles/trademarks/chick-fil-a-goes-stealth-in-eat-more-kale-trademark-dispute/.

20. Letter from Caryn Glasser, Trademark Examining Att'y, United States Patent and Trademark Office 108, to Daniel P. Richardson, Att'y for Applicant Robert Muller-Moore, Tarrant, Gillies, Merriman & Richardson (Mar. 27, 2012), *available at* http://tsdr.uspto.gov/documentviewer?caseId=sn85412053&docId=OOA20120327153956#docIndex=10&page=1; Letter from Andrew D. Lawrence, Managing Att'y, United States Patent and Trademark Office 108, to Daniel P. Richardson, Att'y for Applicant Robert Muller-Moore, Tarrant, Gillies, Merriman & Richardson (Mar. 7, 2013), *available at* http://tsdr.uspto.gov/documentviewer?caseId=sn85412053&docId=OOA20130307115404#docIndex=5&page=1. This second Office Action came after Muller-Moore's pro bono counsel filed a Response to the March 27, 2012 Office Action disputing any likelihood of confusion. In addition to citing the likelihood of confusion with the Chick-fil-A registrations, this March 7, 2013 Office Action also noted that the slogan "Eat More Kale" may be mere ornamentation on the shirts rather than a trademark under which the shirts are sold. This provided another basis for rejection of the trademark application. *Id.*

battle; he has routinely turned to the press to publicize his dispute with Chick-fil-A,[21] and he is currently participating in the production of a documentary, titled "A Defiant Dude," that will feature his story and examine trademark bullying by large corporations against individuals and small businesses.[22] Of course, Jim Clark's battle with Starbucks has been going on much longer than the "Eat More Kale" dispute. Despite his persistence through the numerous appeals of his case, Jim Clark's advice to Muller-Moore and others similarly situated would be, "[S]ettle. Get it behind you. It's been a nightmare."[23]

Disputes like the ones above are the reason that companies like Starbucks and Chick-fil-A are called "trademark bullies."[24] Trademarkia, a web-based company that assists users in searching for existing trademark registrations and in filing trademark applications,[25] has begun tracking trademark oppositions in order to publish lists of the most aggressive "trademark bullies" – those companies that file the largest number of oppositions against third party trademark applications and who use extended opposition tactics to delay federal approval of such applications.[26] Companies like Monster Energy Company, E. & J. Gallo Winery, McDonald's Corporation, Anheuser-Busch, LLC and Facebook, Inc. topped Trademarkia's list of trademark bullies for 2012.[27]

While several scholars and the media have begun to publicize and discuss the issue of trademark bullying,[28] most of the attention on this potential problem has focused on how to "shame" or punish the trademark bully, or on how to embolden the perceived victim (such as through the creation of antiSLAPP legislation that

21. *See* D'Ambrosio, *supra* note 10; *see also* Mason, *supra* note 13*;* Bidgood, *supra* note 10.

22. James Lantz & Robert Muller-Moore, *A Defiant Dude*, KICK STARTER, http://www.kickstarter.com/projects/1674889308/a-defiant-dude (last visited July 18, 2013).

23. Woodburn, *supra* note 1.

24. *See generally* Lantz & Muller-Moore, *supra* note 22 (using the term "trademark bullies"); *see also* Baird, *supra* note 19; Woodburn, *supra* note 1 (describing Clark as "motivated by an inward determination to not be bullied by a big corporation").

25. *About Trademarkia*, LEGAL FORCE TRADEMARKIA, http://www.trademarkia.com/about-trademarkia/about-us.aspx (last visited July 29, 2013).

26. Rip Empson, *New Trademarkia Feature Exposes Biggest Trademark Bullies; Apple, Zynga Among Top Five*, TECHCRUNCH.COM, http://techcrunch.com/2012/01/24/new-trademarkia-feature-exposes-biggest-trademark-bullies-apple-zynga-among-top-five (last visited July 29, 2013).

27. *Biggest Bullies*, LEGAL FORCE TRADEMARKIA, http://www.trademarkia.com/opposition/opposition-brand.aspx (last visited July 29, 2013).

28. *See, e.g.*, Irina D. Manta, *Bearing Down on Trademark Bullies*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 853 (Summer 2012); Jeremy N. Sheff, *Fear and Loathing in Trademark Enforcement*, 22 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 873 (Summer 2012); Leah C. Grinvald, *Shaming Trademark Bullies*, 2011 WIS. L. REV. 625 (2011); Sara M. Andrzejewski, *"Leave Little Guys Alone!": Protecting Small Businesses from Overly Litigious Corporations and Trademark Infringement Suits*, 19 J. INTELL. PROP. L. 117 (Fall 2011); *Anderson Cooper 360°* (CNN television broadcast Nov. 29, 2011), *available at* http://ac360.blogs.cnn.com/2011/11/29/video-the-ridiculist-chick-fil-a-battles-t-shirt-guy/; Kirk Carapezza, *Chicken Vs. Kale: Artist Fights Chick-fil-A Suit*, NPR (Dec. 6, 2011) *available at* http://www.npr.org/2011/12/06/143195033/chicken-vs-kale-vt-artist-fights-chick-fil-a-suit; Angus Loten, *New Tool in Trademark Fights: Start-Ups "Shame" Bigger Companies; "Coming Down Hard on the Little Guy,"* WALL STREET JOURNAL, Feb. 23, 2012, at B5, *available at* http://online.wsj.com/article/SB10001424052970203358704577237473534179392.html (discussing small business strategy in making these matters public and the desired effects of shaming).

allows defendants to seek damages upon proof that a plaintiff filed a meritless suit).[29] This Article seeks to examine the reasons that may underlie the aggressive tactics of trademark bullies—a necessary step in understanding how best to address the problem. Part I of this Article provides background on trademark bullying and the potential problematic results of such trademark enforcement tactics. Part II of the Article explores the potential legal reasons for the aggressive and costly actions taken by trademark bullies, including the role played by trademark law's "duty to police" in encouraging bully-like behavior. Part III then attempts to explain bullying behavior, in light of the duty to police one's trademark, using prospect theory and cognitive bias research into the psychological basis for human reasoning, decision making and risk avoidance. The Article concludes by explaining that current proposals to address trademark bullying are insufficient because they neglect to address the often unconscious psychological mechanisms at work that likely encourage a trademark bully to behave irrationally. To overcome the hurdle posed by such irrationality, steps must be taken by legislators or attorneys to clarify the trademark duty to police and the true risk of abandonment of one's trademark. For the purposes of this Article, the term "trademark bully" will refer to a company that takes aggressive steps to enforce its trademark rights against another company or individual where the legal claims are likely spurious or unenforceable.

I. THE TRADEMARK BULLYING PROBLEM

Most scholarship on the topic of trademark bullying has focused solely on large companies taking action against smaller companies or unsophisticated individuals.[30] While trademark bullying disputes reported in the press and in scholarship typically play out in this large entity against small entity dichotomy, such a distinction is not necessary for the purposes of this Article. Instead, the aggressive—and potentially very costly and inefficient—actions taken by the trademark holder are the key to labeling such individuals or companies as

---

29. *See, e.g.*, Grinvald, *supra* note 29; Manta, *supra* note 29 (discussing judicial sanctions that might be used to punish trademark bullies whose tactics "rise to the level of intimidation or harassment"); Andrzejewski, *supra* note 29 (arguing that publicity of cease and desist letters or the use of antiSLAPP legislation or "threat actions" could punish trademark bullies and reduce the incidence of bullying)*; see also Frequently Asked Questions (and Answers) About Chilling Effects*, CHILLING EFFECTS, http://www.chillingeffects.org/faq.cgi (last visited July 18, 2013) (This "project invites recipients and senders of cease and desist notices to send them to a central point (here, at chillingeffects.org) for analysis, and to browse the website for background information and explanation of the laws they are charged with violating or enforcing.").

30. *See, e.g.*, Grinvald, *supra* note 29, at 642 ("There are four elements in this Article's bullying definition, which are discussed in turn below: (1) unreasonable interpretation of rights, (2) intimidation tactics, (3) the trademark holder is a large corporation, and (4) the accused infringer is a small business or individual."); Manta, *supra* note 29, at 854 ("Simply stated, a trademark bully is usually a large company that seeks to put an end to behavior by individuals and small businesses that it perceives as a danger to its own intellectual property even though its legal claims against these other parties are spurious or non-existent.").

"trademark bullies."[31]

Typically, an incident of trademark bullying starts with a cease and desist ("C&D") letter sent from an owner of an established trademark to an individual or business with a vaguely similar mark. This was true of the "Charbucks" and "Eat More Kale" disputes discussed above. Each trademark bully may have learned of the other mark through the other party's official application for registration of the trademark with the USPTO.[32] They may have learned about the mark from an employee or customer who encountered a product bearing the trademark in the marketplace, or possibly through a general Internet search.[33] The perceived victim of bullying could be a well-funded commercial enterprise, but it could just as easily be an individual with a small, local, home-based business. The Internet has made it relatively easy to find third parties using arguably similar trademarks without regard to the geographic or commercial scope of the use or the sophistication of the mark's owner. Often the C&D letters sent by the bullies threaten legal sanctions if certain demands are not met. Those demands may include immediate cessation of use of the allegedly infringing trademark, the transfer of the infringing owner's website domain name to the bully, and the destruction of all potentially infringing products, marketing materials and even packaging and business stationery. Sometimes such letters detail how the allegedly infringing party has violated the trademark rights of the bully, but often the letters are vague and filled with confusing legalese and idle threats.

31. Additionally, the term "bully" is clearly pejorative and, when used against the backdrop of the current media discussion of the bullying of children and adolescents online and in schools, directs potentially unearned ire at the alleged trademark bully. In this Article, I will use the terms "trademark bully" and "bullying victim" or "bullying target" for both ease of reference and to connect such discussions to earlier scholarship on trademark bullying in general; however, as is discussed below, trademark bullying may result more from our uncertain trademark laws and unconscious psychological biases than from aggressive intent on the part of the bully. While the negative repercussions of trademark bullying are to be disparaged, the bully itself may not have earned the shame directed at it.

32. The USPTO makes all trademark applications publically available on its website and distributes printed publications containing trademarks at various stages of the application process. *See* Jessica M. Kiser, *How Dykes on Bikes Got It Right: Procedural Inequities Inherent in the Trademark Office's Review of Disparaging Trademarks*, 46 U.S.F. L. REV. 1, 5-6 (Summer 2011) ("If accepted by the examiner, the trademark application will be published in the Official Gazette. This publication provides notice to third parties of the USPTO's intent to allow federal registration for such trademark and allows such third parties an opportunity to formally oppose the registration. An unopposed trademark will then receive its federal registration and will appear on the Principal Register thirty days after its publication date.").

33. William T. Gallagher, *Trademark and Copyright Enforcement in the Shadow of IP Law*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 453, 470 (2012) (discussing interviews with attorneys about how they became aware of potential trademark infringement: "Some of the study lawyers stated they had paralegals monitor the Internet or use commercial trademark 'watch' services to discover potential infringers for clients with large trademark portfolios. More frequently, the clients themselves identified potential claims. These clients learned of potential claims in various ways. Clients with large trademark portfolios often have in-house staff monitor for infringement online. One example cited by a study attorney was a large client who dedicated several staff members to search the Internet for alleged trademark and copyright infringement. Several attorneys also gave as example situations wherein clients' sales staff became aware of potential infringements while attending industry trade shows or conferences, or from learning of instances of actual consumer confusion between their employer's and a competitor's products or services when dealing with customers").

The recipient of a C&D letter is faced with the daunting task of determining the merits of such vague claims in order to make a reasoned response. The problem is that trademark infringement cases are notoriously fact-specific. Because "[l]ikelihood of confusion, the test for trademark infringement, is considered an issue of fact at the trial level," it is "hard to determine with very real certainty how future courts will use prior cases."[34] This lack of certainty and dearth of good precedential cases makes it difficult for the bullying targets to respond based on the legal merits of their possible infringement defenses; rather, they often respond based on their own financial ability to defend the dispute in the first place. Additionally, this lack of clarity and predictability in the law encourages trademark bullying. An experienced attorney may be able to rely on prior experience and anecdotal evidence to judge the costs associated with the dispute, but he is unlikely to be able to tell a client with any certainty that a claim is meritless (regardless of whether such client is the potential plaintiff or defendant).[35] Thus, trademark bullying can only rarely be described as meritless and is often better described as unnecessary, inefficient and economically irrational.[36]

Vermont Senator Patrick Leahy took up the charge against trademark bullies in 2010 when he introduced a bill, The Trademark Law Technical and Conforming Amendment Act Of 2010 (S. 2968), that called for a mandatory study by the Department of Commerce to report on "the extent to which small businesses may be harmed by litigation tactics by corporations attempting to enforce trademark rights beyond a reasonable interpretation."[37] This was a direct response to the very public dispute in the Senator's home state of Vermont between Hansen Beverage Company, makers of the "Monster Energy" trademarked energy drinks, and Rock Art Brewery, a small Vermont brewing company that released a beer under the trademark "Vermonster."[38] In that instance, Rock Art Brewery received a threatening C&D letter from Hansen Beverage Company but was able to appeal to social media in order to "shame" Hansen Beverage Company into agreeing to a relatively neutral settlement agreement.[39]

The result of Senator Leahy's efforts was the "Report to Congress: Trademark Litigation Tactics and Federal Government Services to Protect Trademarks and

34. Grinvald, *supra* note 29, at 658.

35. *See* Gallagher, *supra* note 34, at 485 ("Revealingly, the lawyers were loath to self-identify as bullies but did admit that they sometimes engaged in aggressive enforcement tactics, most often identified as sending demand letters that over-stated their client's rights or potential remedies, sending a complaint, and taking very aggressive and unyielding positions in negotiations. When asked whether they had ever enforced trademark or copyright claims the lawyers believed were weak, many of the interviewed lawyers responded that they had.").

36. Of course, sometimes lawyers might not even care about the merits of a case. *See id.* at 486 ("The lawyer on the other side was yelling at me about how we didn't have a case, and I said you must be confusing me with somebody who cares about the merits. We are the giants in this case and we've decided we're not going to tolerate this, we're not going to give up.").

37. Trademark Technical and Conforming Amendment Act of 2010, Pub. L. No. 111-146, 124 Stat. 66 (2010).

38. *See 'Little Guy' Wins Goliath Vermonster Battle*, ABC13 NEWS (Oct. 22, 2009), http://abclocal.go.com/ktrk/story?section=news/bizarre&id=7078063.

39. *Id.*

Prevent Counterfeiting" (the "Report to Congress") that the USPTO published in April 2011.[40] This report was based on comments received from the public during a period of four months. According to the report, "The seventy-nine comments received reflected a diverse range of views, yet few explicitly addressed whether and to what extent trademark abuse is a significant problem."[41] Despite receiving only seventy-nine comments from the public, and recognizing that very few of those comments directly answered the question being asked, the USPTO somehow determined that trademark bullying can best be addressed by the current safeguards in the private litigation system.[42] This conclusion has been widely criticized.[43] Eric Goldman, Professor of Intellectual Property Law at Santa Clara University School of Law, even went so far as to call the report "worthless."[44] Overall, the report recommends that members of the private bar be encouraged to take on more pro bono cases to help any potential bullying victims that may not be able to afford counsel on their own.[45] In a similar vein, Jason Vogel and Jeremy A. Schachter, both practicing attorneys, recently published an article on trademark bullying in the International Trademark Association's *The Trademark Reporter*.[46] Their article also argues that the trademark bullying problem can be managed without new legislation: instead, existing legal ethics rules can be utilized to deter and punish bullying behavior in both the litigation and prelitigation stages of a dispute.[47] While there is disagreement about whether trademark bullying is a widespread problem,[48] it is clearly a costly problem with potentially dire consequences for the parties involved in each bullying dispute.

A. THE COST OF TRADEMARK BULLYING TO SMALL BUSINESSES

When discussing the costs of trademark bullying to the bullying victim, small businesses become the logical focus of the discussion. When the target of bullying

40. DEP'T OF COMMERCE, TRADEMARK LITIGATION TACTICS AND FEDERAL GOVERNMENT SERVICES TO PROTECT TRADEMARKS AND PREVENT COUNTERFEITING (2011), *available at* http://www.uspto.gov/ip/TMLitigationReport_final_2011April27.pdf.

41. *Id.* at 1.

42. *Id.*

43. *See, e.g.*, Lara Pearson, *USPTO Reports to Congress on Trademark Bullying*, (April 28, 2011), http://brandgeek.net/2011/04/28/uspto-reports-congress-trademark-bullying/; Eric Goldman, *Department of Commerce Releases Worthless Report on Trademark Bullying*, ERIC GOLDMAN (April 29, 2011), http://blog.ericgoldman.org/archives/2011/04/department_of_c.htm.

44. Goldman, *supra* note 44.

45. DEP'T. OF COMMERCE,*supra* note 41.

46. Jason Vogel & Jeremy A. Schachter, *How Ethics Rules Can Be Used to Address Trademark Bullying*, 103 TRADEMARK REP. 503 (2013).

47. *Id.* at 503–05.

48. The results of the Report to Congress and the opinion expressed in the Vogel and Schachter article are countered by the empirical data collected and analyzed by Professor Kenneth L. Port. Professor Port's view that trademark bullying is a widespread and increasing problem was expressed in an open letter directed to Dir. David Kappos of the USPTO explaining how Port's data shows the increasing use of trademark litigation for the purpose of bullying or extortion. Kenneth L. Port, *Open Letter to Director David Kappos of the United States Patent and Trademark Office* (Feb. 18, 2011), *available at* http://web.wmitchell.edu/cybaris/wp-content/uploads/2011/09/Port-Letter.pdf.

is a large corporation, that corporation is likely to have the resources to defend itself more fully, including easy access to an attorney to respond to a C&D letter. A large corporation is also likely to have a sophisticated understanding of the role the C&D letter plays in the dispute process. Professor Leah Chan Grinvald has explained that "the rational corporation would likely call the bluff of the threatening company because the rational corporation knows that only 3 percent of all threats of litigation end up in court."[49] However, a small business will often agree to cease use of its trademark, viewing that option as the least expensive choice.

Changing one's trademark can still be an expensive proposition. If the trademark is also the name of the business, the bullying victim may need to consult with counsel about amending or filing for new licenses and incorporation documents with its state. Most bullies also demand that the bullying victim destroy all inventory, marketing materials and even packaging supplies bearing the offending trademark.[50] It will not be cheap to replace these goods, which will be needed immediately to continue operation of the business, and it is unlikely that these kinds of expenses would be accounted for in a small business's regular budget. Additionally, a young business will have invested a lot of its initial capital into advertising and the development of goodwill around the company's business name or trademark. All of that investment will be lost, and those expenses will need to be duplicated. Trademark disputes, like the ones facing Jim Clark and Bo Muller-Moore, greatly increase the likelihood that a small business will fail.[51]

A trademark bully is likely to recognize that his target is in such a precarious position. In Professor William Gallagher's interviews with trademark and copyright counsel, he found

> that [the attorneys] were well aware that asserting claims against a smaller company was often easier than targeting a larger company. The lawyers stated that smaller companies generally could not effectively resist a trademark or copyright claim or threatened lawsuit due to the high cost of IP legal proceedings, regardless of the legal

49. Grinvald, *supra* note 29, at 654 ("However, small businesses and individuals have neither the infrastructure of large corporations to analyze trademark-infringement claims for validity nor the monetary resources to bluff out would-be bullies.").

50. *See, e.g.*, Letter from Assistant General Counsel, Trademarks & Copyrights Legal Department, to Abdul Popal, Intellectual Property Rights Agent (Nov. 19, 2001), *available at* http://chillingeffects.org/trademark/notice.cgi?action=image_5 ("Accordingly, we demand that CafePress.com immediately and permanently cease supplying, directly or indirectly, any merchandise bearing the Verizon Logo or any portion thereof, including any similar logos, to any third party, including, but not limited to Despot, and destroy any and all such merchandise currently in CafePress.com's possession, control or custody."); Letter from Volkswagen of America, Inc., to Affordable Adornments (Oct. 2, 2007), *available at* http://chillingeffects.org/trademark/notice.cgi?NoticeID=15590 ("Immediately turn over to Volkswagen for destruction all unauthorized products, packaging, labels, and products displaying, incorporating, using, or bearing any Volkswagen trademark.").

51. Leah C. Grinvald, *Resolving the IP Disconnect for Small Businesses*, 95 MARQ. L. REV. 1491, 1499 (Summer 2012) ("For example, due to expanded trademark rights, small businesses face an increasing threat from trademark bullies that threaten litigation, which if instituted could cause the targeted victims to enter into bankruptcy.").

sophistication of the target or their lawyers.[52]

The Report to Congress envisions increased access to pro bono counsel as the solution to aid these small businesses, but this proposal is shortsighted. The small business owner would first have to be sophisticated enough to know how to obtain pro bono counsel and would have to be confident enough in its own resources and abilities to decide to consider fighting, rather than capitulating immediately. Even prior to taking his dispute to trial, Jim Clark incurred over $10,000 in legal fees simply from his attempts to negotiate a settlement agreement with Starbucks.[53] He was only able to afford to defend the case in court after he was informed that his commercial insurance policy would cover the costs once a suit requesting damages was filed against him.[54] Most small businesses would simply not have the ability to defend themselves or to risk waiting for help from pro bono counsel.

However, the public and media backlash against trademark bullying has led to an interesting change of fortune in some instances. By publicizing its trademark dispute with Hansen Beverage Company, Rock Art Brewery obtained a lot of free publicity.[55] It garnered the support of a Vermont senator and benefitted from increased sales even after the dispute was settled.[56] After learning of the "Eat More Kale" dispute, Vermont Governor Peter Shumlin said in December 2011 that the state would do all it could to help Muller-Moore in his battle against Chick-fil-A.[57] It is unlikely that Bo Muller-Moore would be the subject of an upcoming documentary or touring festivals across the country selling his shirts were it not for the publicity surrounding Chick-fil-A's alleged trademark bullying in the first place.[58] Of course, the typical trademark bullying victim is unlikely to fare so well.

B. THE COSTS BORNE BY THE TRADEMARK BULLY

While it is easy to focus solely on the costs borne by the victim of trademark bullying, the bully faces a number of costs as well. Being a trademark bully can

52. Gallagher, *supra* note 34, at 478.

53. *See History of Events—Starbucks Litigation*, *supra* note 6 (As of June 26, 2000, "total expenses were now well in excess of $10,000." The actual lawsuit was not filed until July 2, 2001.).

54. *Id.*

55. *See, e.g.*, *Monster Threatens 'Vermonster' Beer Brewer*, NBCNEWS.COM, http://www.nbcnews.com/id/33282954/ns/business-small_business/t/monster-threatens-vermonster-beer-brewer (Oct. 12, 2009); Tammy Tuck & Bruce Falconer, *A True Monster Attacks Rock Art Brewery—Can Twitter and Facebook Help?*, WASHINGTON CITY PAPER (Oct. 15, 2009), http://www.washingtoncitypaper.com/blogs/youngandhungry/2009/10/15/a-true-monster-attacks-rock-art-brewery-can-twitter-and-facebook-help/; Bianca Slota, *Monster Problem for Rock Art*,WCAX.COM (Oct. 9, 2009), http://www.wcax.com/story/11291060/monster-problem-for-rock-art.

56. *See* Josh Spiro, *A Besieged Brewery Fights Back*, INC. (Oct. 29, 2009), http://www.inc.com/news/articles/2009/10/vermonster.html ("[T]he store sold 120 bottles of Vermonster in a weekend compared to the 20 to 30 they usually sell in an entire week.").

57. *Vt.'s "Eat More Kale" Gets a Preliminary "No,"* VALLEY NEWS, Apr. 23, 2013, at B1, *available at* http://www.vnews.com/news/state/region/5835298-95/vts-eat-more-kale-gets-preliminary-no.

58. *See* Robert Muller-Moore, *About Eat More Kale*, EATMOREKALE.COM, http://eatmorekale.com/about.html (last visited July 20, 2013) ("Now I spend my summers traveling to various food and music festivals in the Northeast handing out stickers and spreading the word.").

certainly be expensive—the trademark bully faces numerous direct and indirect costs related to its aggressive enforcement of its trademark rights. These companies incur these costs because they place substantial value on their trademarks: in some cases a company's trademark, or its combined trademark portfolio, can represent a substantial portion of the company's net worth. For example, Brand Finance, a consulting company that prepares brand valuations for tax, accounting, legal and other corporate purposes, has calculated the value of Apple's brand, and thus its trademark portfolio and related goodwill, at nearly $71 billion for 2012.[59] Brand Finance determined Google's 2012 brand value to be over $47 billion.[60] With such valuable assets presumed to be at stake, companies allocate a substantial amount of money to trademark enforcement and protection.

The party enforcing, or overenforcing, its trademark rights, must pay attorneys for correspondence and negotiations with the bullying victim, as well as potentially for "watch services" to find third parties to bully in the first place. According to a survey of intellectual property attorneys conducted and analyzed by the American Intellectual Property Law Association, the average billing rate for such an attorney was $340 per hour.[61] Trademark monitoring watch reports are prepared by third parties, like Corsearch, CPA Global and Thomson CompuMark that monitor the marketplace for possible infringement of a client's trademark.[62] They routinely search the records of state and federal trademark registers, domain name registrars, business name registration databases, and other sources. Companies like Mark Monitor, Cyberveillance and BD Brand Protect also monitor the Internet and social media websites for potential trademark infringement.[63] The costs associated with paying a third party for trademark watch reports and for Internet monitoring can quickly add up when many of these services charge based on the number of marks being monitored. Additionally, such reports must be analyzed by an attorney, so a trademark bully would pay high billing rates just to determine if a third party is a risk in the first place.

Additional attorneys fees and other costs are obviously incurred when companies proceed beyond C&D letters and seek to stop a potentially infringing third party. One option is to file an opposition to a third party's trademark registration or petition to cancel such registration with the USPTO. Attorneys Marcus Luepke and Brett Heavner with the law firm of Finnegan, Henderson, Farabow, Garrett & Dunner LLP, a firm that routinely handles such actions on

59. BRAND FINANCE, BRAND FINANCE GLOBAL 500, 9 (2012), *available at* http://www.brandfinance.com/knowledge_centre/reports/brand-finance-global-500-2012.

60. *Id.* at 10.

61. LAW PRACTICE MGMT. COMM., AMERICAN INTELL. PROP. LAW ASS'N, REPORT OF THE ECONOMIC SURVEY 2011 8 (2011), *available at* http://www.aipla.org/learningcenter/library/books/econsurvey/Pages/default.aspx.

62. Michelle Miller, *IP: 7 Tips to Policing Trademarks: The Key to a Cost-Effective and Effective Trademark Enforcement Program is Early Detection*, INSIDE COUNSEL (Sept. 20, 2011), http://www.insidecounsel.com/2011/09/20/ip-7-tips-to-policing-trademarks?t=ip&page=2. In publication since 1991, InsideCounsel monthly magazine provides advice and insight to general counsel and other in-house legal professionals.

63. *Id.*

behalf of its clients, explain that "[d]epending on the complexity of the case, the motions filed, and the amount of discovery and testimony entered in the case, the costs of either oppositions to registration or petitions for cancellation of a registration through completion may be up to US $500,000."[64] If the trademark bully decides instead to file an infringement suit, the costs could grow even higher. According to the American Intellectual Property Law Association's 2011 Report of the Economic Survey, the average cost of a trademark infringement suit ranged from $350,000 (when less than $1 million was at risk) to $1.5 million (when more than $25 million was at risk).[65] While it is true that a trademark bully imposes significant costs upon the target of its bullying, the bully clearly faces substantial costs of its own.

C. THE COSTS OF TRADEMARK BULLYING TO SOCIETY AT LARGE

Trademark bullying imposes additional costs on society as a whole. If a trademark bully successfully forces a third party to cease use of a trademark that would not actually have been declared infringing in a court of law, then that bully may have reduced legitimate competition in the marketplace.[66] Harming competitors, potentially through the use of costly litigation tactics without a real belief that infringement has occurred, is sometimes the tactical motivation for trademark bullying. In Professor Gallagher's interviews of trademark and copyright counsel, one interviewee stated, "No, I mean make them stop and make them pay for litigation if they don't. We can beat them . . . up in court, too. Makes them think twice next time. Makes them disrupt things to deal with us."[67] As discussed above, simply requiring the destruction of inventory and the creation and use of a new trademark could be expensive enough to force a small business into bankruptcy, which reduces the bully's potential competition. Such tactics clearly appear anticompetitive but do not rise to the level of an antitrust violation, and they are likely to be permitted to continue, largely unchecked, as a business strategy.[68]

Numerous scholars have also argued that society can be harmed by bullying's

64. B. Brett Heavner & Marcus H.H. Luepke, *Avoiding Trademark Pitfalls in the "Land of the Unlimited Possibilities": The Top 15 Mistakes of Foreign Applicants in the U.S. Trademark Office*, 98 TRADEMARK REP. 974, 990 (2008). *But see* LAW PRACTICE MGMT. COMM., *supra* note 61, at 35 (determining the average cost of such actions in 2011 to be closer to $90,000).

65. LAW PRACTICE MGMT. COMM., *supra* note 61, at 35.

66. Manta, *supra* note 28, at 854-55 ("Trademark bullying engenders a number of costs for society. First, the market suffers a reduction of legitimate competition. The potential downsides of this effect are well known and include consequences such as higher prices for products and a reduced panoply of choices in the marketplace. Relatedly, bullies create obstacles for consumers' ability to make source-identification connections with products that said consumers may wish to purchase or that could benefit them.").

67. Gallagher, *supra* note 34, at 477.

68. Grinvald, *supra* note 29, at 650–51 ("Free competition among businesses is the bedrock upon which American capitalism has been thought to rest, and the government has been devoted to regulating anti-competitive behavior since 1890. However, the majority of trademark bullying will not fall within the purview of antitrust law, as a trademark is unlikely to generate market power, which is the main requirement for an antitrust cause of action. Perhaps due to this, there have been only rare instances where antitrust claims are brought for trademark misuse." (footnotes omitted)).

impact on free speech and cultural expression: bullying can stop and potentially chill speech that would otherwise be legally permissible.[69] In Professor Gallagher's interviews, the interviewee quoted earlier stated that the third parties that his clients target are "no threat to us, a different world, very different services. No real likelihood of confusion. But we just didn't want them to use it, use their mark."[70] In such a case, the third party's use is unlikely to be infringing; such use could continue if it were not for the intimidation tactics of the trademark bully. This concern about meritless trademark bullying is especially apt when the fair use defense is implicated. When a third party uses a trademark in an expressive manner, and thus not as a trademark identifying a source of a good or service, the Lanham Act states that such use is not actionable.[71] Professor Leah Chan Grinvald, for example, has expressed concern about such bullying when it goes to the heart of the fair use defense and "targets individuals who are utilizing a trademark to parody, criticize, or comment on a trademark owner."[72] Marks are often used for parody, such as when the musical group Aqua parodied the "Barbie" doll, or for criticism, such as in the case of critical "gripe" or complaint websites like www.ballysucks.com. Both trademark uses in these two examples were permitted by the courts as fair use.[73] The aggressive and intimidating actions of trademark bullies could improperly prevent the artistic or critical commentary that society generally views as valuable and that the law permits as fair use. For these reasons, trademark law should not incentivize trademark bullying; instead, it should seek a balance between the protection of trademark owners and consumers against the costs of bullying and the protection of trademarks from a finding of abandonment.

II. THE LEGAL REASONS FOR BULLY-LIKE BEHAVIOR

One might wonder why trademark bullying exists if it is so costly to everyone involved. The reason is that even a strong trademark can lose the protections afforded to it by federal trademark law under certain circumstances.[74] Trademark

69. *See, e.g.*, Manta, *supra* note 29, at 854–55 ("While individuals are supposed to be able to make fair use of trademarks, even fair use can at times encounter enforcement efforts by way of C&D letters. One such case was when the Lego Group sought to block use of the websites 'www.ratemylego.com' and 'www.ratemylegos.com.' Some have concluded that '[t]rademark law . . . often serves as a blunt instrument of cultural intimidation and censorship.'").

70. Gallagher, *supra* note 34, at 486.

71. 15 U.S.C. § 1115(b)(4) (2006).

72. Grinvald, *supra* note 29, at 652 ("In addition, some trademarks transcend their source-identifying functions and become cultural property in their own right, even entering our language. As Judge Kozinski has asked, 'How else do you say that something's "the Rolls Royce of its class"? What else is a quick fix, but a Band-Aid?' Actions taken by large corporations against individuals utilizing trademarks in this manner harms this mode of cultural expression because threats of litigation through cease-and-desist letters are often enough to eradicate the commentary." (internal citations omitted)).

73. *See* Mattel, Inc. v. MCA Records, Inc., 28 F. Supp. 2d 1120 (C.D. Cal. 1998) *aff'd*, 296 F.3d 894 (9th Cir. 2002)*; see also* Bally Total Fitness Holding Corp. v. Faber, 29 F. Supp. 2d 1161 (C.D. Cal. 1998).

74. Third parties can harm a trademark owner's rights in other ways as well. Trademark owners must monitor the use of their marks by licensees and the quality of the products sold by licensees under the mark. Failing to do so is considered "naked licensing," which can be grounds for the USPTO or a

owners are typically advised to monitor and "police" third party uses of trademarks identical to or similar to those of the trademark owner, in order to serve three purposes: preventing genericide, monitoring licensees and quality control and stopping any potential infringement.[75] Trademark owners do this to avoid a determination by a court or by the USPTO that they have "abandoned" their trademark. According to Section 1127 of the Lanham Act, a trademark will be deemed "abandoned" when "its use has been discontinued with the intent not to resume such use" or when "any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise lose its significance as a mark."[76] It is primarily this definition of abandonment, and the loss of trademark rights that go along with such a determination, that spawned the "duty to police" third party trademark usage that is now generally accepted as a bedrock principle of trademark law.[77] While the duty to police exists, its uncertain boundaries have negative consequences. According to Professor Irina D. Manta, "A significant amount of trademark bullying stems from bullies' impression that to maintain a mark, it is the owner's duty to aggressively police it. Thus, many bullying situations involve mark owners who have taken this perceived duty to extreme levels."[78]

A. THE DUTY TO POLICE ONE'S TRADEMARK TO PREVENT TRADEMARK ABANDONMENT

Breaking down Section 1127 into its component parts, abandonment can be seen to occur in three ways: (1) a trademark owner intends to abandon the mark and thus discontinues its use, (2) a trademark owner, through overt acts or omissions, allows the mark to become the generic name for the good or service with which it has been used or (3) a trademark owner, through overt acts or omissions, allows the mark to lose its significance as a mark (such that it no longer identifies the source of the good or service to a consumer). As the duty to police focuses on actions of third parties, it does not implicate the "intent to abandon" route to abandonment referenced above.[79] For the purposes of this article, the focus will be on the duty to

---

court to declare the mark abandoned. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 18:48 (4th ed. 1996).

75. Gallagher, *supra* note 34, at 490 ("The interviewed lawyers often cited a need to 'police' their clients' trademarks and copyrights. They explained that the failure to do so on any particular occasion could lead to difficulties in enforcing rights against other targets in the future.").

76. 15 U.S.C. § 1127 (2006).

77. MCCARTHY, *supra* note 75, § 31:38.

78. Manta, *supra* note 29, at 866–71 (proposing a system under which trademark owners (potential bullies) could submit their cease and desist letters to the U.S. Patent and Trademark Office for review of the merits of the underlying legal claims. This system could reduce the uncertainty felt by trademark owners seeking to protect their marks, and reduce frivolous harassment currently felt by the victims of trademark bullying)*; see also* Grinvald, *supra* note 29, at 630 ("Trademark law and the legal system, as both currently operate, work to assist, and perhaps even encourage, the bully's efforts.").

79. *See, e.g.*, Visa Int'l Serv. Ass'n v. Bankcard Holders of America, 211 U.S.P.Q. 28, 41 (N.D. Cal. 1981) ("Member banks may properly use the marks in an authorized manner. Plaintiff is not aware

police resulting from a desire to avoid (1) abandonment through genericide and/or (2) abandonment through loss of trademark significance.

1. Abandonment Through Genericide

A trademark can become the generic name for a type of good or service. This is the potential downside of having a popular trademark or a huge market share for a particular product or service. Consumers can fail to recognize that the trademark identifies the source of the product. This process, by which a formerly strong and distinct trademark loses its ability to identify the source of a particular product with which it has been previously connected, is generally called genericide.[80] When genericide occurs, the trademark comes to be known by consumers as the generic term used to describe the whole category of goods in which that particular product exists.[81]

One of the classic examples of this process of genericide is the shift of the trademark "Aspirin" from the fanciful brand name used by Bayer Co. to market its acetyl salicylic acid pain reliever to the generic term used by consumers to refer to all such pain relievers whether produced by Bayer Co. or a different manufacturer.[82] In *Bayer Co. v. United Drug Co.*, the District Court for the Southern District of New York held that the trademark "Aspirin" had lost its source identifying significance; as such, it no longer functioned as a trademark and would no longer be afforded the legal rights granted with respect to trademarks.[83] In this manner, the actions of consumers, third parties unrelated to the manufacture, marketing or sale of a branded product, can usurp the trademark rights established by a trademark owner. "Aspirin" now exists in the public domain along with other former trademarks like nylon, cellophane, escalator and trampoline.[84]

Once a trademark has been declared generic, it must be deemed abandoned by the trademark owner according to Section 1127 of the Lanham Act. This stems directly from the fact that a generic trademark can never be granted federal trademark registration with the USPTO.[85] Former Assistant Attorney General William F. Baxter once explained the purpose of trademark protection as follows: "[b]y identifying the source of goods or services, marks help consumers to identify their expected quality and, hence, assist in identifying goods and services that meet the individual consumer's expectations."[86] From this underlying purpose, it

of any 'syndicators' or others who use the logo in an unauthorized manner. Defendants have not demonstrated that plaintiff has abandoned its mark even if there were other infringers; there has been no proof of an intent to abandon.").

80. *See generally* Deven R. Desai & Sandra L. Rierson, *Confronting the Genericism Conundrum*, 28 CARDOZO L. REV. 1789 (2007).

81. *Id.*

82. Bayer Co. v. United Drug Co., 272 F. 505 (S.D.N.Y. 1921).

83. *Id.*

84. *See* Desai & Rierson, *supra* note 81.

85. 15 U.S.C. § 1064 (2006); MCCARTHY, *supra* note 75, § 12:56.

86. *Trademark Counterfeiting Act of 1982: Hearing on S. 2428 Before the S. Comm. on the Judiciary*, 97th Cong. (1982) (statement of William F. Baxter). S. 2428 was a bill to strengthen the laws against counterfeiting of federally registered trademarks.

follows that all valid trademarks must function as source identifiers upon which consumer good will and confidence can be built.[87] Therefore, words that are generic, or that become generic, "are unprotectable under the Lanham Act and the common law doctrine of unfair competition because they do not (or no longer) have the capacity for source identification."[88] A word or phrase is generic where "the primary significance of the trademark is to describe the type of product rather than the producer."[89] For example, a business that sells cakes cannot claim trademark rights in the word "cake." The word "cake" is a generic term for the cake product being sold; as such, this business cannot obtain monopolistic rights over the generic term for a product that will be sold by other businesses. This is true whether the proposed mark starts as a generic term or becomes generic over time, like the mark "aspirin."

2. Abandonment for Loss of Significance as a Mark

Section 1127 of the Lanham Act also indicates that a mark can be abandoned if its owner allows it to lose its significance as a mark.[90] Distinguishing this situation from those instances where failure to stop third party infringers allows a mark to become generic, the noted trademark treatise author Thomas McCarthy has posited that the important consideration here is not whether such failure to sue constitutes abandonment but whether it has resulted in a loss of strength of the underlying mark in the eyes of consumers.[91] The difference between a mark that has become generic and one that has lost its significance as a mark is one of scale. If a mark has lost its significance as a mark, it can no longer clearly signify to a consumer the source of that particular good or service. It has not become the generic label for the product or service being sold, but the direct link between product or service and its source has been severed. The Court of Appeals for the Federal Circuit has explained trademark significance as follows:

> Without question, distinctiveness can be lost by failing to take action against infringers. If there are numerous products in the marketplace bearing the alleged mark, purchasers may learn to ignore the "mark" as a source identification. When that occurs, the conduct of the former owner, by failing to police its mark, can be said to have caused the mark to lose its significance as a mark.[92]

The loss of significance grounds for abandonment is often confused with the defenses of acquiescence and laches. In his treatise, McCarthy distinguishes

87. MCCARTHY, *supra* note 75, § 3:1.

88. Desai & Rierson, *supra* note 81, at 1809; MCCARTHY, *supra* note 75, § 12:56; *see also* 15 U.S.C. § 1064 (2005) ("A petition to cancel a registration of a mark . . . may . . . be filed . . . if the registered mark becomes the generic name for the goods or services, or a portion thereof, for which it is registered . . . .").

89. Filipino Yellow Pages, Inc. v. Asian Journal Publ'g, Inc., 198 F.3d 1143, 1147 (9th Cir. 1999).

90. 15 U.S.C. § 1127 (2006).

91. MCCARTHY, *supra* note 75, § 17:8.

92. Wallpaper Mfrs., Ltd. v. Crown Wallcovering Corp., 680 F.2d 755, 766 (Fed. Cir. 1982).

between acquiescence and abandonment as follows:

> While plaintiff's failure to prosecute trademark uses by parties other than defendants may be evidence of plaintiff's acquiescence in defendant's use, such a failure is not acquiescence where a third party's usage is de minimus. Acquiescence should not be confused with abandonment of trademark rights. The defense of abandonment results in a loss of rights as against the world, while the defense of acquiescence merely results in a loss of rights as against one defendant.[93]

Acquiescence can therefore be seen as a personal defense. If a trademark owner knows of a specific third party's potential trademark infringement and fails to take steps to stop it for a significant period of time, that third party may be able to use the defense of acquiescence to prohibit the trademark owner from stopping the third party's use in the future.[94] This is very similar to the equitable defense of laches that such a third party may also be able to use. For laches to apply, the third party would need to show that the trademark owner's unreasonable delay in bringing the trademark suit would cause unfair prejudice to the third party.[95] In both instances, these defenses are distinct from abandonment because they only hinder the trademark owner's monopolistic trademark rights against the single third party.[96] Abandonment terminates those rights against the whole world.[97]

The defendant in *Wallpaper Mfrs., Ltd. v. Crown Wallcovering Corp.* raised the defense of abandonment.[98] Both the plaintiff and the defendant had been using the trademark "Crown" in connection with the sale of wallpaper products.[99] The plaintiff was the first user of this mark, and thus had priority absent loss of the trademark rights due to abandonment.[100] The United States Court of Customs and Patent Appeals quickly dismissed the argument that abandonment had occurred through the plaintiff trademark owner's intent to abandon.[101] Additionally, the trademark "Crown" had not become a generic term within the field of wallpaper.[102] The lower court had found abandonment based on the evidence presented that the trademark "Crown" no longer identifies either party's goods or distinguishes them from those manufactured or sold by the other; therefore, the court ordered that the plaintiff's trademark registration be canceled because the mark could no longer serve as a source identifier and customers would be confused by two companies using the same mark in the same industry.[103]

---

93. National Football League v. Governor of the State of Del., 435 F. Supp. 1372, 1390 (D. Del. 1977) (quoting MCCARTHY, *supra* note 75, § 31:14) (noting that the quote is not present in the current edition of this treatise).

94. MCCARTHY, *supra* note 75, § 31:42.

95. *See, e.g.*, Holmberg v. Armbrecht, 327 U.S. 392, 396 (1946); *see also* BLACK'S LAW DICTIONARY 953 (9th ed. 2009); MCCARTHY, *supra* note 75, § 31:12.

96. MCCARTHY, *supra* note 75, § 31:43 (4th ed.).

97. *See, e.g.*, *National Football League*, 435 F. Supp. at 1390.

98. Wallpaper Mfrs., Ltd. v. Crown Wallcovering Corp., 680 F.2d 755 (C.C.P.A. 1982).

99. *Id.* at 757-58.

100. *Id.* at 757-58.

101. *Id.* at 759.

102. *Id.*

103. *Id.* at 760.

However, this decision was reversed by the United States Court of Customs and Patent Appeals, which stated:

> The only issue before us is abandonment—whether appellant has forfeited all rights because the mark CROWN no longer identifies appellant as a source for wallpaper. The board's finding that CROWN continues to function as a mark for appellant can only mean appellant's acts have not been of such character as to cause the mark to lose its significance as an indication of origin for appellant's goods.[104]

The fact that some consumers also knew of the connection between the defendant and the mark did counter the evidence that many consumers still saw the mark as an indicator that the plaintiff was the source of the product.[105]

While the plaintiff in *Wallpaper Mfrs*. could have a claim against the defendant for infringement, the defendant's concurrent use of the mark was not substantial enough to cause abandonment. For abandonment to occur due to loss of significance of a mark, that loss must be something more than simply confusion among a small number of consumers due to two competitors using a similar mark.

B. OVERESTIMATION OF DUTY TO POLICE BY TRADEMARK OWNERS

While trademark owners routinely cite the duty to police as justification for their bully-like behavior,[106] the actual risk of losing one's trademark rights due to a failure to police third party trademark use appears to be highly exaggerated. In the majority of cases in which a failure to police third party trademark usage is alleged, courts find that any such failure has not risen to the level of abandonment of the mark and thus is inconsequential.[107] Where the courts have terminated a mark in such cases, the deciding factor is not whether the mark owner failed to police third party use but whether the owner evidenced an intent to abandon the mark or allowed the mark to become so freely used by competitors that it no longer functions as an indicator of source at all.[108] Additionally, a "party seeking to prove abandonment has a high burden of proof," and that burden is rarely met.[109]

In a clear case where termination of trademark rights was appropriate, the Second Circuit held that the "Milk of Magnesia" trademark, registered with the

104. *Id.* at 767.

105. *Id.* at 767.

106. *See, e.g.*, Gallagher, *supra* note 34, at 490 ("The interviewed lawyers often cited a need to 'police' their clients' trademarks and copyrights. They explained that the failure to do so on any particular occasion could lead to difficulties in enforcing rights against other targets in the future.").

107. *See, e.g.*, *Wallpaper Mfrs.*, 680 F.2d 755.

108. *See, e.g.*, Acme Valve & Fittings Co. v. Wayne, 386 F. Supp. 1162 (S.D. Tex. 1974) (intent to abandon found due to discontinuance of manufacture, selling off of all inventory and the failure to renew the trademark registration); Saxlehner v. Eisner & Mendelson Co., 179 U.S. 19 (1900) (confirming the Second Circuit's holding that the plaintiff could no longer enforce her rights in the mark "Hunyadi" for bottled water because the mark had become generic in the eyes of consumers).

109. STX, Inc. v. Bauer USA, Inc., 43 U.S.P.Q.2d 1492 (N.D. Cal. 1997); *see also* Citibank, N.A. v. City Bank of San Francisco, 206 U.S.P.Q. 997 (N.D. Cal. 1980) ("Abandonment places a strict burden of proof upon the party seeking to prove abandonment. The party seeking to prove abandonment must prove an intent to abandon on the part of the trademark owner.").

United States Patent and Trademark Office in 1905, should be canceled.[110] The Second Circuit based its decision on two separate grounds for cancelation: the fact that (1) the mark "was not in the actual and exclusive use of the defendant, or its predecessors, during the ten years prescribed by the statute,"[111] and (2) the defendant's abandonment of the mark as shown by its failure "during a long period to assert or enforce its rights" against widespread use of the mark by competitors.[112] Between the date of registration of the mark in 1905 and the start of the cancelation proceeding on June 25, 1924, the defendant trademark owner in this case had allowed numerous competitors to sell high quantities of the same basic product under the "Milk of Magnesia" mark.[113] The Second Circuit determined that the defendant "had taken no steps whatever to assert its rights, and had really ignored the extensive use by others."[114] Such blatant disregard for the trademark allowed it to become abandoned, because the mark "no longer indicat[ed] the origin of the goods sold under it."[115]

In contrast, in *Council of Better Business Bureaus, Inc. v. Better Business Bureau, Inc.*, the plaintiff organization brought an action for infringement against a former member who countered by asserting that the plaintiff's mark had been abandoned.[116] This defense was premised on the fact that the plaintiff had failed to stop numerous smaller and local organizations from referring to themselves as "Better Business Divisions, Councils and Departments, etc. of various Chambers of Commerce."[117] However, the U.S. District Court for the Southern District of Florida determined, based on evidence presented by the plaintiff, that the existence of such third party organizations had not "affected the distinctiveness" of the plaintiff's mark.[118] As a result, the defendant's abandonment defense failed.[119]

Similarly, in *STX, Inc. v. Bauer USA, Inc.*, the defendant Bauer, a former licensee of the trademark for protective skating equipment at issue, alleged that STX's trademark rights had been abandoned and thus could no longer be enforced.[120] This defense was based on an STX executive's admission that the company was aware of several competitors making widespread use of similar,

110. McKesson & Robbins, Inc. v. Charles H. Phillips Chemical Co., 53 F.2d 342 (2d Cir. 1931), *modified*, 53 F.2d 1011 (2d Cir. 1931), *cert. denied*, 285 U.S. 552 (1932).

111. *McKesson*, 53 F.2d at 345.

112. *Id.*

113. *Id.* at 344-45. In particular, the court made reference to six direct competitors—American Druggists' Syndicate, E.R. Squibb & Sons, H.K. Mulford Company, Nelson Baker Company, Frederick Stearns & Company, and Park, Davis & Co.—that all began selling the product under the "Milk of Magnesia" mark in early 1900s and substantially increased their sales by 1924. *Id.*

114. *Id.* at 345.

115. *Id.*

116. Council of Better Bus. Bureaus, Inc. v. Better Bus. Bureau, Inc., 200 U.S.P.Q. 282 (S.D. Fla. 1978).

117. *Id.* at 31.

118. *Id.* Additionally, the court also noted that the defendant's own evidence offered dramatic proof of the distinctiveness of the plaintiff's mark. *Id.*

119. *Council of Better Bus. Bureaus, Inc*., 200 U.S.P.Q. at 282.

120. STX, Inc. v. Bauer USA, Inc., 43 U.S.P.Q.2d 1492, 1997 U.S. Dist. LEXIS 16250, *29 (N.D. Cal. 1997).

unlicensed and potentially infringing trademarks.[121] While STX had knowledge of such third party trademark usage, STX had taken no formal action against any of these third parties in the five years preceding this suit against Bauer.[122] The U.S. District Court for the Northern District of California first clarified that "evidence of other potential infringers is 'irrelevant' to a suit against a particular infringer" absent convincing evidence of abandonment of the mark.[123] The court then noted that the defendant had only shown that STX was aware of third party uses; the defendant had not presented any evidence illustrating STX's consent, tacit or implied, to such potentially infringing uses.[124] Quoting an opinion by the Ninth Circuit, the Court stated that "an owner is not required to act immediately against every possible infringing use to avoid a holding of abandonment."[125] Despite STX's business determination not to take formal action against the potential infringers of which it was aware, the defendant's motion for summary judgment on the issue of abandonment was dismissed because STX's monitoring of industry magazines and visits to retail establishments led the court to conclude that STX conducted enough "policing" to prevent an unambiguous determination of abandonment.[126]

Based on abandonment case precedent, what should a trademark owner do to protect its mark from an allegation of abandonment? The court in *Wallpaper Mfrs.* explained that:

> [A]n owner is not required to act immediately against every possibly infringing use to avoid a holding of abandonment . . . . Some infringements are short-lived and will disappear without action by the trademark owner. In the case of a mark temporarily not in use or only used to a limited extent, a company may be hard pressed to extend its financial resources to fight an infringer when it has little or no current market under its mark.[127]

Clearly, courts do not require a trademark owner to stop every potential third party infringer. Additionally, the cases suggest that absent evidence of intent to abandon, a trademark owner simply needs to prevent its mark from becoming generic and monitor the significance of its mark within the relevant consuming public. Both of

121. *Id.*
122. *Id.* at *38.
123. *Id.*; *see also* United States Jaycees v. San Francisco Junior Chamber of Commerce, 354 F. Supp. 61, 73 (N.D. Cal. 1972), *aff'd*, 513 F.2d 1226 (9th Cir. 1975) ("Numerous cases have rejected this defense, holding that the existence of infringers other than the defendant was irrelevant to a determination of whether the defendant should be enjoined from continuing in its infringement of plaintiffs' trademarks and in its unfair competition."); Citibank, N.A. v. City Bank of San Francisco, 206 U.S.P.Q. 997 (N.D. Cal. 1980) ("The existence of others engaged in the same acts of trademark infringement and unfair competition is irrelevant and is no defense against the trademark proprietor's suit against a particular infringer."); Visa Int'l Service Ass'n v. Bankcard Holders of America, 211 U.S.P.Q. 28 (N.D. Cal. 1981).
124. *STX, Inc.*, 43 U.S.P.Q.2d 1492, 1997 U.S. Dist. LEXIS 16250 at *39.
125. *Id.* at *40 (quoting Transgo, Inc. v. Ajac Transmission Parts Corp., 768 F.2d 1001, 1018 n.1 (9th Cir. 1985)).
126. *Id.*
127. Wallpaper Mfrs., Ltd. v. Crown Wallcovering Corp., 680 F.2d 755 (C.C.P.A. 1982).

these goals could be achieved by employing a proactive branding strategy rather than a reactive litigation strategy. Perhaps a trademark owner would be wiser to spend money on advertising rather than spending it on bully-like tactics against non-competitor third parties. With this in mind, were the actions taken by Chick-fil-A and Starbucks reasonable or necessary? The "Starbucks" mark is clearly not generic, and it is highly unlikely that the "Charbucks" mark could cause the "Starbucks" mark to lose its significance as a trademark given the large amount of advertising conducted by Starbucks and the widespread brand recognition it enjoys. However, the fact that "Charbucks" was being used by a coffee company could have made this a closer case for loss of significance, or a laches or acquiescence concern, to the Starbucks attorney that sent the first C&D letter to Jim Clark.[128] However, the attorneys for Chick-fil-A have less merit to their concerns. The company's "Eat Mor Chikin" mark is relatively popular and well known in its retail markets, suggesting that it is unlikely to be generic or close to losing its significance as a trademark. Whether it is known in areas without access to a retail location is arguable; Muller-Moore certainly claims to live in such a market and never to have heard of the mark prior to the dispute. Additionally, Muller-Moore's "Eat More Kale" mark is unlikely to hinder the strength of the Chick-fil-A marks because Muller-Moore is not a competitor of Chick-fil-A and has only negligible sales.

III. COGNITIVE BIAS RESULTS IN OVERESTIMATION OF RISK OF TRADEMARK ABANDONMENT

Why do trademark bullies expend so much time and energy pursuing noncompetitor third parties? As discussed above, case law suggests that the duty to police is not overly burdensome and simply requires mark owners to use their mark in such a way as to keep it from becoming generic and to police uses by competitors so that the mark maintains its ability to identify the source of a product or service. Based on this premise, it appears that the actions of trademark bullies—investing thousands of dollars in policing third party uses, pursuing weak claims to court when the bullied party refuses to capitulate, and incurring extensive bad publicity in the process—may not be entirely rational.[129] Such seemingly irrational behavior consistently chosen by trademark owners suggests that other

128. For a discussion of this issue of whether lawyers exacerbate the problem of trademark bullying, or if they are required by ethical duties to stop bullying regarding meritless claims, *see* Jason Vogel and Jeremy A. Schachter, *supra* note 46, at 503 and Gallagher, *supra* note 33, at 490 ("In these four interviews, the lawyers each made some statement about how they would 'fire' a client who asked them to enforce an IP claim where the lawyer believed the claim was without merit. When probed as to whether they had ever had a client who asked them to enforce a claim the lawyer had explained was weak or non-meritorious, these lawyers stated that they had. When asked about the specific instances, all four lawyers indicated that they followed the clients' instructions to enforce the claims. None of these lawyers could identify an instance where they had actually 'fired' a client under such circumstances.").

129. This assessment was also made by William T. Gallagher based on his empirical interviews with trademark and copyright attorneys. Gallagher, *supra* note 34, at 479-80 ("The research interviews revealed, in a number of ways, that the decision to assert IP claims is not entirely a rational decision.").

psychological factors may be at play.

Research from the fields of psychology and economics identifying cognitive biases and heuristics can resolve this apparent disconnect. Numerous behavioral studies have shown that humans are not always rational actors when faced with decisions pertaining to risk and uncertainty.[130] Instead, such studies show that people often rely on mental shortcuts called cognitive biases or heuristics to consciously or subconsciously assist in making these sorts of decisions.[131] Legal scholars have already applied these theories of cognitive bias and heuristics in legal decision making to explain the sometimes irrational behavior of judges,[132] juries (especially in terms of damage awards in tort litigation),[133] and even negotiating parties.[134] This Article proposes that cognitive biases can also help to explain the actions of trademark bullies. Better understanding the motivations, both legal and psychological, of trademark bullies will assist courts and legislators in crafting solutions to deter trademark bullying and to address the various problematic consequences of bullying discussed above.

A. BACKGROUND ON COGNITIVE BIAS AND PROSPECT THEORY

Starting in the 1970s, Amos Tversky and Daniel Kahneman published a number of empirical studies that formed the foundation for the study of decision making under conditions of uncertainty.[135] In 1974's "Judgment Under Uncertainty: Heuristics and Biases," they determined that "people rely on a limited number of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations."[136] These heuristics are the conscious or unconscious mental shortcuts that allow a person to quickly make a decision evaluating the likelihood of an uncertain outcome, such as the likelihood a

130. *See* CHOICES, VALUES, AND FRAMES (Daniel Kahneman & Amos Tversky eds., 2000) (containing a sample of the definitive articles on this topic)*; see also* Colin F. Camerer, *Prospect Theory in the Wild: Evidence from the Field*, *in* CHOICES, VALUES, AND FRAMES 288 (Daniel Kahneman & Amos Tversky eds., 2000) (summarizing several empirical studies supporting this approach).

131. *See* Amos Tversky & Daniel Kahneman, *Judgment Under Uncertainty: Heuristics and Biases*, 185 SCI. 4157, 1124 (1974) [hereinafter *Judgment Under Uncertainty*].

132. *See* Chris Guthrie et al., *Inside the Judicial Mind*, 86 CORNELL L. REV. 777 (2001).

133. *See, e.g.*, John H. Montgomery, *Cognitive Biases and Heuristics in Tort Litigation: A Proposal to Limit Their Effects Without Changing the World*, 85 NEB. L. REV. 15 (2006); Edward J. McCaffery et al., *Framing the Jury: Cognitive Perspectives on Pain and Suffering Awards*, 81 Va. L. Rev. 1341 (1995).

134. *See, e.g.*, Russell Korobkin & Chris Guthrie, *Psychological Barriers to Litigation Settlement: An Experimental Approach*, 93 MICH. L. REV. 107 (1994) [hereinafter *Psychological Barriers*]; Russell Korobkin & Chris Guthrie, *Psychology, Economics, and Settlement: A New Look at the Role of the Lawyer*, 76 TEX. L. REV. 77 (1997) [hereinafter *Psychology, Economics, and Settlement*]; Jeffrey J. Rachlinski, *Gains, Losses, and the Psychology of Litigation*, 70 S. CAL. L. REV. 113 (1996).

135. *See, e.g.*, *Judgment Under Uncertainty*, *supra* note 132; Amos Tversky & Daniel Kahneman, *Prospect Theory: An Analysis of Decision Under Risk*, 47 ECONOMETRICA 263 (1979) [hereinafter *Prospect Theory*]; Amos Tversky & Daniel Kahneman, *Psychology of Preferences*, 246 SCIENTIFIC AMERICAN 160 (1982); Amos Tversky & Daniel Kahneman, *The Framing of Decisions and the Psychology of Choice*, 211 SCI. 453 (1981); Amos Tversky & Daniel Kahneman, *Rational Choice and the Framing of Decisions*, 59 J. BUS. S251 (1986).

136. *Judgment Under Uncertainty*, *supra* note 132, at 1124.

small business will capitulate after receiving a C&D letter, or the likelihood that the failure to police every third party use of one's trademark will result in abandonment of the mark.[137] While Tversky and Kahneman acknowledge that heuristics can be useful, their work illustrates how various heuristics can lead to "severe and systematic errors."[138]

These empirical studies on cognitive bias appear to argue against the rational choice theory of behavior that has long been a dominant approach in legal theory. Rational choice theory "presumes that individuals always try to maximize their expected utility, primarily through acting rationally when making decisions involving risks and benefits."[139] Contrary to this view, the empirical studies on cognitive bias suggest that people sometimes rely on quick heuristical judgments rather than weighing risks and benefits to reflect the probability of the various outcomes. This reliance on shortcuts is a byproduct of human cognitive limitations, including the inability to process large amounts of information at one time. Kahneman explains that "when faced with a difficult question, we often answer an easier one instead, usually without noticing the substitution."[140] While analyses of law and legal disputes based on rational choice theory have made substantial contributions to legal scholarship,[141] numerous legal scholars are now questioning that approach and attempting to incorporate legal realism into the dialogue using the research on cognitive bias and the related insights from prospect theory.[142]

Since Kahneman and Tversky's original article, numerous cognitive biases, heuristics and related effects have been documented and applied.[143] Kahneman and Tversky built upon their initial discoveries in this area to develop a theory of decision making under conditions of uncertainty, which they termed "prospect theory." As trademark bullying is based on evaluation of risk and uncertainty pertaining to trademarks, this article will apply prospect theory to the problem of trademark bullying, with particular emphasis on the impact of the certainty effect, endowment effect and sunk cost effect on this prospect theory analysis.

---

137. *See* Cass R. Sunstein, *Hazardous Heuristics*, 70 U. CHI. L. REV. 751, 755 (2003) (book review).

138. *Judgment Under Uncertainty*, *supra* note 132 at 1124.

139. Montgomery, *supra* note 134, at 20; *see also* Thomas S. Ulen, *Firmly Grounded: Economics in the Future of the Law*, 1997 WIS. L. REV. 433 (1997); GARY S. BECKER, THE ECONOMIC APPROACH TO HUMAN BEHAVIOR 14 (1976) (characterizing the assumption that in decision making people "maximize their utility from a stable set of preferences and accumulate an optimal amount of information").

140. DANIEL KAHNEMAN, THINKING, FAST AND SLOW 12 (2011).

141. *See generally* Richard A. Posner, THE PROBLEMS OF JURISPRUDENCE (1990); Richard A. Posner, *An Economic Approach to Legal Procedure and Judicial Administration*, 2 J. LEGAL STUD. 399 (1973); George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1 (1984).

142. *See e.g.*, Montgomery, *supra* note 134, at 20; McCaffery et al., *supra* note 134; *Psychological Barriers*, *supra* note 135; *Psychology, Economics, and Settlement*, *supra* note 135; Rachlinski, *supra* note 135; Chris Guthrie, *Prospect Theory, Risk Preference, and the Law*, 97 NW. U. L. REV. 1115 (2003) [hereinafter *Risk Preference*].

143. *See Judgment Under Uncertainty*, *supra* note 132.

B. PROSPECT THEORY: FRAMING RISK JUDGMENTS AS GAINS VERSUS LOSSES

While rational choice theory states that people make rational decisions to maximize the value of their total wealth, prospect theory argues that attempts to maximize wealth are influenced by systematic biases in judgment, such as the framing effect.[144] The framing effect refers to the observation that people treat logically equivalent judgments differently if they are framed as losses or as gains.[145] As an example of the framing effect, imagine a cancer patient trying to decide whether to undergo an effective yet risky surgery. A surgery reported to have an 80% survival rate will be chosen more often than the same surgery reported to have a 20% mortality rate—even though these statements of risk are equivalent. Framed as a gain (survival), the surgical option is appealing; framed as a loss (mortality), the same option is aversive. This example demonstrates that logically equivalent judgments about risk are treated quite differently depending on the way they are framed; these framing effects on medical decision making have been observed in patients as well as medical professionals, such as radiologists.[146]

A principal feature of prospect theory, which is concerned with how people actually make decisions regarding uncertainty and risk, is its attention to the way decisions are framed as either gains or losses. In accordance with empirical studies, prospect theory predicts that "people generally make risk averse decisions when choosing between options that appear to be gains and risk seeking decisions when choosing between options that appear to be losses."[147] This suggests that people will make riskier decisions in order to try to avoid loss, which has been described as "loss aversion."[148]

Kahneman and Tversky have argued that there are several psychological mechanisms that interact in order to produce the loss aversion shown in empirical studies. First, when making decisions, people judge their options relative to a frame or reference point.[149] Generally, this reference point is the status quo or the person's current position or status. Professor Chris Guthrie, an expert on behavioral law and economics, offers a helpful example: "People will generally choose a definite $1,000 prize over a 50% chance at receiving a $2,000 prize but will opt to face a 50% chance at having to pay a $2,000 fine over having to pay a

144. *Prospect Theory*, *supra* note 136.

145. *See* Daniel Kahneman and Amos Tversky, *Choices, Values, and Frames*, 39 AMERICAN PSYCHOLOGIST 341 (1984).

146. *See* Barbara J. McNeil et al., *On the Elicitation of Preferences for Alternative Therapies*, 306 NEW ENG. J. MED. 1259 (1982)*; see also* John M. Rybash & Paul A. Roodin, *The Framing Heuristic Influences Judgments About Younger and Older Adults' Decision to Refuse Medical Treatment*, 3 APPLIED COGNITIVE PSYCHOL. 171 (1989); Dawn K. Wilson et al., *Framing of Decisions and Selection of Alternatives in Health Care*, 2 SOC. BEHAV. 51 (1987).

147. *Risk Preference*, *supra* note 143, at 1116.

148. *See e.g.*, Daniel Kahneman et al., *Anomalies: The Endowment Effect, Loss Aversion, and Status Quo Bias*, 5 J. OF ECON. PERSPECTIVES 1, Winter 1991, 193 [hereinafter *Anomalies*]; Peter McGraw et al., *Comparing Gains and Losses*, 21 PSYCHOLOGICAL SCI. 1438 (2010).

149. *See* KAHNEMAN, *supra* note 141, at 282 ("Outcomes that are better than the reference points are gains. Below the reference point they are losses.").

definite $1,000 fine."[150] If the individual was acting rationally, as predicted by rational choice theory, people should be found to have no preference between the $1,000 prize and the 50% chance at a $2,000 prize (as the expected benefit is effectively the same). However, experiments in support of prospect theory show that an individual faced with such a decision frames the decision as a gain or a loss relative to the status quo. When compared to the status quo reference point, either prize is seen as a gain and either fine is a loss. Prospect theory argues, and studies demonstrate, that individuals faced with this problem tend to be risk averse regarding the gains and will select the guaranteed $1000 prize. [151] However, they will be risk seeking when faced with a decision about accepting a loss and will typically opt for the 50% chance at avoiding the larger fine.[152] Scholars in a variety of fields have noted the important repercussions this rule has on decisions such as those regarding financial investments or even criminal plea bargaining.[153]

How can the theory account for this preference to be risk averse with potential gains and risk seeking when judging potential losses? A fundamental feature of prospect theory is the premise that losses are more cognitively salient than gains. According to Kahneman, "When directly compared or weighted against each other, losses loom larger than gains. This asymmetry between the power of positive and negative expectations or experiences has an evolutionary history. Organisms that treat threats as more urgent than opportunities have a better chance to survive and reproduce."[154] Empirical studies have suggested that people are so much more sensitive to losses than they are to gains that they perceive a loss to be nearly two times more emotionally charged than a numerically equivalent gain.[155]

Before applying the lessons of prospect theory to trademark bullying, it is useful to see how prospect theory has already been applied to the logic of litigation. Professor Jeffrey Rachlinski has examined how prospect theory's loss aversion may impact whether litigants decide to pursue a trial rather than seek a settlement of their dispute. According to Rachlinski, plaintiffs in a dispute are effectively faced with two potential "gains": a settlement agreement that would improve upon the status quo, which would be seen as the current situation where the defendant is

150. *Risk Preference*, *supra* note 143, at 1118.

151. *See, e.g.*, *Risk Preference*, *supra* note 143; Rachlinski, *supra* note 135; *Psychological Barriers*, *supra* note 135.

152. Studies have shown that these risk preferences are reversed when faced with very low probability gains and losses. Thus, an individual faced with a $50 parking ticket (a clear loss) is now likely to be risk averse and pay that fine rather than challenge the ticket and risk a 5% chance that the fine would be increased to $1000 (despite the large 95% chance that the fine could be eliminated entirely). *See, e.g.*, Guthrie, *Risk Preference*, *supra* note 143, at 1118; Rachlinski, *supra* note 135; Chris Guthrie, *Framing Frivolous Litigation: A Psychological Theory*, 67 U. Chi. L. Rev. 163 (2000).

153. *See, e.g.*, Sunstein, *supra* note 138, at 755; Ian Weinstein, *Don't Believe Everything You Think: Cognitive Bias in Legal Decisionmaking*, 9 Clinical L. Rev. 783, 784 (2003).

154. KAHNEMAN, *supra* note 141, at 282.

155. *Id.* at 284 ("The 'loss aversion ratio' has been estimated as typically ranging from 1.5 to 2.5."); *Risk Preference*, *supra* note 143, at 1119 ("In fact, the available empirical evidence suggests that losses generally loom at least twice as large as equivalent gains. Thus, a prospective $1,000 loss will have much greater effect on a decision maker than a prospective $1,000 gain."); *Anomalies*, *supra* note 149.

allegedly causing injury to the plaintiff, or a trial whereby the plaintiff has the chance to seek an even more favorable judgment against the defendant.[156] In contrast, the defendant can be viewed as facing two possible losses: a definite loss under the plaintiff's proposed settlement agreement terms or an uncertain risk at trial that the damages awarded would be less than those under the settlement agreement.[157] When faced with two gains, prospect theory posits that the plaintiff will prefer the settlement agreement—the risk averse option.[158] The defendant, on the other hand, will be averse to any loss and will thus prefer the risk seeking option of going to trial.[159] These predictions also hold true in settlement negotiations depending on whether each party characterizes the settlement as a gain or as a loss.[160] Rachlinski conducted two empirical studies involving subjects asked to respond to litigation scenarios and also studied the settlements obtained in actual disputes.[161] In all, he found the framing predictions of prospect theory to hold true based on whether the suit or settlement was viewed as a loss or gain.[162]

In another study concerned with framing in the litigation context, C. Russell Korobkin and Chris Guthrie had undergraduate students respond to proposed settlement amounts for hypothetical litigation scenarios from the perspective of the plaintiff.[163] Two versions of the settlement offer were crafted, one framing the settlement as a gain to the plaintiff and the other framing the settlement as a loss to the plaintiff. Students found settlement offers framed as gains as attractive, while offers framed as a loss were less attractive, meaning that the decision to accept the risk of going to trial was influenced by the framing effect.[164] This conclusion was also confirmed by Babcock et al. in an empirical study asking undergraduates and trial attorneys to take the perspective of either plaintiff or defendant in a

156. *See* Rachlinski, *supra* note 135, at 118-9.

157. *See id.*

158. *See id.*

159. *Id.* at 118-19. Faming theory does not, however, accurately predict the outcomes of frivolous disputes:

> Although the framing theory holds true in most cases, it appears not to hold true in situations involving frivolous litigation. In frivolous or low-probability litigation, the plaintiff typically chooses between a relatively small settlement amount and a low likelihood of obtaining a much larger amount at trial. Defendants, by contrast, typically must choose either to pay some small settlement or face a low likelihood of having to pay a much larger amount at trial. In short, plaintiffs in frivolous suits typically confront decision options that appear to be low-probability gains, while defendants choose between options that appear to be low-probability losses. Decision makers confronted with low-probability gains, like plaintiffs in frivolous suits, tend to make risk-seeking decisions, while those confronted with low-probability losses, like defendants in frivolous suits, tend to make risk averse decisions. In short, litigant risk preferences are likely to be reversed in frivolous suits, with plaintiffs relatively more attracted to trial than are defendants.

Risk Preference, *supra* note 143, at 1124.

160. *Id.* at 119.

161. *Id.* at 119-20.

162. *Id.* at 118-20.

163. *Psychological Barriers*, *supra* note 135, at 129-38.

164. *Id.* at 132-33.

hypothetical products liability suit.[165] Subjects were told that the defendant had been found liable and the upcoming litigation was only to determine the amount of damages. Subjects were then asked to set a "reservation price" they would accept to avoid the upcoming trial. For plaintiffs, the reservation price was the minimum amount they would accept to not continue litigation; for the defendants, the reservation price represented the maximum price they were willing to offer for settlement.[166] Because the subjects were given information on the average of awards handed down in cases similar to theirs, the authors were able to categorize the reservation prices as risk averse or risk seeking. For plaintiffs, setting a reservation price below the average was characterized as risk averse, while a price above the average (and thus less likely to succeed) was characterized as risk seeking. Conversely, for defendants, setting a reservation price below the average was risk seeking, while a reservation price above the average was risk averse.[167] Conforming to the predictions of the framing hypothesis, the authors found that plaintiffs accepted lower than average, i.e. risk averse, reservation prices, whereas defendants trended toward risk seeking offers (although this trend did not reach statistical significance).[168]

Parties in a trademark bullying scenario are less easily characterized than the traditional litigants that inspired the empirical studies discussed above. A trademark bullying dispute is most consistent with the results from Korobkin and Guthrie in framing changes affected the attractiveness of settlement offers. To illustrate this, consider the positions of the litigants in the Charbucks dispute: First, consistent with Rachlinski's analysis, Jim Clark likely viewed his options as as a decision between two losses. Any settlement agreement with Starbucks would likely involve limits on the manner in which he could use his mark and, based on the initial negotiations, might require the destruction of his inventory and the loss of the goodwill he had established in that mark among consumers. Furthermore, at trial Clark faced direct losses related to the investment of time and resources in defending the suit, but he has the potential to emerge with a judgment in his favor and the ability to continue using the mark unencumbered. Prospect theory suggests that Jim Clark would choose the risk seeking path and elect to go to trial on the chance, however small, that his losses could be largely avoided. In fact, this is precisely what he did. Clark abandoned negotiation talks when Starbucks refused to pay all of his costs he had incurred.[169]

Applying prospect theory to the motivations of the plaintiff trademark bully is a more complex calculation. Where the bullied party gives into the trademark bully's demands, prospect theory suggests that, in agreement with the findings of Korobkin, Guthrie and Babcock, bullies will be risk averse by pushing for the

165. C. Linda Babcock, Henry S. Farber, Cynthia Fobian & Eldar Shafir, *Forming Beliefs about Adjudicated Outcomes: Perceptions of Risk and Reservation Values*, 15 INT'L REV. L. & ECON 289 (1995).

166. *Id.* at 292.

167. *Id.* at 295.

168. *Id.* at 295-97.

169. *History of Events—Starbucks Litigation*, *supra* note 6..

definite gain afforded by a settlement. To some extent, bullies do choose this option, which explains the prevalence of C&D letters. However, trademark law imposes limitations on what bullies feel are acceptable settlement terms, as they they must also protect against genericide and abandonment. As a result, bullies will appear more aggressive in settlement negotiations by offering paltry concessions to the bullied party, which in turn makes settlement less likely to occur, particularly in the case of a risk seeking defendant. Indeed, in the "Charbucks" dispute Starbucks made strong demands, including the destruction of inventory and cessation of use of the "Charbucks" mark, while refusing to pay all of Clark's related costs in exchange.

Furthermore, although litigation is certainly a riskier option, it has the added benefit to the bully of making a public display of an active attempt to police a mark, even if the bully ultimately loses in court. In this sense, litigation can be seen as a gain. A trademark bully essentially faces three choices: (1) a gain through a favorable settlement agreement; (2) a gain (protection against genericide and abandonment) through litigation, successful or not; or (3) a chance of loss of trademark rights if settlement or litigation is not pursued and a court later deems policing efforts to be insufficient as a result. Given prospect theory's principal finding that decision makers are subject to strong loss aversion effects, it is unsurprising that the first and second options are preferred over the third. To avoid loss, the bully will accept either a settlement or protection gain. Thus, Starbucks continues to appeal the adverse decisions in the "Charbucks" litigation despite the spiraling costs of attorneys' fees and related expenses like consumer surveys. The aggressive tactics of trademark bullies—one-sided settlement agreements, threats of litigation and considerable investment in litigation—can be seen as a byproduct of decision making from a gain versus loss frame. Trademark law establishes the frame; bullies simply play by the rules.

Loss aversion in the context of a loss-versus-gain frame is the principal feature prospect theory that explains trademark bullying behavior. However, the problem is exacerbated by three related biases also described by prospect theory: the certainty effect, the endowment effect and the sunk cost effect.

1. The Certainty Effect

The certainty effect was interpreted in light of cognitive biases by Kahneman and Tversky in their seminal paper on prospect theory in 1979.[170] They defined this phenomenon as the tendency of people to overvalue "outcomes that are considered certain, relative to outcomes which are merely probable."[171] To illustrate the certainty effect, Kahneman, in his book *Thinking, Fast and Slow*, uses the following example:[172] You are given a $1 million inheritance, but the inheritance is challenged in court. On the day that the court is to render its verdict, your attorney explains that you have a 95% chance of winning the case and keeping

170. *See Prospect Theory*, *supra* note 136.
171. *See id.* at 265.
172. KAHNEMAN, *supra* note 141, at 311-312.

the entire $1 million sum. If approached by a risk adjustment company with an offer for a certain sum of $910,000, however, you are likely to consider this a viable option. Even though the offer from the risk adjustment company is $40,000 less than the expected value of waiting for a verdict in the case, you are likely to place a high value the certainty of knowing your fate now. This overvaluation of certainty is actually the basis for the risk adjustment and structured settlement industry. That industry profits from the certainty effect—the fact that people will forgo even a relatively high probability of a larger sum of money for a definite, or certain, payment of smaller sum. In short, people overvalue certainty.

This concept was also demonstrated in the study by Babcock et al. discussed above, where subjects representing plaintiffs accepted risk averse settlement amounts less than the average award value of similar cases.[173] Subjects who were induced to see the litigation as more risky (by seeing a wider variation in the award values for individual cases) were willing to accept even lower settlement amounts, demonstrating that as perceived risk increases, people are willing to pay more for a certain gain.[174]

The certainty effect also applies to losses. If faced with a small risk of loss, people have been shown to be "willing to pay far more than the expected value to eliminate them altogether."[175] They are willing to pay to remove the uncertainty, or, phrased another way, they overvalue certainty and are willing to pay for it. This principle is especially relevant to the discussion of trademark bullying. Even if an attorney tells her client that failure to stop all remotely infringing or diluting trademark use rarely results in the abandonment of a trademark, that attorney is unlikely to offer a promise of certainty that the trademark is safe. Thus, the client is faced with a low probability of risk that a third party somewhere in the marketplace, selling a potentially unrelated product with a remotely similar trademark, could harm the client's own trademark rights. A completely rational client would determine that such a risk minimal, and only invest a small sum of money into monitoring the third party usage or countering any concerning usage with increased advertising presence. But the certainty effect may cause the client to overvalue certainty, and push for reducing risk of harm to the trademark to zero.[176] Such a client would be willing to aggressively pursue all potential third party infringers in pursuit of that illusive certainty. The certainty effect may be one of the motivating factors behind some of the "aggressive clients" mentioned by the trademark attorneys interviewed for Professor Gallagher's study of informal trademark and copyright enforcement efforts.[177]

173. Babcock, Farber, Fobian & Shafir, *supra* note 166.

174. *Id.*

175. KAHNEMAN, *supra* note 141, at 312.

176. This is truly a fool's errand, as there can never be certainty in such a situation. There is always the possibility of a third party using your trademark "under the radar" of your various "watch services" and without federal registration. There is also always the possibility that a new company will begin to use your trademark at any time, or that an unrelated company with the same or similar trademark could attempt to enter a marketplace similar to yours. The risk of harm to your trademark cannot be completely removed.

177. Gallagher, *supra* note 34, at 480.

2. The Endowment Effect

The biased judgments stemming from the certainty bias discussed above are compounded when they interact with another cognitive bias called the endowment effect. The endowment effect provides that an individual will value an item in his or her possession more than an equivalent item in the marketplace. If the items in question are identical, and there are no transaction costs involved, then a rational decision maker should see no distinction between the two items. However, studies of the endowment effect have shown that once a person claims ownership over an item, that person increases the item's value in that person's mind.[178]

For example, in the classic study conducted by Daniel Kahneman, Jack Knetsch, and Richard Thaler, half of the study participants were given coffee mugs and told they would have the opportunity to sell them.[179] The other half of the participants were told they would have the opportunity to buy the mugs.[180] Then, each current "mug owner" and each "buyer" was asked to fill out a questionnaire indicating the prices at which that individual would be willing to buy or sell a mug.[181] The mug owners consistently valued the mugs at a significantly higher price than the buyers.[182] This suggests that despite not actually purchasing the mugs themselves, and having no direct personal connection to the mugs, the fact that the mug owners had been randomly assigned possession of the mugs increased the assessed value of the mugs to those individuals.

The endowment effect can be seen as an expected consequence of prospect theory's loss aversion. From the perspective of prospect theory, the individuals buying and selling mugs are likely to base their decisions on a reference point that is the status quo. For the study participants who were given a mug, their status quo includes possession of a mug. Therefore, selling that mug can be seen as a loss since they are giving up the item in their possession now. In terms of underlying psychology, such an individual may consider the pain of giving up the mug when mentally assessing the mug's value. That pain can consciously or unconsciously contribute to the increase in value ascribed to the mugs in this instance. On the other hand, a buyer's status quo is more neutral: he or she does not currently have a mug. Therefore, buying a mug can be seen as a gain, and the pleasure of that gain could be taken into account when setting the price for the mug. According to Kahneman, "The values were unequal because of loss aversion: giving up a [possession] is more painful than getting an equally good [item]."[183] While not explicitly discussing prospect theory, Supreme Court Justice Oliver Wendell Holmes has captured this same sentiment:

---

178. Richard H. Thaler, *Toward a Positive Theory of Consumer Choice*, 1 J. ECON. BEHAV. ORGAN. 39 (1980).

179. Daniel Kahneman et al., *Experimental Tests of the Endowment Effect and the Coase Theorem*, 98 J. Pol. Econ. 1325 (1990).

180. *See id.*

181. *See id.*

182. *See id.*

183. KAHNEMAN, *supra* note 141, at 293.

> It is in the nature of man's mind. A thing which you have enjoyed and used as your own for a long time, whether property or an opinion, takes root in your being and cannot be torn away without your resenting the act and trying to defend yourself, however you came by it. The law can ask no better justification than the deepest instincts of man.[184]

Additional studies have indicated that "endowment effects will almost certainly occur when owners are faced with the opportunity to sell an item purchased for use that is not easily replaceable."[185] Given the unique nature of trademarks and the fact that they cannot easily be bought or sold on an open market,[186] they are in a sense *irreplaceable*; consequently, a strong endowment effect should be expected to impact decisions of trademark owners. Trademark owners will have a strong incentive to avoid losing what they have—their current trademark and the goodwill associated with it. This suggests that trademark owners may overvalue their trademark assets and then invest irrationally large amounts of time and money into preventing a loss of those trademarks, even if such a loss is incredibly unlikely. Professor Gallagher's interviews with trademark attorneys show hints of the endowment effect at play in decision making regarding trademarks and the duty to police: "As these lawyers explained, enforcement efforts were much more likely to be undertaken against potential targets when the alleged infringement involved the client's 'core' IP, or 'crown jewels,' as several lawyers put it."[187] Calling the trademarks "crown jewels," or viewing them as on par with tangible property,[188] illustrates the tendency of trademark owners to elevate the status of trademarks to something more significant than mere business assets. The inherent nature of trademarks lends itself easily to the errors associated with the endowment effect. Since this psychological effect can impact rational decision making, it should be taken into consideration by anyone seeking to deter trademark bullying. Trademark bullying behavior should be expected in light of the endowment effect's interaction with the uncertain requirements of trademark law's duty to police.

3. The Sunk Cost Effect

The sunk cost effect—the observed greater tendency of an individual to "continue an endeavor once an investment of money, effort or time has been

184. Oliver W. Holmes, *The Path of the Law*, 10 HARV. L. REV. 457, 477 (1897).

185. *See* Kahneman et al., *supra* note 180, at 1344.

186. Because a trademark should represent the consistent quality of a product as produced by a specific source, a trademark cannot be sold "in gross" without the goodwill of the business that it represents. MCCARTHY, *supra* note 75, § 18:2; *see also* Mister Donut of America, Inc. v. Mr. Donut, Inc., 418 F.2d 838 (9th Cir. 1969) ("The law is well settled that there are no rights in a trademark alone and that no rights can be transferred apart from the business with which the mark has been associated."), overruled in part on other grounds by Golden Door, Inc. v. Odisho, 646 F.2d 347 (9th Cir. 1980).

187. Gallagher, *supra* note 34, at 476.

188. *Id.* at 491 ("Several lawyers characterized unauthorized copying as 'theft' of property. One lawyer explained that copyrighted work was 'their (the client's) property, their baby,' which this lawyer stated should justify the client's decision to enforce IP rights as aggressively as necessary in order to protect its property interests.").

made"[189]—is another factor that may exacerbate the problem of trademark bullying. This behavior is motivated by the prior investment, known as the sunk cost, despite the fact that such investment objectively should be irrelevant to decisions about future behavior if the decision were based on rational choice theory. The sunk cost effect has been used to explain numerous examples of horrible financial decisions made by government agencies or even private corporations where additional funds continue to be contributed to a project or research program that has proven to be a failure.[190]

One study exploring behavioral ramifications of the sunk cost effect used full price and discounted theater ticket packages to evaluate the effect under real world conditions. In that study, individuals seeking to buy season ticket packages to a specific theater were randomly assigned to groups and either offered the option of purchasing the tickets at full price or at one of several discounted prices (allegedly offered as part of various promotions).[191] By tracking attendance of these individuals over the course of the season, the researchers were able to show that those individuals that purchased the full price tickets, and thus had higher sunk costs, were more likely to use their tickets in the six months following the ticket sales.[192] If the sunk cost effect was not at work, the researchers predicted that the individuals in the various test groups should have been equally likely to attend a performance.[193] This is what rational choice theory would have anticipated. Also noteworthy was the fact that the sunk cost effect seemed to last only six months,[194] which could be the period in which the purchase price of the tickets was most salient to the buyer. After six months, there was no difference in attendance rates between the theatergoers who purchased at full price and those who purchased with a discount.[195]

Now imagine that one of the study's theatergoers went to his first show of the season and hated the performance. He felt the cast and crew were untalented and that the show was a waste of his time. If that individual is persuaded to continue attending shows due to the sunk cost of the tickets already purchased, he would not be maximizing his happiness (as he dislikes the performances) or his productivity (since he could choose an alternate activity). To a rational choice theorist, he is "throwing good money after bad." Yet, examples of this sort of irrational behavior abound: the most famous perhaps is the supersonic Concorde airplane, where two governments developing the plane decided to continue development even when there was little chance of recouping costs. Their rationale was that they had "too much invested to quit."[196] This "Concorde fallacy"—refusing to cut one's losses—

189. Hal R. Arkes & Catherine Blumer, *The Psychology of Sunk Cost*, 35 ORGANIZATIONAL BEHAVIOR AND HUMAN DECISION PROCESSES 124 (1985).

190. *See, e.g.*, Sunstein, *supra* note 138, at 755; *see also* Marco A. Janseen et al., *Sunk-Cost Effects Made Ancient Societies Vulnerable to Collapse* 722-28 (2003).

191. Arkes & Blumer, *supra* note 190, at 127.

192. *Id.* at 128.

193. *Id.*

194. *Id.*

195. *Id.*

196. A.I. TEGER, TOO MUCH INVESTED TO QUIT (1980).

appears to be unique to adult humans (not children or lower animals).[197]

While the sunk cost effect may not explain why trademark bullies take their initial aggressive actions against third parties, it might account for why these disputes can rapidly escalate into costly litigation. In the case of the "Charbucks" dispute, the endowment effect may have contributed to Jim Clark's decision not to capitulate immediately to the demands from Starbucks. However, that effect alone fails to explain why Clark continued to pay attorney's fees and dedicate time and effort to this dispute in the years leading up to the filing of the suit by Starbucks. Clark has indicated that his costs quickly approached $20,000, a large sum for such a small business. While Clark had hoped Starbucks would pay his legal fees as part of the proposed settlement agreement, he had no guarantee of this from Starbucks. The only guaranteed way to stop incurring costs would have been to cease use of the "Charbucks" trademark. But the $20,000 in fees did not occur all at once. Instead, it built up in small increments; each increment adding more to Clark's sunk costs and further encouraging to insist that Starbucks agree to his settlement terms.

At the same time, Starbucks experienced its own escalation of sunk costs. At the time of final negotiation between the parties, after which Clark refused to continue negotiating and Starbucks filed suit, Starbucks refused to pay more than $20,000 to Clark to cover his expenses related to their settlement discussions. Both parties had invested so much in sunk costs that $20,000 no longer seemed like a rational offer to Clark. At trial, however, Starbucks presented a $30,000 consumer opinion survey as evidence. The company was now willing to invest $30,000 on top of the sunk costs invested in the negotiation discussions and projected costs of ongoing litigation, when that same $30,000 might have allowed them to reach settlement only a short while before. This escalation of the dispute may be attributable to the sunk costs effect. In order to deter such expensive and inefficient methods of dispute resolution, those crafting solutions must recognize that psychological mechanisms may motivate the parties involved and affect their decisions.

CONCLUSION

In light of loss aversion and the related cognitive biases discussed in this Article, it may be necessary to rethink how we best respond to trademark bullying and its negative consequences. While some attorneys and scholars have proposed that this problem could be addressed with existing ethics laws or the expansion of antiSLAPP measures allowing defendants to seek damages for meritless suits, these solutions are premised on an understanding of a trademark bully as a rational decision maker. The lack of clarity in the law regarding the duty to police third party trademark usage encourages trademark owners to be risk seeking and aggressive in order to avoid the small possibility of a finding of trademark

197. Hal R. Arkes and Peter Ayton, *The Sunk Cost and Concorde Effects: Are Humans Less Rational Than Lower Animals?*, 125 PSYCHOL. BULL. No. 5 591 (1999).

abandonment. An attorney counseling such clients cannot say with certainty that there is no risk. Thus, he or she will be less likely to worry about violating ethical rules by pushing aggressively on a client's behalf to stop third party trademark usage. Any remedial measures designed to punish an overly aggressive trademark bully would occur after the impulse to avoid loss has already induced bully-like behavior. Such measures may be able to encourage that specific trademark owner to respond less aggressively in the future, but are unlikely to deter other potential trademark bullies. Bullies' initial motivations are not based solely on a rational cost-benefit analysis, and effective deterrents cannot assume that they are. The same problem exists with the proposal to deter trademark bullying through the use of extralegal "shaming" measures. Given mark owners' high degree of loss aversion, in the context of a overvalued trademark (due to the endowment effect) the negative consequences of shaming would likely need to be substantial and direct in order to affect the incentives to bully in the first place. Such a deterrent would add more "costs" to a cost-benefit analysis but would not go to the heart of the potential cognitive motivations of a trademark bully.

A more direct approach is needed, focusing on increasing clarity with regard to the risk of trademark abandonment. As this risk appears to be relatively slight, the USPTO may be able to counter the overestimation of risk through better guidance and outreach to trademark owners. In advising clients, attorneys have traditionally framed the issue of the duty to police as one of loss: if you fail to stop potential third party infringement, your trademark can be lost forever. The issue could be reframed, to better reflect the actual risk involved, as an issue of investment in one's brand. Attorneys could present it to clients as the duty of the trademark owner to ensure that the mark continues to serve as a source identifier. Part of this duty is to invest in quality control and advertising. Part of it is to monitor consumer usage to ensure that the mark is not falling into generic usage. Finally, the duty entails monitoring competitors to make sure the lines between the client's trademark and the competitor's remain distinct. Such a conception gives the power back to the trademark owner to view the duty as a way to invest in the trademark rather than a loss-oriented position where the only goal is to avoid having a mark taken away. Professor Irina Manta has proposed a USPTO-based registry of C&D letters, through which the merits of claims can be given a brief but official analysis, as a means of increasing clarity in this uncertain area of the law.[198] While this also hints at the idea of "shaming," or deterrence through disclosure, it addresses the core issue of risk assessment by making more data available to trademark owners. Increases in clarity that come about through changes to the Lanham Act, agency guidance from the USPTO or C&D letter evaluations could all help to bring more rationality to decisions about enforcing and protecting a trademark. Any solution that fails to consider the potentially irrational cognitive mechanisms encouraging aggressive actions by trademark bullies is doomed to be ineffective. Providing clarity about the true risk of loss due to abandonment is essential to addressing the trademark bullying problem.

198. Manta, *supra* note 29.