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ADVERTISING**

J. Shahar Dillbary

31 Cardozo Law Review 327 (2009)

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TRADEMARKS AS A MEDIA FOR FALSE ADVERTISING

*J. Shahar Dillbary**

ABSTRACT

This Article explores an unnoticed aspect of trademark law which in some instances may constitute a license to cheat. It shows that under certain circumstances a seller can use its own trademark to mislead its customers, free from legal sanction, in contexts where the same behavior would be sanctioned if the seller used other advertising media. The Article then explores how an alternate conception of the economic function of trademarks can be used to understand the informational value of trademarks and their advertising function. After identifying circumstances appropriate for legal intervention, the Article concludes with a proposal for a new interpretation of the false advertising provision in the Lanham Act to eliminate this disparity.

Key Words: Fraud, False Advertising, Trademark Fraud, Fanciful Marks, Error Costs, Regulation of Information, Economic Analysis, Brands.

I. INTRODUCTION AND MOTIVATION

Consider the following two types of strategies available to the unscrupulous seller who decides to misrepresent the nature, characteristics, qualities, or geographic origin of its *own* product. In the first strategy, the seller may use a *descriptive* mark to misrepresent the nature of its product. For example, the seller may use the mark “Simply Stevia” in connection with a sweetener that is not made from the plant Stevia.¹ In such a case, the seller is engaging in outright fraud—the name of the product (its trademark) explicitly suggests that the product possesses an ingredient (i.e., an extract from the plant Stevia) that it does not. In the second strategy, the seller also misrepresents the attributes of its own product. This time, however, the false advertising is committed by a failure to remove a *fanciful* (non-descriptive) mark, which denotes in the mind of the public a quality that the product no longer possesses. For example, Johnson & Johnson might change the active ingredient of its sweetener so that it is not made from sugar, but nevertheless continue to affix the mark “Splenda”—which the public has learned to associate with a sweetener made from sugar—and thus “suitable for people with diabetes.”²

While the two strategies differ only in the method in which the false information is conveyed to consumers—a descriptive mark versus a non-descriptive mark—their impact is identical. In both cases the public is misled. Nevertheless, the law treats the two strategies differently. While the first type—that of false advertising using a descriptive mark—gives competitors a private cause of action under section 43(a)(1)(B) of the Trademark (Lanham) Act, the second—that of false advertising using a non-descriptive mark—does not. As one of

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¹ See Stevita’s Product List, <http://stevitastevia.com/content/blogcategory/27/50/> (last visited Oct. 26, 2009).

² See generally Splenda® Brand Sweetener, <http://www.splenda.com> (last visited Oct. 26, 2009). In November 2004, Merisant (the maker of Equal) filed a complaint against the marketer of Splenda, McNeil Corp., a Johnson & Johnson (J&J) company, alleging that J&J’s advertisement that Splenda is “made from sugar so it tastes like sugar” is false and misleading in that it ties Splenda to sugar and implies that Splenda is natural when in fact it is not. This is an allegedly false affirmative and descriptive statement and, thus, one which belongs to the first type of cases discussed above.

the main treatises on trademarks explains, only descriptive marks can be misleading; non-descriptive marks cannot.³

This Article seeks to explain and remedy this asymmetry in the application of the law by investigating the role of trademarks and the relation between trademark law and the law of false advertising. Part II focuses on trademark law. It shows that a trademark provides consumers primarily with two types of information, each serving a different function.⁴ First, a trademark provides information about the source of the product. Information about the source of the product serves an *inter-brand* function: It helps the consumer identify and select the product she wants from a set of substitutable products. The consumer who receives a recommendation about the sweetener made by Johnson & Johnson does not have to remember the product's qualities or the name of its manufacturer. She only needs to ask for "Splenda." This function has been the focus of the law. With one exception—trademark abandonment—traditional trademark law, by prohibiting different forms of passing-off, shields consumers only from *inter-brand confusion*. It ensures that when the consumer asks for A's product she does not receive B's.

But a trademark can also provide information about the product itself. Information provided by a mark reduces consumers' uncertainty and impacts the number of units purchased. A trademark conveys information about the product if it is descriptive. Marks such as "Simply Stevia," for a sweetener made of the plant Stevia, and "SweeTarts," for a fruit-flavored sugar candy, clearly describe the products to which they are attached. But even a non-descriptive mark can have a descriptive value if, through advertising, the public learns to associate the mark with a specific quality. "Splenda," for example, means to many a sweetener which is made of sugar and suitable for people with diabetes. Similarly, the public has learned to associate the mark "Snickers" with a chocolate bar containing peanuts.

Although both functions are crucial to consumers and the marketplace, trademark law protects the former but not the latter. Trademark law protects consumers from passing-off (inter-brand fraud), but it does not protect consumers against the trademark owner that uses its *own non-descriptive mark* to misrepresent its own goods (intra-brand fraud). This bizarre outcome is the result of the traditionally accepted

³ See 1A RUDOLF CALLMANN, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 5:11 (Louis Altman & Malla Pollack eds., West 4th ed. 2009). The author is of the opinion that only descriptive marks can serve as a media for false advertising: "It is now recognized that trademarks and trade names perform an invaluable advertising function. *When these are descriptive (or misdescriptive), they may prove misleading.*" *Id.* (emphasis added).

⁴ For a broad view of the role of trademarks and their signaling and persuasive value, see, e.g., J. Shahar Dillbary, *Famous Trademarks and the Rational Basis for Protecting Irrational Beliefs*, 14 GEO. MASON L. REV. 605 (2007) (explaining the economics of anti-dilution).

premise that “the *only* legally relevant function of a trademark is to impart information as to the source or sponsorship of the product.”⁵ This Article challenges this statement. It argues that a trademark often provides *two* types of information—information about the source of the product and information about the product itself—each of which merits protection.

One facet of this limited view is the trademark hierarchy. The hierarchy classifies trademarks according to their distinctiveness—that is, according to the mark’s ability to distinguish the seller’s goods “from those of others and identify[] the source of the goods.”⁶ At the top of this hierarchy are fanciful marks (e.g., “Splenda”). These are terms that are invented by the trademark owner for the sole purpose of identifying products in the marketplace. Lower in the hierarchy are descriptive marks (e.g., “Simply Stevia”). These are pre-existing words in the language. A descriptive term can serve as a mark only if, in addition to describing the product, it also has gained a “secondary meaning” in the mind of the public as denoting a source of manufacture.⁷ This Article argues that although the hierarchy may have value in analyzing whether a mark serves its inter-brand function (i.e., identifies a source), the hierarchy has been wrongly imported to section 43(a)(1)(B), which deals with false advertising. Courts and commentators have taken the position that only descriptive marks can be used as a media for false advertising. Conversely, this Article argues that even a fanciful mark, although created for the sole purpose of denoting a source of manufacture or sale, may over time gain a descriptive value or, as referred to in this article, a “secondary descriptive meaning.” Through advertising, a mark may be associated by the public with an attribute or quality of the product to which it is attached. If so, the mark may be used by its owner to mischaracterize its own product.

Part III focuses on the law of false advertising. It shows that the inter-brand view that dominates trademark law has been wrongly adopted in the context of false advertising. This is well illustrated in cases such as *New York & R. Cement Co. v. Coplay Cement Co.*⁸ and

⁵ *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968) (emphasis added); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 761 (E.D. Mich. 2003); *Waddington N. Am. Bus. Trust v. EMI Plastics, Inc.*, No. 02-3781, 2002 U.S. Dist. LEXIS 16634, at *9 (E.D.N.Y. Sept. 5, 2002); *Morgan Creek Productions, Inc. v. Capital Cities/ABC, Inc.*, No. 89-5463, 1991 U.S. Dist. LEXIS 20564, at *29 (C.D. Cal. Oct. 25, 1991); *see also Ty, Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002); Stacey L. Dogan & Mark A. Lemley, *Trademarks and Consumer Search Costs on the Internet*, 41 HOUS. L. REV. 777, 788-89 (2003) (“Trademark law thus historically limited itself to preventing uses of marks that ‘defrauded the public’ by confusing people into believing that an infringer’s goods were produced or sponsored by the trademark holder.”).

⁶ *Retail Servs. v. Freebies Publ’g*, 364 F.3d 535, 538 (4th Cir. 2004).

⁷ Trademark (Lanham) Act § 2, 15 U.S.C. § 1052(f) (2006).

⁸ 44 F. 277 (C.C.E.D. Pa. 1890).

American Washboard Co. v. Saginaw Manufacturing Co.,⁹ where it was held that fraud on one's own consumers (intra-brand fraud), while explicitly recognized as a "great evil," was not actionable.¹⁰ Only a fraud committed by one competitor against another (inter-brand fraud) was actionable. In *Royal Baking Powder Co. v. FTC*, the petitioner even argued that "no statute or decided case has declared that a manufacturer or trader owes to his competitors the duty of refraining from misrepresentation of the quality or ingredients of his *own* goods, and that, on the contrary, it has been firmly held that no such duty exists."¹¹

In 1946, Congress enacted section 43(a) of the Lanham Act. The new section was interpreted to provide a remedy against the seller who misrepresents its own good, but the protection was incomplete. Even after the passage of the Lanham Act, and despite its clear language, a descriptive mark can give rise to a false advertising claim, whereas a non-descriptive mark that has gained a "secondary descriptive meaning" cannot. The result is a license to cheat against which consumers have no or very limited protection.¹² To remedy this situation, Part IV argues for the adoption of an interpretation that follows from the strict reading of the Lanham Act. Under this interpretation, competitors of the fraudulent—those with the incentives and resources to detect fraud—would be able to go after the fraudulent and serve their traditional role in trademark law as the avengers of the public. Part V provides concluding remarks.

II. TRADEMARK LAW

A. *The Inter-Brand Function: Distinguishing Goods*

A trademark is a word, name, or symbol that a seller uses "to *distinguish . . . [its] goods . . . from those manufactured or sold by others.*"¹³ Trademarks serve this inter-brand function by denoting a single source of sale or manufacture which, in turn, assures the consumer that the product (because it is manufactured by the same entity) has consistent qualities over time.¹⁴ To illustrate, suppose that a

⁹ 103 F. 281 (6th Cir. 1900).

¹⁰ *N.Y. & R. Cement Co.*, 44 F. at 279; *see also infra* notes 70-77 and accompanying text.

¹¹ 281 F. 744, 750 (2d Cir. 1922) (emphasis added).

¹² For a discussion of the efficacy of other private causes of action that may be available to consumers (such as the tort of fraud and class actions) and the role of regulatory agencies, *see infra* Part II.C.

¹³ Trademark (Lanham) Act § 45, 15 U.S.C. § 1127 (1946) (emphasis added).

¹⁴ *See Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104 (4th Cir. 1991); 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 3:10, at 3-20,

customer at the local café wishes to put a sweetener in her coffee. She can choose “Equal,” “Splenda,” or “Simply Stevia” (to name a few of the most common brands). Assume further that she had a favorable experience with “Splenda” and she wants to use it again. In a world with no trademarks, instead of simply asking for “Splenda,” the consumer would bear high search costs. She would have to read the fine print on the label of each sweetener until she *finds* the one she wants. She would also incur high communication costs when she conveys her *choice* to the seller. Absent trademarks, she would have to ask for “the natural no-calorie sweetener that is derived from sugar and made by Johnson & Johnson.” By using the brand name, on the other hand, the consumer economizes on her costs. She does not have to remember who the manufacturer is or what the product’s attributes are; she only needs to ask for “Splenda.” Trademark law is designed to protect this very function. By prohibiting passing-off, trademark law ensures that when the consumer asks for A’s product she does not receive B’s. The consumer who asks for “Splenda” can be assured that she will receive Johnson & Johnson’s sweetener, not a competing product. In fact, according to some, this is the *only* function trademark law currently protects.¹⁵ Courts and scholars have taken the view that “the only legally relevant function of a trademark is to impart information as to the source or sponsorship of the product.”¹⁶

The reason for this limited protection can be traced to the origins of trademark law. Historically, the law of unfair competition has its roots in the common law tort of deceit.¹⁷ It was motivated by “a strong desire to protect the rights of the first user of the mark” against the “unjust” attempts of a subsequent user to pass-off its goods.¹⁸ Put

3-21 (West 4th ed. 2009) (“[T]he chief function of a trademark is a kind of ‘warranty’ to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source, anonymous as it may be, as other goods previously purchased bearing the mark that have already given the purchaser satisfaction.” (quoting *Revlon, Inc. v. La Maur, Inc.*, 1968 WL 8144 (T.T.A.B. Mar. 29, 1968))).

¹⁵ For an analysis of the economic and legal function of anti-dilution law see Dillbary, *supra* note 4.

¹⁶ *Smith v. Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968); *Wells Fargo & Co. v. WhenU.com, Inc.*, 293 F. Supp. 2d 734, 761 (E.D. Mich. 2003); *Waddington N. Am. Bus. Trust v. EMI Plastics, Inc.*, No. 02-3781, 2002 U.S. Dist. LEXIS 16634, at *9 (E.D.N.Y. Sept. 5, 2002); *Morgan Creek Productions, Inc. v. Capital Cities/ABC, Inc.*, No. 89-5463, 1991 U.S. Dist. LEXIS 20564, at *29 (C.D. Cal. Oct. 25, 1991); *see also Ty Inc. v. Perryman*, 306 F.3d 509, 510 (7th Cir. 2002) (“The fundamental purpose of a trademark is to reduce consumer search costs by providing a concise and unequivocal identifier of the particular source of particular goods.”).

¹⁷ 1 MCCARTHY *supra* note 14, § 2:34, at 2-61; *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Walt-West Enters., Inc. v. Gannett Co.*, 695 F.2d 1050 (7th Cir. 1982).

¹⁸ *Jewel Cos. v. Westhall Co.*, 413 F. Supp. 994 (N.D. Ohio 1976); *Florence Mfg. Co. v. J.C. Dowd & Co.*, 178 F. 73 (2d Cir. 1910); Jean Wegman Burns, *Confused Jurisprudence: False Advertising Under the Lanham Act*, 79 B.U. L. REV. 807, 816 (1999); Alison M. Andrews, Note, *Implied Misrepresentations in Advertisements Under Section 43(a) of the Lanham Act: American Home Prods. Co. v. Johnson & Johnson*, 47 ALB. L. REV. 97, 103 (1982).

differently, trademark infringement was perceived as a fraud committed by one competitor against another rather than a fraud on consumers.¹⁹ Thus, it was the competitor-defendant's intent to deceive (rather than consumer confusion) that was an essential element of trademark infringement.

With the passage of time, however, this approach has been replaced by the recognition that both consumers and competitors are the "victims" of trademark infringement. "By applying a trademark to goods produced by one other than the trademark's owner, the infringer deprives the owner of the goodwill which he spent energy, time, and money to obtain" and the consumers "of their ability to distinguish among the goods of competing manufacturers."²⁰ The change of purpose underlying trademark law led to the abandonment of the intent requirement and the adoption of the current standard: a showing of likelihood of confusion on the part of consumers.²¹ But the types of confusion necessary for trademark infringement remained limited to *inter-brand* situations. "On-Sale Confusion" is one which occurs at the time of purchase. It happens in cases when one producer passes-off its product as another's. The consumer who wishes to buy A's product is misled to buy B's. "Pre-Sale Confusion" (or "initial interest confusion") is aimed to lure consumers by creating a false impression as to origin or affiliation, which dissipates just before an actual purchase takes place but nevertheless "locks in" consumers. In *Elvis Presley Enterprises*, for example, the defendant, an operator of a night club named "The Velvet Elvis," created confusion as to its affiliation with the Elvis Presley Estate.²² Although upon entering consumers had no doubt that it was not affiliated with the Presley Estate, they nevertheless stayed (because of the inconvenience of leaving the club and searching for another). "Post-Sale Confusion" is neither a confusion of actual or potential consumers, but rather that of the observing public in mistaking for an original the cheap imitation bought by the consumer. It usually occurs when a manufacturer offers consumers cheap knockoffs of an expensive product, thus allowing a buyer to acquire the prestige of owning what appears to be a luxurious product at a lower cost.²³ In such a case, even though the buyer knew that she was getting an imitation, viewers would be confused. "Reverse Passing-Off" is yet

¹⁹ *Johnson & Johnson v. Carter-Wallace, Inc.*, 631 F.2d 186, 189 (2d Cir. 1980).

²⁰ *Inwood Labs. v. Ives Labs.*, 456 U.S. 844, 854 n.14 (1982); *Dadirrian v. Yacubian*, 98 F.872 (1st Cir. 1990); S. REP. NO. 1333, at 1274-77 (1946).

²¹ *Telechron, Inc. v. Telicon Corp.*, 198 F.2d 903, 908 (3d Cir. 1952). Nor is there a requirement to prove an intent to confuse. See *GoTo.com, Inc. v. Walt Disney Co.*, 202 F.3d 1199 (9th Cir. 2000).

²² *Elvis Presley Enters. v. Capece*, 141 F.3d 188, 204 (5th Cir. 1998); see also *Blockbuster Entm't Group v. Laylco, Inc.*, 869 F. Supp. 505, 513 (E.D. Mich. 1994).

²³ *Hermes Int'l v. Lederer de Paris Fifth Ave., Inc.*, 219 F.3d 104, 108 (2d Cir. 2000).

another type of confusion. It occurs when one producer sells another's goods as if they were its own.²⁴

Whether classified as "on-sale," "pre-sale," "post-sale," or "reverse"—all forms of confusion actionable under section 32 of the Lanham Act are aimed at protecting the inter-brand function of trademarks. They protect the consumers from a form of passing-off. Section 32 provides the *trademark owner* with remedies when confusion between different manufacturers or different products occurs. It does *not* provide relief in cases in which it is the trademark owner itself that uses its own mark to misrepresent its own goods.

To ensure that a trademark fulfills its inter-brand function and hence deserves protection, trademark law categorizes marks into five classes: fanciful, arbitrary, suggestive, descriptive, and generic. Fanciful terms, which are afforded the highest protection, are not real words, but are invented to serve as marks (e.g., "Splenda"). They are invented for the sole purpose of denoting a source of manufacture. Arbitrary terms use common words in the vernacular in an unfamiliar way that bears no logical relation to the actual characteristics of the goods (e.g., "Apple" for personal computers). Suggestive terms also use pre-existing words to suggest, rather than describe, the characteristics of the goods (e.g., "Equal" for a sweetener). Descriptive terms employ common words in their ordinary use to describe a characteristic or ingredient of the product (e.g., "Simply Stevia").²⁵ A generic term refers to an entire class of products (e.g., sweetener).²⁶

Under this hierarchy fanciful, arbitrary, and suggestive marks automatically qualify for trademark protection. Because they are used solely for the purpose of denoting a source of manufacture, other sellers cannot use these terms short of committing trademark infringement. Descriptive terms are afforded protection, provided a "secondary meaning" is proved—that is, when the term not only describes an attribute of the product to which it is attached, but also is associated by the public with a single source. The protection accorded to the owner of a descriptive mark, however, is "thin." Other sellers may use the descriptive term to describe their own products. For example, a sweetener manufacturer may advertise its product as "containing Stevia" even though the Stevita Stevia Company has the right in the

²⁴ For example, where B, a wine seller, replaces the labels on A's bottles, thus representing itself as the source. *See Ameritech, Inc. v. American Info. Techs. Corp.*, 811 F.2d 960, 965 (6th Cir. 1987).

²⁵ A descriptive term is a term that identifies a characteristic or quality of an article such as its color, odor, function, dimension, or ingredient. *See Zatarains v. Oak Grove Smokehouse*, 698 F.2d 786, 790 (5th Cir. 1983); *Vision Ctr. v. Opticks, Inc.*, 596 F.2d 111, 115 (5th Cir.1980).

²⁶ *See TCPIP Holding Co., Inc. v. Haar Commc'ns, Inc.*, 244 F.3d 88 (2d Cir. 2001); *A.J. Canfield Co. v. Honickman*, 808 F.2d 291, 296 (3d Cir. 1986); *DowBrands v. Helene Curtis, Inc.*, 863 F. Supp. 963 (D. Minn. 1994).

mark “Simply Stevia.” This so called “fair use” doctrine is meant to ensure that trademarks are not used strategically by their owners to raise rivals’ costs. If competitors of Stevita Stevia Company could not use the term “Stevia” they would have to use other words in the vernacular to describe their products. For example, they would have to describe their products as containing a substance made of “any plant of the genus *Stevia* or the closely related genus *Piqueria* having glutinous foliage and white or purplish flowers.”²⁷ This would be more costly and harder to understand. For this reason, generic terms that are considered purely descriptive of a product genus, and thus indispensable, cannot enjoy any trademark protection. As demonstrated below, although the hierarchy can help determine whether a mark fulfills its inter-brand function (to identify a source), it cannot be used to determine whether a mark fulfills an intra-brand function. Courts relying on the trademark hierarchy, however, have wrongly concluded that only a descriptive mark can be misleading.

B. *The Intra-Brand Function: Describing the Product’s Attributes*

In addition to its inter-brand function (distinguishing goods by signifying a single source of sale), a trademark serves an intra-brand function when it provides information about the product to which it is attached. As has been shown elsewhere,²⁸ information about the product also reduces consumer search costs by minimizing uncertainty regarding the product’s qualities, thereby influencing the number of units purchased:

To illustrate, consider . . . the caffeine-aware consumer who has been advised not to consume more than the 300mg of caffeine per day suggested by the American Diabetic Association. Assume further that she has already made her (inter-brand) choice and decided to order Starbucks Vanilla Grande because she prefers its taste to others. The next question—How many cups of coffee should she order?—calls for an intra-brand analysis. If the consumer believes that the drink is low in caffeine, she will be willing to order more cups of coffee and vice versa. For example, if the average amount of caffeine in a cup of coffee is 266mgs, the consumer, absent more information, would purchase only one unit, so as not to exceed the 300mg daily cap. But if she knows that Starbucks Vanilla Grande contains only 150mgs of caffeine, she would increase her consumption and purchase two units. The consumer who prefers

²⁷ Dictionary.com, WordNet® 3.0. Princeton University, <http://dictionary.reference.com/browse/stevia> (last visited Oct. 27, 2009).

²⁸ J. Shahar Dillbary, *Getting the Word Out: The Informational Function of Trademarks*, 40 ARIZ. ST. L.J. (forthcoming Winter 2009).

Starbucks Decaf Espresso, on the other hand, absent more information, would be willing to purchase up to 60 units if she believes it contains the average amount of caffeine—5mgs. But if she knew that Starbucks Decaf Espresso contains 32mgs of caffeine, she would reduce her consumption and purchase up to 9 units only. A trademark, therefore, helps the consumer not only choose the right product but also choose the optimal number of units from that product.²⁹

In *Getting the Word Out: The Informational Function of Trademarks*, I show that both over-consumption and under-consumption of goods results in a deadweight loss that can be avoided by conveying truthful information to the consumer about the product's qualities.³⁰

A trademark can undoubtedly provide intra-brand information about the product it is attached to if it is descriptive. Marks such as "Wonderful Fish-Fri" for a coating used to fry fish,³¹ "SweeTarts" for a fruit-flavored sugar candy,³² and "Simply Stevia" for a sweetener made of Stevia clearly describe the products to which they are attached. But descriptive marks are not the only marks that can have a descriptive value. In some cases, even a non-descriptive (fanciful, arbitrary, or suggestive) mark may gain a descriptive value. This is often the case when a product with a new attribute—one which the language fails to describe—is introduced into the marketplace. Absent the appropriate word, trademarks may fill the linguistic gap.³³ Over time, because of accumulating experience with the product and its popularity, a trademark may be used to describe the nameless attribute. The process is analogous to the "secondary meaning" doctrine under which the law recognizes that a descriptive mark may gain a distinctive meaning as a source. Similarly, a suggestive, arbitrary, and even a fanciful mark may acquire a "secondary descriptive meaning" of an attribute.

A non-descriptive mark can also gain a secondary descriptive meaning because of massive advertising. Because a trademark has a sponge-like quality,³⁴ the public may learn to associate a mark—any type of mark—not only with a certain source, but also with a certain attribute or quality of the product to which it is affixed. Moreover, in many situations the non-descriptive trademark is the *only* means to

²⁹ *Id.* at *5.

³⁰ *Id.* at *13.

³¹ *Zatarains, Inc., v. Oak Grove Smokehouse, Inc.*, 698 F.2d 786, 790 (5th Cir. 1983).

³² *Sunmark, Inc., v. Ocean Spray Cranberries, Inc.*, 64 F.3d 1055 (7th Cir. 1995).

³³ See Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 397-98 (1990); Rochelle Cooper Dreyfuss, *We Are Symbols and Inhabit Symbols, So Should We Be Paying Rent? Deconstructing the Lanham Act and Rights of Publicity*, 20 COLUM.-VLA J.L. & ARTS 123 (1996); Alex Kozinski, *Trademarks Unplugged*, 68 N.Y.U. L. REV. 960 (1993).

³⁴ 3 CALLMANN, *supra* note 3, § 17:4.

communicate information about the product to costumers. Reverting back to the Starbucks example, the customer who chose to enter a Starbucks café cannot receive any information about the amount of caffeine in her coffee. The coffee is served without the original packaging and the information is not readily available to consumers at the store. The only way the consumer can acquire the intra-brand information is through the mark that is attached to the product.³⁵ By checking consumer reports, the Internet, or comparative advertising, the consumer may learn to associate “Starbucks Vanilla Grande” with “150mg” of caffeine, and “Splenda” with an ingredient (“made of sugar”) and a quality (“suitable for people with diabetes”).

The point is that in the context of false advertising, the traditional trademark hierarchy is inapplicable. Even a fanciful term, which was invented for the sole purpose of denoting a source, may gain a descriptive value. Put differently, when analyzed in the context of false advertising, all types of marks, even if not born equal, should be so treated.³⁶

Examples of fanciful marks and terms that have acquired a secondary descriptive meaning include: “Dr. Price,” for a baking powder containing cream of tartar rather than phosphate;³⁷ “Woody Allen,” as an epithet for a neurotic personality; and “Schwarzenegger,” as a synonym for supernatural physical strength. Another example of a fanciful “public figure” who has received a secondary descriptive meaning is Barbie. The blonde glamorous doll (formerly “known” as Barbara Millicent Roberts) has been in the spotlight since 1959 and has become an American idol. Stories about her “breakup” with Ken, her boyfriend of forty-three years (1961-2004), have been reported by the media. The shocking news was reported by mainstream news providers such as *CNN*, *MSNBC*, *BBC*, and *USA Today*, as well as tabloids such as the *SexNews Daily*.³⁸ The couple’s “business manager,” Mr. Russell Arons, vice president of marketing at Mattel, Inc. (the doll’s manufacturer), explained that Barbie and Ken felt “it’s time to spend

³⁵ See Dillbary, *supra* note 28.

³⁶ See 2 MCCARTHY, *supra* note 14, § 11:73, 11-169 (“All trademarks are not equal.”).

³⁷ Royal Baking Powder Co. v. FTC, 281 F. 744 (2d Cir. 1922).

³⁸ *It’s Splitsville for Barbie and Ken*, CNN.COM, Feb. 12, 2004, http://web.archive.org/web/20061211085232rn_1/www.cnn.com/2004/US/02/12/offbeat.barbie.breakup.ap/ (last visited Oct. 27, 2009) [hereinafter *Splitsville*]; *Barbie and Ken Splitting After 43-Year Romance*, MSNBC.COM, Feb. 12, 2004, <http://www.msnbc.msn.com/id/4250262> (last visited Oct. 27, 2009); *Passion Over for Barbie and Ken*, BBC NEWS, Feb. 13, 2004, <http://news.bbc.co.uk/1/hi/world/americas/3484949.stm> (last visited Oct. 27, 2009); *Barbie and Ken Splitting After 43-Year Romance*, USATODAY.COM, Feb. 12, 2004, http://www.usatoday.com/life/people/2004-02-12-barbie-ken_x.htm (last visited Oct. 27, 2009); *Relationships: Society Reeling from Barbie & Ken Breakup*, SEXNEWS DAILY, Feb. 17, 2004, available at <http://web.archive.org/web/20060109002410/http://www.sexnewsdaily.com/issue/b504-021704.html> (last visited Oct. 27, 2009).

some quality time apart.”³⁹ Like other celebrity couples, reported Mr. Russell, “their Hollywood romance has come to an end,” but he promised that “the duo will remain friends.”⁴⁰

That Barbie has come to denote more than a plastic doll with origins in Mattel is evident from a number of high-profile cases in which the plastic-wrapped celebrity has been involved. In *Mattel, Inc. v. Walking Mountain Productions*,⁴¹ the court found that a series of photos showing Barbie in sexual positions was not infringing. The court noted that “Mattel, through impressive marketing, has established Barbie as the ideal American woman and a symbol of American girlhood,” and concluded that “Barbie . . . conveys these messages in a particular way that is ripe for social comment.”⁴² Another episode in the never-ending “Barbie wars” includes *Mattel, Inc. v. MCA Records, Inc.*,⁴³ where the defendant music companies distributed the successful hip-hop song “Barbie Girl” created by the popular Danish band Aqua. In that song, one band-member “impersonated” Barbie (how can you impersonate a doll?), singing in a high-pitched, doll-like voice while another, calling himself Ken (Barbie’s ex-boyfriend),⁴⁴ enticed Barbie to “go party.” The song speaks of “a Barbie girl,” “a blond bimbo girl,” living in a “Barbie world” where “life in plastic [is] fantastic.” Whether one agrees with the image that the song pokes fun at or the values that the band members attach to Barbie, it is clear that the fanciful mark “Barbie” has become a cultural icon, with many faces and many associations which, at present, no other term in the vernacular can convey.⁴⁵

³⁹ *Splitsville*, *supra* note 38.

⁴⁰ *Id.*

⁴¹ 353 F.3d 792 (9th Cir. 2003).

⁴² *Id.* The photographer, Thomas Forsythe depicted the famous doll in absurd and sexual positions by juxtaposing a nude Barbie with kitchen appliances. The message behind the photographs (according to the artist) was to “critique [] the objectification of women associated with [Barbie], and [][to] lambaste the conventional beauty myth and the societal acceptance of women as objects *because this is what Barbie embodies.*” *Id.* at 796 (emphasis added); see also *Mattel, Inc. v. Pitt*, 229 F. Supp. 2d 315, 321-22 (S.D.N.Y. 2002) (finding defendant clothed Barbie dolls with sadomasochistic attires).

⁴³ 296 F.3d 894, 899 (9th Cir. 2002).

⁴⁴ Barbie’s new boyfriend is Blaine, “a suave good-lookin’ Aussie surfer.” Press Release, Mattel, Inc., Barbie® Names Hot Australian Hunk as Her New Beau (Jun. 29, 2004), available at <http://www.shareholder.com/mattel/news/20040629-137999.cfm> (last visited Oct. 27, 2009). However, rumors about a possible reunification of the couple have found their way to the media. Press Release, Mattel, Inc., Hollywood’s Insiders Spotted Giving Advice to America’s Beloved Leading Man, Fueling Rumors of a Total Makeover (Oct. 21, 2005), available at <http://www.shareholder.com/mattel/news/20051021-177013.cfm> (last visited Oct. 27, 2009).

⁴⁵ See *MCA Records*, 296 F.3d at 900 (“[Some] trademarks transcend their identifying purpose. Some trademarks enter our public discourse and become an integral part of our vocabulary. How else do you say that something’s ‘the Rolls Royce of its class’? What else is a quick fix, but a Band-Aid? Does the average consumer know to ask for aspirin as ‘acetyl salicylic acid’? Trademarks often fill in gaps in our vocabulary and add a contemporary flavor to our expressions. Once imbued with such expressive value, the trademark becomes a word in our

C. *Intra-Brand Fraud Using a Fanciful Mark*

Trademarks are thus more than just marks of trade. Sometimes they cross the line and become part of one's culture and vernacular. They fill a linguistic gap and serve as a means of communication. When that happens, contrary to the traditional trademark hierarchy, even a fanciful mark can acquire a secondary descriptive meaning. Sometimes the meaning is fuzzy or evocative: It might spur a plethora of associations "without suggesting anything definite about the nature of the product."⁴⁶ Examples are Rolls Royce and Schwarzenegger. But the secondary descriptive meaning can be very specific. It may convey information about a certain ingredient, attribute, or a process of manufacture.

The flip side is that a trademark, even a non-descriptive one, may serve as a medium for *intra-brand false advertising*. A seller may pass-off its own product, not as someone else's, but as possessing attributes that it does not have. In the sweetener example, if Johnson & Johnson changed its sweetener so that it is not made from sugar and thus unsuitable for people with diabetes, consumers would be defrauded. They would purchase "Splenda" thinking it possesses attributes that it does not. Trademark law, however, focuses on the mark's inter-brand function, and does *not* protect the secondary descriptive meaning (or, intra-brand information) that a mark may sometimes possess. The result is that Johnson & Johnson would likely be off the hook.

True, consumers may be able to recover under the tort of fraud (or other private causes of action), but that is unlikely for a number of reasons. First, consumers rarely have the means and resources to detect the fraud and recover their damages. Second, the damage to the consumer may be small and may not justify the high litigation costs. A class action may mitigate some of these problems. For example, a competitor may notify a potential consumer-plaintiff about the fraud and collaborate with her in order to prove it. A class action, however, is not an easy mechanism and plaintiffs often face serious obstacles. It may also fail if transaction costs between the collaborating parties (the competitor, the consumer-plaintiff, and their lawyers) are prohibitive.

language and assumes a role outside the bounds of trademark law." (citation omitted) (emphasis added)); see also *Barbie at 50: In the Pink*, *ECONOMIST*, Mar. 7, 2009, at 72; Suzi Parker, *Happy Birthday, Barbie*, *ECONOMIST* (THE WORLD IN 2009 SPECIAL ISSUE), Nov. 19, 2008, available at http://www.economist.com/displaystory.cfm?story_id=12494653 (last visited Oct. 27, 2009).

⁴⁶ Alan L. Durham, *Trademarks and the Landscape of Imagination*, 79 *TEMP. L. REV.* 1181, 1217 (2006) (defining the term "evocative marks" in the context of descriptive or misdescriptive geographic marks).

But even in a world free of transaction and litigation costs, the need to divide the fruit of the litigation among the collaborating parties may result in no litigation at all. Assume for example, that the expected benefit from the litigation is \$100 and that the expected cost of detecting the fraud is \$60. If the competitor is pressed to share the benefits from the litigation with a potential consumer-plaintiff at a 50-50 ratio, the competitor will not attempt to unravel the fraud.⁴⁷ Investing \$60 in order to gain \$50 is simply bad business. Moreover, even if the litigation may result in a net profit to the competitor, the competitor will not pursue the litigation if its opportunity cost is higher. To illustrate, if the competitor needs to decide whether to (a) invest \$60 in detecting a fraud when there is a 70% probability that it will receive \$100 (representing an expected net gain of \$10), or (b) invest the same amount in a project (e.g., introducing a new product or improving an existing one) that would yield \$20 in profits, the competitor would of course choose the latter option.

Nor can regulation serve as a comprehensive solution. Agencies such as the Federal Trade Commission have limited budgets and personnel and must prioritize their enforcement efforts. Providing competitors with a private cause of action creates an alternative market-based solution. Because consumers' and competitors' incentives are aligned (both are injured by the fraud), providing competitors with incentives to go after the fraudulent (via a private cause of action) will benefit both.

This Article thus calls for the adoption of a new interpretation to

⁴⁷ This situation calls to mind a game theory experiment, known as the "ultimatum game." In the typical ultimatum game the first player (the "offeror") receives a certain amount of money, π , and proposes a division in which she gets α and the second player (the "offeree") receives $\pi - \alpha$. If the offeree accepts the proposal, each actor keeps her share ($\pi - \alpha$, α), but if the offeree rejects the proposal neither actor receives anything. The argument is that if both actors are "rational," the offeror would offer the minimum possible (i.e., one cent) because such an offer should be accepted by the offeree (it would make her better off) and would maximize the offeror's wealth. In the scenario above, one may argue that the potential plaintiff would be willing to accept any amount of money rather than a fifty-fifty division. The ultimatum game's prediction, however, fails in experiments. In fact, actors often behave in a manner some consider to be a "fair" (rather than self-interest or welfare-maximizing) behavior. See e.g., RICHARD POSNER, *ECONOMIC ANALYSIS OF LAW* 71 n.6 (2007) (noting that "offers are usually . . . generous [they offer more than the minimum offer], and when they are not they are usually refused"); W. Güth, R. Schmittberger & B. Schwarze, *An Experimental Analysis of Ultimatum Bargaining*, 3 J. ECON. BEHAV. & ORG. 367, 384 (1982) ("Independent of the game form, subjects often rely on what they consider a fair or justified result. . . . The typical consideration of a player 2 [the offeree] . . . seems to be as follows: 'if player 1 left a fair amount to me, I will accept it. If not and I do not sacrifice much, I will punish [player 1 by declining].'"). But regardless of the interpretation of these results (whether they indicate "irrationality" or just a certain preference), one should note that the above situation does not follow the simple "ultimatum game" paradigm. One reason is that unlike the offeree, who has nothing to lose but only something to gain from the offer ($\pi - \alpha$), the potential plaintiff will likely incur some costs (reputational, opportunity, etc.) and hence is likely to require some compensation.

section 43(a) of the Lanham Act that would provide a competitor with a cause of action against a manufacturer that engages in intra-brand fraud. It is important to note, however, that not every intra-brand fraud requires such legal intervention. If the fraud can be easily detected, the seller, anticipating that consumers will reveal the fraud, will be deterred from such activity altogether. If the manufacturer of “Skittles” decided to change its product so that instead of pieces of fruit candies it would contain yellow peanut butter delights, the harm to consumers would be trivial. The consumer would be able to detect the change pre-purchase (if the packaging was transparent) or immediately after having purchased the product and tasted its contents. For this reason, products that are characterized by search qualities (qualities that can be verified pre-purchase) or experience qualities (qualities that can be easily checked post-purchase) enjoy a self-enforcing mechanism. The law needs to play very little role, if any, in such settings. But where the product has credence qualities (qualities that cannot be easily checked or where evaluation will be prohibitively costly), there is a true incentive for sellers to misrepresent the nature of their products. Examples of such qualities include: the number of calories in a sweetener (is it truly calorie-free?); the material of which a sweetener is made (is it derived from sugar, herbs, or synthetic substances?); or the therapeutic effects of a sweetener (is it really suitable for people with diabetes?). In all of these cases, the consumer who purchased “Splenda” or “Simply Stevia” cannot answer any of the questions raised. She is at the mercy of the seller whose product she has purchased.

Moreover, not every change in the product’s credence qualities may cause a mark (whether descriptive or fanciful) to be deceptive. Sellers should, and often do, change their products to improve their quality because of a change in trends or due to an increase in the price of inputs. *Only if* (a) consumers associate the mark with the credence attribute that has been changed, and (b) such an attribute was important or material to their purchasing decision, should the law require the seller to inform consumers of the change in its product.

The materiality requirement is not a stranger to trademark law. In fact, trademark law protects misdescriptive marks—and even deceptively misdescriptive marks—so long as the misrepresentation does not impact the consumer’s purchasing decision. A mark is “misdescriptive” if it misdescribes the nature, characteristics, quality, or the origins of the goods. “Ivory Soap” and “Alaska Bananas” are two examples. Misdescriptive marks do not cause any confusion (no one believes the soap is made from ivory or that Alaska is the origin of the bananas) and are thus registerable. A mark is “deceptively misdescriptive” if, in addition to being misdescriptive, consumers are likely to believe the misrepresentation. For example, the term “Glass

Wax” may be deceptively misdescriptive if consumers believe that the cleaning material contains wax although it does not. A mark is “deceptive” if the misrepresentation is not only misleading, but is also a material factor in the purchasing decision. Thus, if consumers *purchase* “Glass Wax” *because* they believe it contains wax, the mark will be considered deceptive. Deceptively misdescriptive marks are registerable upon a showing of a secondary meaning. Deceptive marks, on the other hand, can never be registered.

But just as a descriptive mark can misdescribe a product, so can a non-descriptive mark that has gained a secondary descriptive meaning. Thus, a fanciful, arbitrary, or suggestive mark should be deemed deceptive if it misdescribes the product, and the misrepresentation affects the consumer’s decision. For the diabetic consumer who purchases “Splenda” believing it is made from sugar—and thus suitable for people with diabetes—using the term “Splenda” without a warning that the basic ingredient of the sweetener has been changed is just as misleading as using the descriptive phrase “suitable for people with diabetes.” With one exception, however, trademark and false advertising law only protect consumers against false advertising using a descriptive (or misdescriptive) mark or phrase. False advertising by fanciful, suggestive, and arbitrary terms is section 43(a) immune.

D. *Trademark Abandonment: An Intra-Brand Phenomenon*

Although trademark law is aimed at protecting the inter-brand function, one exception exists: the law of trademark abandonment. Unlike trademark infringement, abandonment of a trademark is an *intra-brand* phenomenon. It is an action or omission made by the trademark owner itself that renders the mark abandoned and throws it into the public domain.⁴⁸ Two special cases of abandonment are of interest to us. *In each, the trademark owner uses its fanciful mark to misrepresent the characteristics and nature of its own products.* The first line of cases is concerned with the transfer of rights in a trademark. Under both the common law and the Lanham Act, a sale of a trademark apart from its goodwill, or the licensing of a mark without adequate control over the quality and nature of the goods to which it is affixed,

⁴⁸ Once abandoned, a mark is subject to cancellation by both competitors and the FTC (under section 14 of the Lanham Act, 15 U.S.C.S. § 1064 (2009)) and it falls into the public domain, where it is immediately available to others. *Rosenburg v. Fremont Undertaking Co.*, 63 Wash. 52, 55 (1911). In practice, however, because consumers may still associate the mark with its former owner, a subsequent user may be required to take reasonable precautions to prevent confusion. *See Indianapolis Colts, Inc. v. Metro. Baltimore Football Club Ltd.*, 34 F.3d 410, 413 (7th Cir. 1994); *Interstate Distilleries, Inc. v. Sherwood Distilling & Distrib. Co.*, 173 Md. 173, 181 (Md. 1937).

renders that transfer invalid and acts as an abandonment.⁴⁹ Courts refer to such a sale or license as “naked” or “in gross.” The rule prohibiting assignments in gross is designed to prevent consumers’ intra-brand confusion. Absent control,⁵⁰ the licensing or assignment of a mark creates the danger that products bearing the same trademark might be of diverse qualities, in which case the public will be misled: “The consumer might buy a product thinking it to be of one quality or having certain characteristics and could find it only too late to be another.”⁵¹

The second line of cases in which the use of a mark—*any type of mark*—acts as an abandonment is where the seller changes the attribute, formula, or nature of its product but nevertheless continues to use its mark in connection with the altered product. As in the first line of cases, the public is confused; not about the product’s source (the source has not changed), but about the product itself. Not every change, however, gives rise to abandonment. Only when the change is so “substantial” that the public will be misled by the continued use of the mark will it be considered abandoned.⁵² Such a “substantial change”

⁴⁹ *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959); *Hy-Cross Hatchery, Inc. v. Osborne*, 303 F.2d 947, 949-50 (C.C.P.A. 1962); 3 MCCARTHY, *supra* note 14, § 17:6-7.

⁵⁰ In the early days of the common law the prevailing view was a trademark could not be transferred by licensing or by way of assignment, with or without control. The reason was the strict view of trademarks as serving only one function: signifying for consumers the product’s physical source or origin. *Macmahon Pharmacal Co. v. Denver Chem. Mfg. Co.*, 113 F. 468, 475 (Cal. Ct. App. 1901). The rationale was that the consumer would be misled because the mark would be used by a seller-licensee not associated with the real manufacturing “source” in the physical sense of the word. 3 MCCARTHY, *supra* note 14, §18:39, at 18-78; *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). Although still predicated on the source theory, that law has gradually changed so that a trademark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used. *Macmahon Pharmacal*, 113 F. at 474-75. It was only with the recognition that a trademark is not only a signifier of a “source” but also (i) an indication of consistent quality (the guarantee function) and (ii) an important means of advertising, that courts have adopted the more liberal approach that recognizes the transfer or use of a trademark so long as control over the nature of the product is exercised. *PepsiCo, Inc. v. Grapette Co.*, 416 F.2d 285, 287 (8th Cir. 1969). This liberal view was fully adopted by section 10 of the Lanham Act, which provides that a valid transfer of a mark does not require the transfer of any physical or tangible assets but rather the goodwill to which the mark pertains. Trademark (Lanham) Act § 10, 15 U.S.C. § 1060 (1946); *see also Visa, U.S.A., Inc. v. Birmingham Trust Nat’l Bank*, 696 F.2d 1371 (Fed. Cir. 1982).

⁵¹ *PepsiCo, Inc.*, 416 F.2d at 289; *see also Marshak v. Green*, 746 F.2d 927, 929 (2d Cir. 1984) (“Use of the mark by the assignee in connection with a different goodwill and different product would result in a fraud on the purchasing public who reasonably assume that the mark signifies the same thing . . .”); *Green River Bottling Co. v. Green River Corp.*, 997 F.2d 359 (7th Cir. 1993); *Dawn Donut Co.*, 267 F.2d at 366-67.

⁵² *Visa*, 696 F.2d 1371; *Marshak*, 746 F.2d at 930; *Bambu Sales, Inc. v. Sultana Crackers, Inc.*, 683 F. Supp. 899, 906 (E.D.N.Y. 1988) (“[T]he test is . . . whether the new product is so different from the old that to allow continued use of the mark would ‘work a deception upon the public.’”); *Midlothian Labs., L.L.C. v. PamLab, L.L.C.*, 509 F. Supp. 2d 1065, 1077 (M.D. Ala. 2007) (“[C]ourts have repeatedly held that some variation in a product sold under a trademark is inevitable, ‘necessitated by trade discoveries, newer and more economical methods of making the same product, or changed manufacturing conditions. . . .’”). The *Midlothian Labs* court also

may in actuality be very small. In one case, for example, a producer changed the formula of a perfume that was touted for being made under a “secret formula” that was passed from father to son. The change, however, was so insubstantial that even an expert could not distinguish between the two perfumes. Still, the court found that affixing the same mark to the new perfume was fraudulent because the public learned to associate the mark with a “secret formula” that the trademark owner changed.⁵³

1. *Independent Baking Powder Co. v. Boorman*

An early case that involves both a transfer of rights and a change in a product’s attributes was *Independent Baking Powder Co. v. Boorman*, where a dispute arose over the ownership of the fanciful mark “Solar” for baking powder.⁵⁴ Baking powders, it should be noted, were usually advertised as containing alum, phosphate, or cream of tartar (the latter being a byproduct of winemaking).⁵⁵ Plaintiff, Independent Baking Powder (IBP), obtained an assignment for the mark “Solar,” which was used in connection with an alum baking powder. The defendant, another baking powder company, attacked the assignment on two grounds. First, it argued that the transfer was invalid because the assignor neither transferred the business nor its goodwill.⁵⁶ Second, it claimed that even if the assignment was valid, IBP lost its rights in the fanciful mark “Solar” when it substituted the component alum for phosphate. In accepting both arguments, the court noted:

A phosphate powder is a different powder, and whether better or worse than a cream of tartar or an alum powder is wholly immaterial.

Counsel for the complainant argues that the substitution in question resulted in an improved baking powder; but that is not the point. It resulted in the production of a different powder made under a materially different formula. . . . *The trade-mark in question was not acquired in connection with baking powder in general, but with baking powder of a particular kind, apart from which its use is*

noted that instances in which a trademark has been abandoned have involved cases in which changes in the product resulted “in a ‘wholly different product which is palmed off on the public’” *Id.*

⁵³ *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 43 F.2d 937 (2d Cir. 1930). *Muelhens* is discussed *infra* Part II.D.2.

⁵⁴ 175 F. 448 (C.C.D.N.J. 1910).

⁵⁵ *Id.* at 454; *see also* *Royal Baking Powder Co. v. FTC*, 281 F. 744 (2d Cir. 1922). Cream of tartar (also known as potassium bitartrate or potassium hydrogen tartrate) crystallizes naturally in wine casks during the fermentation of grape juice. *See, e.g.*, Wines.com Wine Encyclopedia, http://www.wines.com/wine_encyclopedia/potassium-bitartrate.html (last visited Oct. 3, 2009).

⁵⁶ Assignor kept its business and continued to manufacture the same powder and sell it under different marks. *Id.* at 451.

unjustifiable.⁵⁷

Although in the abandonment context, *Independent Baking Powder* stands for the proposition that a trademark—even a fanciful one such as SOLAR—may be used by its owner as a medium to misrepresent the nature of the product to which the mark is affixed, it recognizes that a fraud will be committed if a mark, which the public has learned to associate with one type of baking powder, is used in connection with another.⁵⁸

2. *Mulhens & Kropff v. Ferd Muelhens*

Another case which involves a fanciful mark that had acquired a “secondary descriptive meaning” is *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*⁵⁹ The Muelhens family had been manufacturing a perfume in the city of Cologne, Germany since 1792. The perfume was manufactured under a secret formula and was marketed under the fanciful mark “4711.” The fact that the formula was kept secret was stated on all of its labels, and the public learned to associate the fanciful mark with the secret formula. In 1889, the Muelhens established the plaintiff, an American corporation, in order to market the “4711” perfume in the United States. The agreement gave the American branch

⁵⁷ *Id.* at 455 (emphasis added).

⁵⁸ It should be mentioned that contrary to the decision in *Independent*, some courts have focused not on the change in ingredients, formulae, or characteristics of the product to which a mark is affixed, but rather on its overall performance. Thus, where the assigned mark was used with an altered product, which was of the same or improved quality, such a use was not found to act as an abandonment. In *Royal Milling Co. v. J. F. Imbs Milling Co.*, 44 App. D.C. 207 (D.C. Cir. 1915), for example, the court found that the assignee’s use of the fanciful mark “Rex” in connection with flour made from hard wheat was not fraudulent, although “Rex” was originally used on flour made from soft wheat and although the court conceded that the two types of wheat may be different. The court explained that because the flour was made of the “same grade” as before, “there has been no misrepresentation in its use” and thus “no fraud.” *Id.* at 209; *see also* *Beech-Nut Packing Co. v. P. Lorillard Co.*, 299 F. 834 (D.N.J. 1924). *But see* *Bambu Sales, Inc. v. Sultana Crackers, Inc.*, 683 F. Supp. 899, 907 (E.D.N.Y. 1988) (adopting the distinction suggested by 3 CALLMANN, *supra* note 3, § 20:45, between unique goods and fungible goods):

If the goods are unique (for example, made under a patent or secret formula, or by an enterprise of established tradition such as the porcelain manufacturers of Limoges or Copenhagen), “the provenance of the article is a value in and of itself . . .”; “. . . the public wants only the ‘genuine’ article.” Under such circumstances, assignment of the mark without the business it symbolizes creates a high likelihood of consumer deception. With respect to fungibles, however, goods that are “familiar to all and can be produced by many under varying trademarks,” “[t]he public is no longer concerned with the . . . origin of the article. The article itself is what the buyer wants and will continue to buy so long as it satisfies consumer demand, and until another article, better advertised or more effective, replaces it.

Id. (citations omitted).

⁵⁹ 38 F.2d 287 (S.D.N.Y. 1929), *rev’d*, 43 F.2d 937 (2d Cir. 1930), *cert. denied*, 282 U.S. 881 (1930).

the right to register the fanciful trademark “4711” in the United States. The ownership in the secret recipe, however, remained in the hands of the Muelhens family, who supplied the American branch with prepared essences from Cologne. Shortly after the United States entered World War I, shipments of the perfume from Nazi Germany stopped and the Alien Property Custodian seized the Muelhens’ rights in the American branch and resold them. The purchaser continued to use the mark “4711” in connection with a new perfume that was “closely similar but . . . not identical” to that prepared by the Muelhens.⁶⁰ After the end of the war, the Muelhens family resumed its activities in the United States and started selling its original perfume under the original name “4711.” A lawsuit followed. The district court found in favor of the American branch. The court acknowledged that the fanciful mark “4711” had gained a secondary descriptive meaning in the mind of the public as “indicat[ing] an article manufactured in accordance with a secret recipe.”⁶¹ Yet, it held that the American branch could nevertheless affix the “4711” mark to its imitation perfume, explaining that the two perfumes were substantially similar. To avoid confusion, the court ordered that the mark be accompanied by a conspicuous statement that “the product is not manufactured in accordance with the original secret recipe owned by the House of Muelhens.”⁶²

The Court of Appeals for the Second Circuit reversed. It first recognized that the fanciful mark “4711” meant *two* things: (1) “[o]rigin in the house of Muelhens,” which is a source of manufacture—a secondary meaning;⁶³ and (2) “manufacture under a secret recipe,” which is a quality—a secondary descriptive meaning.⁶⁴ The latter secondary descriptive meaning was gained due to “the long continued representations . . . that any cologne bearing said mark was made according to said original recipe.”⁶⁵ The court of appeals then concluded that neither plaintiff nor defendant could use the mark because in either case a fraud would be committed upon the public as to one of the aforementioned secondary meanings:

⁶⁰ *Id.* at 291.

⁶¹ *Id.* at 293.

⁶² *Id.* at 297. The result was that the fanciful mark “4711,” which was associated by the public with a secret formula, was accompanied by a qualifying statement that declared the opposite. *Id.* at 298; *cf. In re Phillips-Van Heusen Corp.*, No. 75/664,835, 2002 WL 523343 (T.T.A.B. 2002) (finding the mark “Super Silk” for a fabric not made of silk deceiving and rejecting the applicant’s contentions that explanatory statements in advertising or labels “which purchasers may or may not note” negate the deception).

⁶³ I use the term “secondary meaning” in a broad way to refer to any type of term (not just descriptive) that denotes to the public a source of sale or manufacture (i.e., serves an inter-brand function).

⁶⁴ *Mulhens & Kropff, Inc. v. Ferd Muelhens, Inc.*, 43 F.2d 937, 939 (2d Cir. 1930).

⁶⁵ *Id.*

Plaintiff [the American branch] has succeeded to Muelhens' business in [the United States], which would entitle plaintiff to use the mark in its first meaning [origin]. It has not succeeded to Muelhens' ownership of the recipe, and therefore may not truthfully use the second [descriptive] meaning [i.e., manufactured according to a secret formula]. The defendant, on the other hand, if allowed to use the mark, will truthfully represent the quality of its article, but will misrepresent that it is continuing [the] American business.⁶⁶

3. *Grills v. Miller*

The facts of *Grills v. Miller*⁶⁷ are similar to that of *Muelhens*. In both, a fanciful trademark gained two "secondary meanings": one with regard to the product's attribute and the other with regard to its source. In both cases, neither party could use the mark without deceiving the public as to one of these meanings. Grills was the exclusive distributor of Miller's skin cream. Grills had no knowledge of the cream's formula and had never manufactured the cream. With Miller's consent, Grills changed the name of the product to "Sealskin" and launched an extensive advertising campaign to introduce the new name. The issue before the Supreme Judicial Court of Massachusetts was who owned the mark "Sealskin": (1) the plaintiff who sold "Sealskin" products and became identified by the trademark as the source of sale, but did not know the formula and thus could not manufacture "Sealskin" creams; or (2) the defendant who manufactured the creams, but was not associated by the public with the mark? The court answered that neither party owned the mark because any use by either party "*would be a deceptive use of the trade mark*"⁶⁸:

[Plaintiff, Grills] could not use [the mark] . . . without also . . . sanctioning the false implication that the goods were those that he had formerly sold under the same trade mark On the other hand, since the trade mark 'Sealskin' has become associated with the plaintiff as the seller as well as with the product itself, it would be unfair . . . to allow the defendant [Miller] . . . to use the name on his

⁶⁶ *Id.* Judge Learned Hand dissented but has agreed on this point: "However, so far as applied to cologne, made under the recipe, the mark meant more. It had for so long been associated with declarations that the cologne was made under the recipe, that two meanings had coalesced; these were, (1) 'emanating from the old source,' (2) 'made under the old recipe.' The plaintiff could truthfully say the first; it could not say the second; in fact it said both. But when the defendant came into the market and sold cologne made under the recipe but by Muelhens, it made the same representations, and the first was untrue, while the second was true." *Id.* at 940. Judge Learned Hand even went further to say that the secondary descriptive meaning with regard to the secret formula was the dominant one: "Customers presumably cared nothing about the place where the cologne was made up, and much about the essence." *Id.*

⁶⁷ 75 N.E.2d 737 (Mass. 1947).

⁶⁸ *Id.* at 740 (emphasis added).

product, because its use would tend to palm off the defendant's goods as goods sold by the plaintiff⁶⁹

As in *Muelhens*, none of the parties could use the mark without deceiving the public with regard to one of the two "secondary meanings" the product had acquired. The importance of these cases is their recognition that a mark, even a fanciful one, may have an informational or descriptive value. It may denote an attribute, ingredient, formula, or process and, if so, it may serve as a medium for intra-brand false advertising. For historical reasons, however, the courts in interpreting section 43(a)(1)(B) of the Lanham Act and section 5 of the Federal Trade Commission Act have failed to follow the same reasoning.

III. FALSE ADVERTISING

A. *The Law Prior to the Lanham Act*

Although the branch of unfair competition stemmed from the tort of fraud, the early cases in the field of false advertising regarded the concept of unfair competition as limited to cases of passing-off the defendant's goods as the plaintiff's (or, put differently, limited to inter-brand settings). Thus, even when a manufacturer deceived its consumers and sold its products while *affirmatively and descriptively* claiming that the products were made of a substance or possessed a certain quality that they did not, such a behavior did *not* give rise to a private cause of action. If, however, in addition to defrauding the public the unscrupulous manufacturer also attempted to free ride on one of its competitor's reputation and pass-off its products, then—and only then—did a cause of action arise.

1. *American Washboard* and the Inter-Brand Restriction

This is well illustrated by the line of cases beginning with *American Washboard v. Saginaw Manufacturing*, where the court refused to enjoin the defendant from representing its zinc washboards as made of aluminum.⁷⁰ The plaintiff, American Washboard, was the first

⁶⁹ *Id.*

⁷⁰ 103 F. 281 (6th Cir. 1900); see also *N.Y. & R. Cement Co. v. Coplay Cement Co.*, 44 F. 277 (C.C.E.D. Penn. 1890) (finding defendant sold its cement elsewhere as "Rosendale Cement" although it was not manufactured in the locality of Rosendale). Although the court noted that "[n]o doubt the sale of spurious goods, or holding them out to be different from what they are, is a great evil, and an immoral . . . act," it nonetheless held that absent passing-off there is no cause

to manufacture and sell washboards made of aluminum in the United States. Aware of the allure of aluminum as an ingredient, the defendant began advertising its own zinc washboard as “made of aluminum” and even sold them under the mark “Aluminum.”⁷¹ The plaintiff’s complaint raised only a false advertising claim (not passing-off).⁷² It argued that “being . . . branded with the word ‘Aluminum,’ and so advertised, purchasers and users [were] induced to believe that the rubbing sheet [was] made of aluminum” and were thus misled.⁷³

Despite the unequivocal affirmative and descriptive false and misleading advertising, the *Washboard* court dismissed the complaint. The court explained that “the private right of action in such cases is *not* based upon fraud or imposition upon the public” and that it is “*not* for the benefit of the public, although that may be its incidental effect.”⁷⁴ Rather it “is maintained solely for the protection of the property rights of [the trademark owner].”⁷⁵ Thus, the court concluded that “only where the defendant . . . is palming-off his goods” does a cause of action arise.⁷⁶ Because the defendant in *Washboard* did not pass-off its product as the plaintiff’s (the defendant sold its products as its own), but rather was “just” committing a fraud on the public (misrepresenting its zinc boards as being made of aluminum), the court dismissed the case. Aware of the unsatisfactory outcome, the court noted that if Congress wished to suppress such “moral wrongs,” it could do so by public prosecution of the offenders.⁷⁷

American Washboard gave swindlers carte blanche to misrepresent

of action. *Id.* at 278-79.

⁷¹ The defendant also made its zinc boards in the same shape and size of the plaintiff’s aluminum washboards. *Am. Washboard*, 103 F. at 283.

⁷² *Id.* at 282 (“It may be stated at the outset that the case is not one for the protection of a trade-mark Indeed, we do not understand that the learned counsel who represents appellant in this case makes any claim that his client is entitled to protection upon the ground that it has adopted the word ‘Aluminum’ as a technical trade-mark. In the brief for appellant it is stated that the case is one of unlawful competition in trade, and it has been argued upon that basis.”).

⁷³ *Id.* at 283, 284-85 (“The bill is not predicated upon that theory [palming off]. . . . [T]he theory of the case seems to be that complainant, manufacturing a genuine aluminum board, has a right to enjoin others from branding any board ‘Aluminum’ not so in fact, although there is no [passing-off.]”).

⁷⁴ *Id.* at 284, 285 (emphases added).

⁷⁵ *Id.* at 285.

⁷⁶ *Id.* at 284 (“The case at bar cannot be sustained as one to restrain unfair trade. Relief in such cases is granted *only* where the defendant . . . [is] palming-off his goods . . . to the injury of the plaintiff.” (emphasis added) (quoting *Goodyear India-Rubber Glove Mfg. Co. v. Goodyear Rubber Co.*, 128 U.S. 604)).

⁷⁷ *Id.* at 285 (“It is doubtless morally wrong and improper to impose upon the public by the sale of spurious goods, but this does not give rise to a private right of action unless the property rights of the plaintiff are thereby invaded. There are many wrongs which can only be righted through public prosecution, and for which the legislature, and not the courts, must provide a remedy.”); *see also* *N.Y. & R. Cement Co. v. Coplay Cement Co.*, 44 F. 277, 278-79 (C.C.E.D. Penn. 1890) (suggesting that congress take action by enabling public prosecution of those who defraud the public); *infra* notes 78 and 82.

their own products and engage in intra-brand fraud. Consumers could not detect the fraud themselves because the subject of the fraud was a credence quality (could you distinguish between zinc and aluminum?); thus, they could not sue under the tort of fraud. Producers, because of *American Washboard*, did not have a cause of action absent passing-off (inter-brand fraud). The result was a license to cheat.

2. *FTC v. Winsted Hosiery*

It took fourteen years after the *Washboard* decision for Congress to take action. In 1914, Congress, following *American Washboard's* call for a legislative change, enacted the Federal Trade Commission Act (FTCA),⁷⁸ which in section 5 declared unlawful “unfair methods of competition.”⁷⁹ Its scope, however, is limited in nature. The FTCA does not provide the Federal Trade Commission (FTC) with the authority to order the trademark owner to compensate its consumers, nor does it provide consumers (or competitors) with a private cause of action.⁸⁰

One of the first tests of the FTCA was in *FTC v. Winsted Hosiery Co.*⁸¹ Interestingly, the facts in *Winsted* were very similar to a hypothetical discussed twenty-two years earlier by the *American Washboard* court, where Judge Day held that if a seller advertises its goods as being manufactured entirely of wool when in fact they are not, no private cause of action arises.⁸² In *Winsted*, the issue was whether a manufacturer could brand its products as “Natural Merino” or “Natural Wool” when in fact they were composed only partly of wool or merino. The FTC ordered the defendant to stop using the terms “Merino” and

⁷⁸ See *Royal Baking Powder Co. v. FTC.*, 281 F. 744, 752 (2d Cir. 1922) (“The above case [a hypothetical mentioned in *American Washboard* that suggested that where a seller misrepresents that its own goods are made of pure wool when they are not there is *no* cause of action] illustrates one of the reasons which led Congress to enact the statute creating the Federal Trade Commission, and making unfair methods of competition unlawful, and empowering the commission to put an end to them. By that statute the identical situation which the court in the above case said it was beyond its power to suppress has been brought within the jurisdiction of the Federal Trade Commission . . .”).

⁷⁹ 15 U.S.C. § 45(a)(1) (2006).

⁸⁰ *Naylor v. Case & McGrath, Inc.*, 585 F.2d 557, 561 (2d Cir. 1978) (citing *Alfred Dunhill Ltd. v. Interstate Cigar Co.*, 499 F.2d 232, 237 (2d Cir. 1974)); *Mouradian v. John Hancock Cos.*, 751 F. Supp. 262, 267 (D. Mass. 1988) (“[T]here is no private right of action under the FTCA . . .”); *Royal Baking Powder Co.*, 281 F. at 745-46.

⁸¹ 258 U.S. 483 (1922).

⁸² *Am. Washboard Co. v. Saginaw Mfg. Co.*, 103 F. 281, 286 (6th Cir. 1900) (“Can it be that a dealer who should make such articles only of pure wool could . . . [ask] the courts to suppress the trade and business of all persons whose goods may deceive the public? We find no such authority in the books, and are clear in the opinion that, if the doctrine is to be thus extended . . . the remedy must come from the legislature, and not from the courts.”).

“Wool.” After the Court of Appeals for the Second Circuit reversed, the Supreme Court reinstated the FTC’s order on appeal. Justice Brandeis held that false advertising constitutes an unfair method of competition and that the new FTCA authorizes the commission to order anyone who misrepresents the quality of his goods in his advertising to cease from so doing.⁸³

In the post-FTCA world, then, the situation was such that an inter-brand confusion (passing-off) gave rise to a private cause of action, while an intra-brand fraud (fraud committed by a seller with regard to its own good) only subjected the seller to a cease-and-desist order issued by the FTC. The FTC further limited its own authority by prosecuting false advertising caused only by descriptive or misdescriptive marks. In these cases, the FTC ordered the complete excision of the mark where it found that a qualifying clause would not be able to cure the deception.⁸⁴ Where, however, the destruction of a mark could have been avoided by less drastic means (such as the use of qualifying language to prevent consumer confusion), the complete excision of the name was not ordered.⁸⁵

⁸³ *Winsted Hosiery Co.*, 258 U.S. 483, 494.

⁸⁴ *See, e.g.*, *FTC v. Algoma Lumber Co.*, 291 U.S. 67 (1934) (enjoining lumber suppliers from marketing forest products under the trade names “California White Pine” when they were biologically made from a yellow pine—a less desirable wood); *FTC v. Kay*, 35 F.2d 160 (7th Cir. 1979) (ordering the excision of the mark “Kay-Radium” after the court found that the product contained no radium); *El Moro Cigar Co. v. FTC*, 107 F.2d 429 (4th Cir. 1939) (ordering the excision of the term “Havana Counts” for cigars made entirely of domestic tobacco); *Marietta Mfg. Co. v. FTC*, 50 F.2d 641 (7th Cir. 1931) (excising the term “Sani-Onyx, a Vitreous Marble,” because the product was made of neither marble nor onyx); *Masland Duraleather Co. v. FTC*, 34 F.2d 733 (3d Cir. 1920) (excising the term “Duraleather,” because the product was not made of leather). Another line of cases in which courts denied the use of trademarks that included the term “hide” or “hyde” for non-leather products is that of the Neumann cases. *See R. Neumann & Co. v. Overseas Shipments, Inc.*, 326 F.2d 786 (C.C.P.A. 1964); *R. Neumann & Co. v. Bon-Ton Auto Upholstery, Inc.*, 326 F.2d 799 (C.C.P.A. 1964); *see also Cont’l Wax Corp. v. FTC*, 330 F.2d 475 (2d Cir. 1964) (ordering the deletion of the words “six months” from the trade name “Continental Six Month Floor Wax” after determining that the petitioner’s floor wax could not last that long); *Gold Tone Studios, Inc. v. FTC*, 183 F.2d 257 (2d Cir. 1950) (upholding the complete excision of the term “Gold Tone Studios,” because the studio did not employ gold tone photographic processing).

⁸⁵ *See generally Jacob Siegel Co. v. FTC*, 327 U.S. 608 (1946) (reversing a decree ordering the complete excision of the trade name “Alpacuna” for coats containing alpaca, mohair, wool, and cotton but no vicuna); *Elliot Knitwear, Inc. v. FTC*, 266 F.2d 787 (2d Cir. 1959) (holding that the term “Cashmora” for sweaters containing a blend of fibers consisting of Angora and wool but no cashmere can be accompanied by the legend “contains no cashmere”); *In re Country Tweeds, Inc.*, 50 F.T.C. 470, 475 (F.T.C. 1953) (finding the term “Kashmoor” for coats containing no cashmere to be misleading unless accompanied by “words . . . which clearly and conspicuously disclose that such coats contain no cashmere”); *Bear Mill Mfg. Co. v. FTC*, 98 F.2d 67, 69 (2d Cir. 1938) (ordering that the terms “Mill” and “Manufacturing” be accompanied by the qualification “Converters, Not Manufacturers of Textiles”).

3. *Royal Baking Powder and Ely-Norris Safe*

So rooted was the view that acts which cause intra-brand confusion are not actionable that only six days after the *Winsted Hosiery* decision, in *Royal Baking Powder Co. v. FTC*, the petitioner (relying on *American Washboard*) boldly argued that “no statute or decided case has declared that a manufacturer or trader owes to his competitors the duty of refraining from misrepresentation of the quality or ingredients of his own goods, and that, on the contrary, it has been firmly held that no such duty exists.”⁸⁶

For a period of sixty-six years (1853-1919) the Royal Baking Company (RBC) and its predecessors had marketed and advertised “Dr. Price’s Cream Baking Powder” exclusively as a cream of tartar baking powder. For thirty-five years it warned the public against the use of phosphate baking powders, denouncing them as dangerous and unwholesome. In 1919, however, RBC changed “Dr. Price’s Cream Baking Powder” to nothing less than a phosphate powder. Yet, it continued to use all of the distinctive features of the old cream of tartar labels, “including the name ‘Dr. Price’s,’ which had been advertised for many years as denoting exclusively a cream of tartar powder and not a phosphate powder.”⁸⁷ The Commission found RBC’s use of the mark “Dr. Price” on a phosphate baking powder to be false and misleading. The Court of Appeals for the Second Circuit affirmed, noting that the novelty of the case lies in the fact that RBC passed-off “one of [its] products for another of [its] own products.”⁸⁸ The *Royal Baking* case takes the *Winsted Hosiery* decision one step further in that it recognizes that a fanciful mark—the term “Dr. Price”⁸⁹—can, through advertising, acquire a secondary descriptive meaning that may be used by a seller to misrepresent its own product. It recognizes a cause of action for intra-brand fraud:

The method of advertising adopted by the Royal Baking Powder Company to sell under the name of Dr. Price’s Cream Baking Powder an inferior powder, on the strength of the reputation attained through 60 years of its manufacture and sale and wide advertising of its superior powder, under an impression induced by its

⁸⁶ 281 F. 744, 750 (2d Cir. 1922) (emphasis added).

⁸⁷ *Id.* at 748.

⁸⁸ *Id.* at 753 (emphasis added).

⁸⁹ *Id.* at 748. Although the term “Dr. Price” was part of the legend “Dr. Price Baking Powder,” the court emphasized the former term as acquiring a secondary descriptive meaning: “[I]t had decided to change its well-known Dr. Price brand from a cream of tartar powder to a straight phosphate baking powder [And] the name ‘Dr. Price’s,’ which had been advertised for many years as denoting exclusively a cream of tartar powder and not a phosphate powder.” *Id.*

advertisements that the product purchased was the same in kind and as superior as that which had been so long manufactured by it, was unfair alike to the public and to the competitors in the baking powder business.⁹⁰

The *Royal Baking* holding, however, is limited. It only stands for the proposition that misrepresentation of a fanciful mark by its owner can give rise to injunctive relief based on the FTC's authority to order the excision of a deceitful mark. Unfortunately, the *Royal Baking* holding was interpreted narrowly as applying to descriptive marks only rather than to fanciful ones, apparently based on the legend "Cream Baking Powder," which accompanied the term "Dr. Price."⁹¹

The limited concept that only inter-brand confusion is actionable was attacked again by Judge Learned Hand in *Ely-Norris Safe Co. v. Mosler Safe Co.*, where the plaintiff, the exclusive maker of safes containing an explosion chamber, sued the defendant for falsely representing that its safes also contained an explosion chamber.⁹² The defendant did not try to pass-off its product as the plaintiff's. Its safes bore its own name and address, and it was found as a matter of fact that "the defendant never gave any customer [a] reason to believe that its safes were of the plaintiff's make."⁹³ The question before the court was of an intra-brand nature: Can the defendant mislead the public as to an attribute of its own product? Although Judge Hand rejected the plaintiff's reliance on *Winsted* and *Royal Baking Powder*, noting that in those cases the cause of action was predicated on the FTCA, he was willing to reconsider the holding of the *Washboard* court, under which, as he conceded, the law would be with the fraudulent.⁹⁴ After noting that "what was not reckoned an actionable wrong 25 years ago [in *American Washboard*] may have become such," the court held that it is "unlawful to lie about the quality of one's wares," and that this outcome is "merely a corollary of *Federal Trade Commission v. Winsted Hosiery*

⁹⁰ *Id.* at 753.

⁹¹ See 1A CALLMANN, *supra* note 3, § 5:11. The author is of the opinion that only descriptive (or misdescriptive) marks can serve as a medium for false advertising. *Id.*; see also Annual Report of the FTC for the Fiscal Year Ended June 30, 1922, at 27, available at <http://www.ftc.gov/os/annualreports/ar1922.pdf> ("[T]he advertisements employed tended to create the belief on the part of the public that the new powder which the Royal Co. was placing on the market was in fact Price's Baking Powder, which had been well known for 60 years as a cream of tartar powder, and tended to conceal or obscure the fact that it was a radically different powder."). But see Nathan Isaacs, *Traffic in Trade-Symbols*, 44 HARV. L. REV. 1210, 1216 (1931).

⁹² 7 F.2d 603 (2d Cir. 1925).

⁹³ *Mosler Safe Co. v. Ely-Norris Safe Co.*, 273 U.S. 132, 133 (1927). On appeal, the Supreme Court noted, "[t]he plaintiff admitted that the defendant's safes bore the defendant's name and address and that the defendant never gave any customer reason to believe that its safes were of the plaintiff's make." *Id.* at 132-33.

⁹⁴ *Ely-Norris Safe Co.*, 7 F.2d at 603-04. The District Court, following *American Washboard*, held that these representations did not give a private cause of action. *Id.* at 603.

Co.”⁹⁵ In other words, Judge Learned Hand remedied the asymmetry caused by the line of cases beginning with *American Washboard*, where inter-brand confusion (passing-off) gave rise to a private cause of action, whereas intra-brand confusion (where a seller misrepresents the nature of its own goods) did not. Judge Hand’s decision, however, was reversed.⁹⁶

B. *The Enactment of Section 43(a) of the Lanham Act*

The enactment of the Lanham Act in 1946 was a turning point in the treatment of the law.⁹⁷ It marked a change from a producer-protecting regime to one which recognizes that both consumers and producers alike are the victims of false advertising.⁹⁸ The change, however, was gradual and incomplete. While in the early days of the Lanham Act some courts had expressed the idea that passing-off was still essential to any recovery under section 43(a),⁹⁹ it was soon accepted that the scope of section 43(a) was indeed wider.¹⁰⁰ Gradually, a private remedy was recognized against a trademark owner who had used its own mark to falsely mischaracterize the nature, characteristics, or origins of its *own* goods. The private remedy was limited, however, to *descriptive* marks only.

One early case in which a court interpreted section 43(a) to apply

⁹⁵ *Id.* at 604 (emphasis added).

⁹⁶ *Mosler Safe Co.*, 273 U.S. at 134. The Supreme Court reversed on the ground that the plaintiff could not show loss of customers, noting that even if “the representation was false . . . there is nothing to show that customers had they known the facts would have gone to the plaintiff rather than to other competitors in the market . . .” *Id.*

⁹⁷ Section 43(a) provided:

Any person who shall affix, apply, or annex, or use in connection with any goods or services, or any container or containers for goods, a false designation of origin, or any false description or representation, including words or other symbols tending falsely to describe or represent the same, and shall cause such goods or services to enter into commerce, and any person who shall with knowledge of the falsity of such designation of origin or description or representation cause or procure the same to be transported or used in commerce or deliver the same to any carrier to be transported or used, shall be liable to a civil action by any person doing business in the locality falsely indicated as that of origin or the region in which said locality is situated, or by any person who believes that he is or is likely to be damaged by the use of any such false description or representation.

60 Stat. 427, 441 (1946).

⁹⁸ *U-Haul Int’l, Inc. v. Jartan Inc.*, 681 F.2d 1159 (9th Cir. 1982); *Coca-Cola Co. v. Procter & Gamble Co.*, 822 F.2d 28, 31 (6th Cir. 1987) (“Protecting consumers from false or misleading advertising, moreover, is an important goal of the statute and a laudable public policy to be served.”).

⁹⁹ *Chamberlain v. Columbia Pictures Corp.*, 186 F.2d 923 (9th Cir. 1951); *Samson Crane Co. v. Union Nat’l Sales, Inc.*, 87 F. Supp. 218, 222 (D. Mass. 1949).

¹⁰⁰ *L’Aiglon Apparel, Inc. v. Lana Lobell, Inc.*, 214 F.2d 649 (3d Cir. 1954).

in an intra-brand setting is *Gold Seal Co. v. Weeks*,¹⁰¹ where the plaintiff sought to register its trademark “Glass Wax” in connection with a liquid for cleaning glass that contained no wax. The defendant opposed the application on the ground that the Gold Seal Company used its mark to falsely describe its goods in violation of section 43(a).¹⁰² Although the court denied the claim on the ground that no damages were established, it nevertheless rejected Gold’s contention that section 43(a) did not apply.

Similarly, courts have found that: affixing the mark “Polysapphire” to a product containing no sapphires constitutes false advertising;¹⁰³ the mark “Gelatin Snacks” is false and misleading if attached to a product that does not contain gelatin;¹⁰⁴ and the mark “Syrup of Figs” is deceptive if fig syrup is not a substantial ingredient of the product.¹⁰⁵ In *Abbott Labs v. Mead Johnson & Co.*, the Seventh Circuit determined that the use of the mark “Ricelyte” violated section 43(a)(1)(B) of the Lanham Act because it falsely advertised that the product contained rice when in fact it did not.¹⁰⁶ *In all of these cases, however, the marks were descriptive.*¹⁰⁷ As the *Dunhill* decision demonstrates, the courts declined to extend the “false advertising” prong of section 43(a) to non-descriptive terms.

¹⁰¹ 129 F. Supp. 928 (D.D.C. 1955).

¹⁰² *Id.* at 931, 938.

¹⁰³ See *Johnson & Johnson v. GAC Int’l, Inc.*, 862 F.2d 975 (2d Cir. 1988).

¹⁰⁴ *Kraft Gen. Foods, Inc. v. Del Monte Corp.*, 28 U.S.P.Q.2d 1457 (S.D.N.Y. 1993).

¹⁰⁵ *Clinton E. Worden & Co. v. Cal. Fig Syrup Co.*, 187 U.S. 516 (1903) (refusing to protect the mark “Syrup of Figs” under the doctrine of unclean hands because fig syrup was not a substantial ingredient of the product). *But see* *Coca-Cola Co. v. Koke Co. of Am.*, 254 U.S. 143, 146 (1920) (continued use of the mark “Coca-Cola” after the elimination of cocaine from the plaintiff’s product was not misleading to preclude relief against infringement because “Coca Cola” has come to denote a soda drink “rather than a compound of particular substances” and because the mark owner informed consumers that it no longer used cocaine in the product’s formulation).

¹⁰⁶ 971 F.2d 6, 14 (7th Cir. 1992) (holding that the mark “Ricelyte” was literally false because the product contained “rice syrup solids, which are not a ‘part’ of rice or rice carbohydrates, but rather a completely different carbohydrate, both structurally and functionally”).

¹⁰⁷ See also *Warner-Lambert Co. v. Breathasure, Inc.*, 204 F.3d 87, 97 (3d Cir. 2000) (“[The trademark “BreathASURE”] falsely tells the consumer that he or she has the assurance of fresher breath when ingesting one of the defendant’s capsules. That is not true.”); *Novartis Consumer Health, Inc. v. Johnson & Johnson-Merck Consumer Pharms. Co.*, 129 F. Supp. 2d 351, 364 (3d Cir. 2002) (“As in *BreathASURE* and *Cuisinarts*, the product name Mylanta, ‘Night Time Strength,’ necessarily implies a false message: it falsely represents that it possesses a quality that is particularly efficacious for those suffering from heartburn at night. But that is not true.”); *Potato Chip Inst. v. Gen. Mills, Inc.*, 333 F. Supp. 173 (D. Neb. 1971) (labeling a product fashioned from dried potato granules, instead of sliced raw potatoes, as “Potato Chips” falsely described the product absent a declaration that the product is made of potato granule).

1. *Alfred Dunhill v. Interstate Cigar*

Alfred Dunhill, Ltd. v. Interstate Cigar Co. represents a major setback in the development of section 43(a) jurisprudence.¹⁰⁸ In *Dunhill*, the court refused to extend section 43(a) to enjoin sales of damaged salvaged goods bearing the mark “Dunhill,” notwithstanding the possibility that consumers would be misled into believing that they were Dunhill’s usual high-quality products.¹⁰⁹

Dunhill was the exclusive distributor in the United States of tobacco products manufactured by Alfred Dunhill Limited, a British corporation. After receiving a container that was damaged by water, Dunhill permitted its insurer to sell the tobacco as salvaged. It then contacted the purchaser, Interstate Cigar, and demanded that it mark the tins as salvaged (the damage was not visible to the naked eye).¹¹⁰ Interstate refused and sold the tobacco without advising consumers that the tobacco was salvaged and had been subject to possible water damage. The result was that the consumers who wanted to purchase high-quality Dunhill tobacco were deceived into purchasing damaged tobacco. A lawsuit followed. The District Court for the Southern District of New York found that Interstate Cigar violated section 43(a) when it resold the Dunhill brand without removing the “Dunhill” labels or without affixing a warning to each of the tins:

[D]efendants have falsely represented the quality of the salvaged tobacco in violation of Section 1125(a). Sales of damaged tobacco in tins bearing trademarks associated with high quality tobacco [“Dunhill”], without adequate warnings to customers that the goods are damaged, involve false representations of their quality.

False representations can be the product of *affirmatively* misleading statements, of partially correct statements *or failure to disclose material facts*. *The public can be as easily misled by the purchase of damaged goods in their original containers which the purchasers do not know are damaged as they can be by statements that the goods are not damaged.*¹¹¹

¹⁰⁸ 364 F. Supp. 366 (S.D.N.Y. 1973), *rev'd*, 499 F.2d 232 (2d Cir. 1974).

¹⁰⁹ *Alfred Dunhill, Ltd. v. Interstate Cigar Co.*, 499 F.2d 232 (2d Cir. 1974). *Dunhill* has been recently cited with consent by the Supreme Court in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23, 29 (2003), for the proposition that “§ 43(a) does not have boundless application as a remedy for unfair trade practices.” *See also* *Am. Home Prods. Corp. v. Johnson & Johnson*, 577 F.2d 160, 167 (2d Cir. 1978) (distinguishing *Dunhill* on the grounds that in *Dunhill* there “was no false representation in the sense contemplated by the Lanham Act” because “the goods sold were Dunhill goods”).

¹¹⁰ *Dunhill*, 364 F. Supp. at 371 (“[E]ven if a tin is still airtight or there is no visible rust on the outside of the tin, there can still be some rusting on the inside It is, therefore, impossible to determine whether the tobacco itself in any particular can has been damaged without opening each tin.”).

¹¹¹ *Id.* at 372 (emphases added). The court made it clear that the cause of action arises under

On appeal, the Court of Appeals for the Second Circuit reversed. It relied on the fact that “Interstate never affixed to Dunhill containers false descriptions or representations or even used such descriptions or representations in connection with the sale of Dunhill tobacco products” in determining that no cause of action could arise.¹¹² The court of appeals explained that the district court, in reaching its decision wrongly, “merged” the Lanham Act with section 5 of the FTCA.¹¹³ The court noted that unlike the FTCA, which authorizes the FTC to require sellers to make affirmative disclosures in order to prevent consumer deception, no such affirmative action is mandated under the Lanham Act.¹¹⁴ Thus, it arrived at the following conclusion:

Even if this court were to accept the judgment of the District Court that Interstate has engaged in an unfair trade practice by not relabeling the tobacco tins, *neither the Federal Trade Commission Act nor the Lanham Act provides relief for Dunhill under the circumstances. Not every possible evil has yet been proscribed by federal law.*¹¹⁵

In the court’s view, section 43(a) “is limited to false advertising as that term is generally understood,” and that term does not include a non-descriptive mark in its ambit.¹¹⁶ Finally, the court of appeals noted that Dunhill could not present itself as a “victim” of a false advertising practice, because Dunhill could have conditioned the sale of its tobacco to Interstate Cigar on the latter’s promise to make affirmative claims when selling the salvaged goods.¹¹⁷

the “false advertisement” prong of section 43 noting, “[t]his is not a case in which plaintiffs allege that defendants have reproduced or copied a registered mark. Therefore, there can be no violation of Section 1114 [trademark infringement].” *Id.* at 371. It then granted an injunction prohibiting Interstate from selling the Salvaged Dunhill brand “without taking effective steps to warn their customers that the tobacco has been subjected to possible water damage.” *Id.* at 374.

¹¹² *Dunhill*, 499 F.2d at 235-36.

¹¹³ *Id.* at 237 (“[The lower] court reached its result by reading the Lanham Act in conjunction with ‘unfair and deceptive trade practice’ provisions of the Federal Trade Commission Act . . .”).

¹¹⁴ *Id.*

¹¹⁵ *Id.* (emphasis added).

¹¹⁶ *Id.* (“The [FTCA] does not give competitors the right to sue for unfair advertising and the Lanham Act does not give anyone the right to sue for acts which constitute deceptive trade practices but which do not constitute unfair advertising.”).

¹¹⁷ *See id.* at 238 (“[*Dunhill* presents] a very poor claim as victim of an unfair or deceptive trade practice [because] [t]his is not a case . . . where the defendant acquired plaintiff’s rejected merchandise from unknown third parties and then affirmatively touted it as first quality. Rather, Interstate acquired the tobacco from Dunhill . . . which had voluntarily relinquished title . . . without attaching any conditions to their resale, and sold the tobacco . . . without making any affirmative claims . . . that these were first quality goods.” (citations omitted)).

IV. THE PROPER INTERPRETATION OF THE LANHAM ACT

A. *Dunhill Revisited*

The *Dunhill* holding missed the heart of the issue. The purpose of the Lanham Act and section 43(a) in particular, as was interpreted in *Gold Seal*, was to protect the consuming public. It provided a competitor with a private cause of action because the latter has the knowledge and resources to detect the fraud and, thus, can act as the public's avenger.¹¹⁸ The fraudulent behavior of Interstate Cigar caused damage to both the public and Dunhill. Refusing Dunhill's request thus left consumers with no relief. The decision seems to be predicated on the lack of inter-brand confusion: Since consumers were not confused with regard to the source of the product—the salvaged tobacco cans were indeed Dunhill's—there was no place for relief. *In so doing, the court focused only on the trademark's inter-brand function as a source identifier. It failed to recognize the intra-brand function: that a mark can function as a medium for false advertising.* The sale of the salvaged tobacco without a warning as to possible damage is tantamount to a misrepresentation of its quality and nature. Furthermore, it seems that if Dunhill itself would have begun to continuously sell salvaged tobacco under its own trademark, such an act would be found as an abandonment and would act as a forfeiture. The same rationale should have led the court to issue an injunction.

The focus of the court on the contractual relation is also misplaced. It revitalized the pre-section 43(a) "property-theory" (pressed in *American Washboard*) which dominated the law of unfair competition and ignored the damage to the consuming public. Indeed, a mark is not merely private property which inures to the benefits of its owner; it is also cumulative capital.¹¹⁹ When a mark acquires a secondary descriptive meaning such that the public associates it with a certain attribute or quality, it announces, affirmatively, to the public: "I denote a certain taste, process, or ingredient." Given the negative externality imposed on the consuming public, a contract between two or more

¹¹⁸ *Coca-Cola Co. v. Procter & Gamble Co.*, 822 F.2d 28, 31 (6th Cir. 1987) ("Protecting consumers from false or misleading advertising, moreover, is an important goal of the statute and a laudable public policy to be served. . . . [C]ompetitors have the greatest interest in stopping misleading advertising, and a private cause of action under section 43(a) allows those parties with the greatest interest in enforcement, and in many situations with the greatest resources to devote to a lawsuit, to enforce the statute rigorously. Public policy, therefore, is indeed well served by permitting misrepresentation of quality claims to be actionable under section 43(a).").

¹¹⁹ See Malla Polak, *Your Image Is My Image: When Advertising Dedicates Trademarks to the Public Domain—With an Example from the Trademark Counterfeiting Act of 1984*, 14 CARDOZO L. REV. 1392 (1993).

parties should not have been determinative. It is for this very reason that a naked contract to assign or a license in gross is deemed invalid. It is the concern with regard to third parties—the consuming public—that should have guided the court.

Dunhill was a turning point in the development of section 43(a) jurisprudence. Later decisions following *Dunhill* gave a narrow definition as to what may constitute “advertising,” thereby excluding non-descriptive marks from the ambit of section 43(a).¹²⁰ Many required a statement to be affirmative as a prerequisite for finding a section 43(a) violation,¹²¹ while others focused on the contractual relation (or lack thereof) between the trademark holder and the seller of the branded goods.¹²²

In sum, prior to 1946, the law of false advertising was limited to inter-brand settings. Its aim was to protect competitors, not consumers. Hence, a fraud on the public was not actionable absent a showing of

¹²⁰ The term “advertising” is not defined in the act. For decisions providing a narrow interpretation see: *Am. Home Prods. Corp. v. Johnson & Johnson*, 577 F.2d 160, 167 (2d Cir. 1978); *Z-TEL Commc’ns, Inc. v. SBC Commc’ns, Inc.*, 331 F. Supp. 2d 513, 565 (E.D. Tex. 2004); *Ultra-Temp Corp. v. Advanced Vacuum Sys.*, 27 F. Supp. 2d 86, 91-93 (D. Mass. 1998); *Mktg. Unlimited, Inc. v. Munro*, 27 U.S.P.Q.2d 1396, 1397-98 (W.D.N.Y. 1993); *Tube Alloy Corp. v. Homco Int’l, Inc.*, No. 85-5829, 1989 U.S. Dist. LEXIS 11966 (E.D. La. Oct. 4, 1989); *Ives Labs., Inc. v. Darby Drug Co.*, 455 F. Supp. 939, 949 (E.D.N.Y. 1978).

¹²¹ See, e.g., 15 U.S.C.S. § 1125, interpretative note 90 (LexisNexis 2009) (“There is no duty under § 43(a) of Lanham Act (15 U.S.C.S. § 1125(a)) to make affirmative disclosures since, failure to disclose material facts is not ‘false representation.’”); *Am. Home Prods. Corp. v. Johnson & Johnson*, 577 F.2d 160, 167 (2d Cir. 1978); *Brown v. Armstrong*, 957 F. Supp. 1293, 1303 n.9 (D. Mass. 1997) (“There is support in the caselaw for the proposition that § 43(a)(1)(B) only reaches affirmative misrepresentations.”); *Kienzle v. Capital Cities/ABC, Inc.*, 774 F. Supp. 432, 438 (E.D. Mich. 1991); *Tube Alloy Corp. v. Homco Int’l, Inc.*, No. 85-5829, 1989 U.S. Dist. LEXIS 11966 (E.D. La. Oct. 4, 1989); *Vantage Point, Inc. v. Parker Bros., Inc.*, 529 F. Supp. 1204, 1219 (E.D.N.Y. 1981) (“[Section 43(a)] is concerned with affirmative misrepresentations about the nature . . . of goods a defendant has sold or offered or advertised for sale.”); *Universal City Studios, Inc. v. Sony Corp. of Am.*, 429 F. Supp. 407 (C.D. Cal. 1977); ANNE GILSON LALONDE, 9-III-43 GILSON ON TRADEMARKS § 1125 (LexisNexis 2007). But see *Boshei Enters. Co. v. Porteous Fastener Co.*, 441 F. Supp. 162 (C.D. Cal. 1977), where the same court found that an omission may give rise to a section 43(a) violation. In *Boshei Enterprises*, the plaintiff alleged that defendants, importers of fasteners, in repackaging fasteners violated section 43 of the Lanham Act by (a) the omission to mark the re-packaged fasteners with a label or designation of the true country of origin thereby creating the false impression that the fasteners are made in the United States; and (b) affirmatively creating the false impression that the fasteners are made in the United States by marking their packages with the words “United States” or names of cities within the United States. The court dismissed the defendants’ claim that the holding of *Dunhill* precludes an omission of a material fact from the reaches of the Lanham Act, holding that in doing so the defendants “misread the ratio decidendi in *Dunhill*.” *Id.* at 164. It held that “the law of false representation must necessarily include the omission of the material fact of origin that affirmatively says in the context in which fasteners are sold ‘I am a product of the United States.’” *Id.* The court read *Dunhill* narrowly as holding that *Dunhill* was barred from turning to trademark law to remedy its failure to limit the resale of its goods by contract. *Id.*

¹²² *Analog Devices, Inc. v. W. Pac. Indus.*, No. 97-56329, 1998 U.S. App. LEXIS 15416 (9th Cir. July 8, 1998) (discussing *Dunhill* in the context of the first sale doctrine); *3M, Co. v. Rauh Rubber, Inc.*, 943 F. Supp. 1117, 1128-29 (D. Minn. 1996); *United Brake Sys. v. Am. Envtl. Prot., Inc.*, 963 S.W.2d 749, 755 (Tenn. Ct. App. 1997).

passing-off. This changed with the enactment of section 43(a). The new provision allowed competitors to sue the unscrupulous seller that used a descriptive legend to make an affirmative misrepresentation regarding the nature of its own product. False advertising committed by a failure to remove a non-descriptive mark, however, remained immune from section 43(a).

B. *The 1988 Amendment*

Section 43(a)(1) of the Lanham Act as amended (effective November 16, 1989) reads as follows:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce *any* [1] word, term, name, symbol, or device, or any combination thereof, or any [2] false designation of origin, [3] false or misleading description of fact, or [4] false or misleading representation of fact, which—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) *in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable* in a civil action by any person who believes that he or she is or is likely to be damaged by such act.¹²³

The 1988 amendment has caused two main changes. First, by providing that any person who “misrepresents the nature, characteristics, qualities, or geographic origin of *his or her*” goods shall be liable, Congress made it clear that section 43(a) applies to intra-brand as well as inter-brand settings.¹²⁴ Second, the restructured language of section 43(a)(1)(B) makes it clear that any type of mark, *whether descriptive or not*, can serve as a medium for false advertising. This conclusion follows directly from the plain reading of the italicized word “any” in the preamble and the language that follows the number [1], which is part of the definition of a trademark.¹²⁵ Replacing that language with the term “trademark,” the preamble and section 43(a)(1)(B) would read as follows: Any person who . . . uses in commerce *any trademark* . . . which . . . in commercial advertising . . .

¹²³ 15 U.S.C.S. § 1125(a)(1) (LexisNexis 2009) (emphases added).

¹²⁴ 5 MCCARTHY, *supra* note 14, § 27:25, 27-51.

¹²⁵ 15 U.S.C.S. § 1127 (LexisNexis 2009) (“The term ‘trademark’ includes *any word, name, symbol, or device, or any combination thereof* . . . used by a person . . . to identify and distinguish his or her goods . . . and to indicate the source of the goods, even if that source is unknown.” (emphasis added)).

misrepresents the nature, characteristics, qualities, or geographic origin of his or her . . . goods . . . shall be liable in a civil action.

This language does not differentiate between descriptive marks and non-descriptive ones. It seems to be a departure from the pre-1988 interpretation. Surprisingly, this plain reading of the law was not adopted. Instead, courts and commentators have divided the preamble of section 43(a)(1) into four distinct categories. The first two categories (the use of “any [1] word, term, name, symbol, or device, or any combination thereof”—that is, a trademark; and the use of “any [2] false designation of origin”) are said to apply to subsection 43(a)(1)(A). They provide a cause of action for infringement of a trade-name or an unregistered trademark.¹²⁶ The last two categories (any “[3] false or misleading description of fact” and any “[4] false or misleading representation of fact”) are said to apply to subsection 43(a)(1)(B). They provide a private cause of action in the case of false advertising. Thus, under the current interpretation, section 43(a) is read as follows:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce:

[1] any word, term, name, symbol, or device, or any combination thereof [*that is, a trademark*], or [2] any false designation of origin, false, which (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

[3] any misleading description of fact, or [4] any false or misleading representation of fact, which (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person’s goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.¹²⁷

¹²⁶ For this reason, sections 32 and 43(a)(1)(A) are conditioned upon a finding of likelihood of confusion. Thus, if one has used a trade name for its business or an unregistered mark to designate its product, although the first, being a trade name is not registerable and the second has not been registered with the Patent and Trademark Office (PTO), the senior user of these terms may bring a cause of action against a junior manufacturer that tries to pass-off its business or products as the senior’s.

¹²⁷ See 1A CALLMANN, *supra* note 3, § 5:5. In summarizing the elements of the false advertising prong of section 43(a), Callmann notes:

[T]his section now provides that: “Any person who, on or in connection with any goods or services, . . . uses in commerce . . . any false or misleading description of fact, or false or misleading representation of fact, which . . . in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her . . . goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.”

Id.; see also 5 MCCARTHY, *supra* note 14, § 27:10, at 27-22, § 27:13, at 27-26, § 27:24, at 27-45-46 (noting that the “new statute is divided into two subsections: part one relates to use of the

This categorization is erroneous. If Congress so intended, it could have drafted section 43(a) as it appears above. Congress, however, did not do so. Moreover, by limiting the first category of the preamble—that of marks—to section 43(a)(1)(A), it follows that a mark cannot give rise to a false advertising claim unless it is descriptive, in which case it can be hosted under the auspices of section 43(a)(1)(B). This Article argues that such an interpretation is not only not mandated by the law, but also contradicts its purpose and language. A trademark, even a fanciful one, can gain a descriptive value; and if so, it can be used to mischaracterize one's products.

1. *Pioneer Leimel Fabrics v. Paul Rothman Industries*

Almost twenty years after *Dunhill*, in *Pioneer Leimel Fabrics, Inc. v. Paul Rothman Industries, Ltd.*, the District Court for the Eastern District of Pennsylvania missed a golden opportunity to change the interpretation of section 43(a)(1)(B).¹²⁸ Pioneer manufactured fabric under the marks "Softouch" and "ST" and sold it through its agent Hughes. Similar to the facts in *Dunhill*, after a fire at Pioneer's plant damaged its fabrics, Pioneer authorized its insurer to sell the salvaged fabric. Learning its lesson from *Dunhill*, however, Pioneer conditioned the sale on the purchaser's promise not to disclose that the fabric was Pioneer's or to utilize Pioneer's marks in connection with the damaged goods. After a chain of sales, the salvaged fabric ended up in the hands of Nassimi, who stored the fabric at its own agent's warehouse. It so happened that both Pioneer (the original manufacturer) and Nassimi (the owner of the salvaged fabric) were using the same agent, Hughes. Exploiting the fact that both Pioneer's new fabric and Nassimi's salvaged fabric were stored under its roof, Hughes filled orders for new Pioneer fabric with Nassimi's salvaged fabric. The salvaged fabric was often delivered in Pioneer's original wrapping and its invoices used Pioneer's stocking numbers and trademarks.

Although the sales to Pioneer's customers occurred during the years 1986-89, the court predicated its holding on section 43(a) as amended in 1989.¹²⁹ The new version of section 43(a), however, did

statute as a vehicle for federal court assertion of unregistered trademark, tradename and trade dress infringement claims, and part two relates to use of the statute as a vehicle for federal court assertion of false advertising . . . claims" and stating the elements of each subsection as noted above).

¹²⁸ No. 87-2581, 1992 U.S. Dist. LEXIS 4187 (E.D. Pa. Mar. 31, 1992).

¹²⁹ The parties did not raise the issue of whether the 1988 amendment to section 43(a) is retroactive. See *Pioneer Leimel Fabrics, Inc. v. Paul Rothman Industries, Ltd.*, No. 87-2581, 1992 U.S. Dist. LEXIS 10544 (E.D. Pa. July 20, 1992); 5 MCCARTHY, *supra* note 14, § 27:11 at 27-23 ("The Third Circuit has given the new version of § 43(a) retroactive effect.")

not seem to impact the court's analysis. As in *Dunhill*, the court held that the "unauthorized sale of Softouch, without more, would constitute neither trademark infringement nor unfair competition."¹³⁰ It also adopted *Dunhill*'s ill-based rationale, finding that absent contractual obligations or affirmative misrepresentations, no cause of action can arise under the amended section 43(a):

In *Dunhill*, the court reversed the trial court's finding that Section 1125(a) of the Lanham Act was violated by defendant's resale of water-damaged tobacco with plaintiff's label but without warnings. Plaintiff sold the tobacco *without any resale conditions, and defendant sold it without making any affirmative claims of first quality*. Here, Pioneer's sale of the Fabric to Rothman did contain restrictions Nassimi claims it made "First Quality" representations to one customer only, but other sales were made to customers who thought they were purchasing new goods from Pioneer, not salvage from Nassimi¹³¹

It is unclear to what extent and importance the court gave to the use of the mark "ST" in the invoices that accompanied the sold fabric. Some statements of the court imply that it was willing to view the use of Pioneer's mark on the invoices as a misrepresentation of the fabric's properties on which customers were entitled to rely.¹³² However, the court's emphasis on the contractual restrictions and the affirmative descriptive misrepresentations seem to be the pivotal ground for the court's decision.¹³³

¹³⁰ *Pioneer Leimel*, 1992 U.S. Dist. LEXIS 4187, at *33 (noting that other factors such as descriptive statements of "first quality" established that the sale misled the public).

¹³¹ *Id.* at *32 (emphasis added).

¹³² *See, e.g., id.* at *26 ("ST had acquired requisite secondary meaning, identifying the goods as Pioneer's . . ."); *id.* at *28 ("Customers who purchased the Fabric were likely to be and were confused about the 'source' and quality of the goods they received. The Fabric was invoiced as 'ST' with Pioneer numbers. Customers were led to believe they were receiving not just goods originally manufactured by Pioneer, *but Pioneer first quality goods from an authorized representative*. The use of 'ST,' the receipt and diversion of purchase orders directed to Pioneer, and the absence of any disclaimer on the Fabric constituted a representation that the Fabric was the same quality as the goods distributed through Pioneer's authorized channels." (emphasis added)).

¹³³ The court's discussion seems to be limited to section 43(a)(1)(A), which deals with trademark infringement. It did not discuss whether Hughes' acts constituted false advertising under section 43(a)(1)(B). *See id.* at *29. The sale of damaged goods under the original mark was discussed once again in *United Brake Sys. v. Am. Envtl. Protection, Inc.*, 963 S.W.2d 749 (Tenn. Ct. App. 1997). After a fire destroyed UBS's factory, UBS hired the defendant, AEP, to remove the debris and to dispose of its damaged brake linings. For safety and reputational reasons, UBS wanted to ensure that the damaged breaks bearing its marks would not get into the marketplace. AEP, however, had a different plan: It allowed a subcontractor to resell the damaged linings. At trial UBS presented evidence that buyers of brake linings believed they had purchased quality products from a person authorized to sell them. UBS argued that the sale of the damaged linings constituted trademark infringement (in violation of sections 43(a)(1)(A) and 32 of the Lanham Act). *Id.* at 759. The question whether the resale of the salvaged breaks constituted *false advertising* was not even raised. *Id.* at 757. In affirming the trial court's decision, the court rejected AEP's reliance on *Dunhill*, emphasizing the fact that in *Dunhill* the

V. CONCLUDING REMARKS

A product containing no sapphires cannot be sold under the mark “Polysapphire,” nor can one sell a product containing no gelatin under the mark “Gelatin Snacks.” The mark “Syrup of Figs” is false and misleading in connection to a product not containing figs, and so is “Riselyte” in connection to a product containing no rice. Yet, affixing “Dunhill,” a mark that the public has learned to associate with high quality tobacco, to damaged tins, or “Dr. Price” to a phosphate baking powder which was touted for sixty-six years as not containing any phosphate, does not give rise to a false advertising claim. Put differently, a descriptive mark can enter through the gate of section 43(a)(1)(B); fanciful, arbitrary, and suggestive marks cannot.

This Article shows that this bizarre outcome is the result of the inter-brand approach that dominated the law of trademark and unfair competition and the narrow view that “the only legally relevant function of a trademark is to impart information as to the source.”¹³⁴ This Article, on the other hand, argues that a trademark often provides information about the product itself and that such information reduces consumers’ error costs. More specifically, it reduces consumers’ uncertainty with regard to credence qualities, thereby impacting the number of units purchased. The flip side is that a trademark—any trademark—may be used by its owner to mischaracterize its own goods. Trademark law, however, protects consumers primarily against passing-off. It provides the trademark owner with a cause of action against sellers that wish to free ride on the owner’s goodwill. It does not provide a remedy against the seller (the mark owner) that uses its own non-descriptive trademark to mischaracterize its own product.

The law of false advertising was also limited to inter-brand settings. Beginning with cases such as *American Washboard*, courts held that absent passing-off a private cause of action could not arise under trademark or false advertising law. “Just fraud” on one’s own consumers was not actionable. This is well illustrated in *Royal Baking Powder Co. v. FTC*, where the petitioner (relying on *American Washboard*) boldly argued “that no statute or decided case has declared that a manufacturer or trader owes to his competitors the duty of refraining from misrepresentation of the quality or ingredients of his

“lawful owner of the goods at issue voluntarily permitted the insurance company to salvage and sell the goods,” whereas UBS took all the necessary steps to ensure that its linings would not be sold. *Id.* at 755.

¹³⁴ *Smith v. Chanel, Inc.*, 402 F.2d 562, 566 (9th Cir. 1968); see also *supra* note 5 and accompanying text.

own goods, and that, on the contrary, it has been firmly held that no such duty exists.”¹³⁵

In 1946, with the enactment of the Lanham Act, the law of false advertising was broadened to include intra-brand fraud. Section 43(a) of the Lanham Act as amended in 1988 provides that any person who uses “any word, term, name, symbol, or device” to “misrepresent[] the nature, characteristics, qualities, or geographic origin of his or her goods shall be liable in a civil action.”¹³⁶ For historical reasons, the old inter-brand view has taken precedence over the plain wording of section 43(a)(1)(B). Arguing against this situation, this Article suggests courts adopt the interpretation that follows from a strict reading of the Lanham Act. Providing a competitor with a private cause of action against the seller who uses a suggestive, arbitrary, or fanciful mark to misrepresent its own products will complete a process that started over half a century ago and will harmonize the law of false advertising with the law of trademark abandonment. It will assign competitors their traditional role as the “avenger of the public” and relieve the heavy burden which rests today on the narrow shoulders of the FTC.¹³⁷ To hold otherwise would be to condone public deceit.

¹³⁵ 281 F. 744, 750 (2d Cir. 1922).

¹³⁶ 15 U.S.C.S. § 1125(a) (LexisNexis 2009).

¹³⁷ See *supra* note 118 and accompanying text.