

Trademark Forfeiture and Residual Goodwill

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ABSTRACT

A trademark is properly protected when a mark owner uses it to designate the source of its products and consumers see it as a source signifier. One cannot correctly calibrate the scope of trademark protection without accounting for both mark owner effort and consumer perception. But many of trademark's forfeiture mechanisms, which push marks out of protection and into the public domain, fail to consider consumer perception, and thus threaten to increase consumer search costs and exacerbate consumer confusion.

A mark may be forfeited because it has become a generic product designator through consumer use or mark owner misuse. A mark may also expire due to abandonment through nonuse, naked licensing, transfer "in gross," or if the mark is modified so drastically that the new version no longer presents a consistent commercial impression with the old version. A forfeited mark can be appropriated by a new seller to designate its own product, even if a significant number of consumers will be confused by the appropriation.

Many forfeiture mechanisms fail to inquire whether the forfeited mark retains residual goodwill in the minds of consumers. Instead, those mechanisms rely on questionable and conflicting presumptions about what type of mark owner behavior might confuse, disappoint, or harm consumers. It is also unclear whether aggressive application of forfeiture mechanisms benefits the market more than affording the mark owner some flexibility in updating its marks, products, and business relationships. Trademark's forfeiture mechanisms thus diverge from trademark's search cost rationale in ways that may harm consumers.

These forfeiture mechanisms should be readjusted to account for residual goodwill. Residual goodwill can be detected – and its value estimated – by applying a modified reasonable royalty calculation. Using this modified reasonable royalty calculation, courts can weigh factors typically considered during the remedy phase in IP cases, as well as factors that drive inquiries about trademark protectability and the likelihood of consumer confusion. When a forfeited mark retains residual goodwill, the new seller should pay a reasonable royalty to the prior owner. The size of the reasonable royalty should approximate the value of the mark to consumers as a designator of product source. While the reasonable royalty will not be paid directly to consumers, it will likely discourage appropriation of a forfeited mark when that appropriation is most likely to harm consumers.