

# EMOJI®: THE OTHER TECH MONOPOLY

*Edward T. Brawley*<sup>†</sup>

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## I. INTRODUCTION

“From these fountains whosoever will may drink, but an exclusive right to do so cannot be acquired by any,” inveighed a Kentucky court in 1883. Asked for its opinion in an early trademark dispute, this court, like U.S. federal courts throughout the twentieth century, backstopped its reasoning with the fundamental principle that language is “the common property of mankind.”<sup>1</sup> Dating back to the earliest trademark cases, there has been an undercurrent of worry that granting commercial entities the exclusive use of words in certain ways with respect to markets would “monopolize the language.” These concerns are just one

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<sup>†</sup> Edward T. Brawley is a third-year student at Benjamin N. Cardozo School of Law and an Articles Editor for the *International Comparative, Policy & Ethics Law Review*. He has previously written for a variety of outlets, including The Onion New Network, The Upright Citizens Brigade Theater, Vulture, and Esquire. He received a B.A. in Philosophy from Virginia Tech in 2007. Mr. Brawley would like to thank the dedicated staff of the *International Comparative, Policy & Ethics Law Review* for their invaluable contributions to this note

<sup>1</sup> *Avery & Sons*, 81 Ky. at 90.

manifestation of the general duality of the trademark as a legal concept: on one hand the right to a trademark is a property right because the trademark holder can exclude others from using its mark in certain circumstances;<sup>2</sup> but on the other hand, the mark's value is, in theory, always predicated on the connection to the sale of certain goods or services.<sup>3</sup>

In February 2016, about 18 months before Sony Pictures Animation's *The Emoji Movie* was set to open, that studio learned that its U.S. trademark applications for the phrase THE EMOJI MOVIE had been refused.<sup>4</sup> The examining attorney had identified a likelihood that consumers would confuse Sony's applied-for THE EMOJI MOVIE marks with several existing registered trademarks, each for EMOJI, in standard characters, for International Classes 14, 16, 25, and 41—a fundamental contravention of 15 U.S.C. § 1052(d)—as well as about 15 prior-filed applications, all for EMOJI in different product categories, which would pose even more of a likelihood of confusion in the same marketplace as Sony's THE EMOJI MOVIE mark.<sup>5</sup> It turns out a German limited liability company had spent the handful of years since emojis were introduced systematically registering EMOJI as a standard character trademark in as many product categories as possible in trademark offices across the world.<sup>6</sup> The company, listed on its reams of

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<sup>2</sup> See 15 U.S.C. § 1114 (Lanham Act § 32) (federal cause of action for infringement of a non-registered trademark); 15 U.S.C. § 1125(a) (Lanham Act § 43(a)) (federal cause of action for infringement of a registered trademark).

<sup>3</sup> See *infra* Part II(A)(2).

<sup>4</sup> See generally Kim Masters, *Frowny Face: Sony Pictures Faces Legal Spat Over 'The Emoji Movie'*, THE HOLLYWOOD REPORTER (Jun. 1, 2016, 5:30 AM), <https://www.hollywoodreporter.com/news/frowny-face-sony-pictures-faces-898523> (there were actually three applications, all of which received a first refusal Office Action on February 18, 2016 and were later abandoned); see U.S. Trademark Application Serial No. 86/794,772 (filed Oct. 21, 2015; abandoned Dec. 20, 2016) (for THE EMOJI MOVIE in Class 9 for electronics and video game merchandise); U.S. Trademark Application Serial No. 86/794,817 (filed Oct. 21, 2015; abandoned Dec. 20, 2016) (for THE EMOJI MOVIE in Class 28 for toys and games); U.S. Trademark Application Serial No. 86/794,807 (filed Oct. 21, 2015; abandoned Dec. 20, 2016) (for THE EMOJI MOVIE in Class 25 for clothing merchandise).

<sup>5</sup> See 15 U.S.C. § 1052(d), Lanham Act § 2(d) ("No trademark by which the goods of the applicant may be distinguished from the goods of others shall be refused registration on the principal register on account of its nature unless it . . . (d) Consists of or comprises a mark which so resembles a mark registered in the Patent and Trademark Office, . . . as to be likely, when used on or in connection with the goods of the applicant, to cause confusion, or to cause mistake, or to deceive[.]"); see U.S. Trademark Application *supra* note 5, *et seq.* (prosecution materials available on the Patent and Trademark Office's online database).

<sup>6</sup> See EMOJI®: THE ICONIC BRAND – CORPORATE, <http://www.emoji.com/corporate/> (last visited Oct. 27, 2018) ("Cross category merchandise: Our trademarks cover up to 25 categories throughout the world. From apparel to cosmetics, from lifestyle to jewelry, from food and

prosecution records as The Emoji Company GmhB, touts its intellectual property portfolio throughout its online presence: “emoji® is a registered trademark in 100+ countries”; the firm has “signed more than 550 noteworthy partnerships with the biggest corporations all around the globe,” it offers “10.000+ icons<sup>7</sup> for cross category merchandising,” and it can claim “[b]road trademark protection in more than 25 classes [of goods and services.]”<sup>8</sup> The Emoji Company GmhB is a licensing house, meaning its “noteworthy partnerships” are really noteworthy “trademark co-existence agreements.”

Sometime between February 2016 and the movie’s release in July 2017, Sony entered into one such agreement with The Emojj Company (“TEC”). It is not a surprise to learn that the details of that arrangement remain confidential, but one British film blog claims, without naming a source, that “Sony is believed to have paid nearly \$1 million.”<sup>9</sup>

To the extent this is accurate, which seems reasonable, this means that Sony paid \$1 million for these licenses. The movie went on to make \$209 million worldwide. On this scale, the \$1 million is a very small price to pay to maintain this exclusive, lucrative market fenced-in. But not just fenced in to artificially maintain the distinctiveness of lucrative public domain property, fenced in and accessible only to interested parties with \$1 million to spare.

This Note argues that The Emoji Company’s licensing agreement with Sony, and its trademark licensing operation in general, are anticompetitive in violation of the Sherman Act and other antitrust statutes. It provides two theories. One theory of liability rests on the true premise that another major movie studio could not make a movie about emojis and sell emoji-related merchandise if it wanted to. Since emojis are in the public domain, it should be *able* to compete with Sony in the market for emoji-related blockbuster studio movies, even though the reasons not to transgress against industry norms on such a scale would be much weightier. In any event, even this hypothetical restraint on competitor activity is a *per se* violation of Sherman Act § 1.

The second theory focuses on The Emojji Company as a single firm. On this theory, TEC has used anticompetitive tactics to

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beverages to sweets and beverages [*sic*], from sporting articles to beachwear, from household, school and teaching articles, from toys and playthings to printed matters [*sic*] of any kind.”)

<sup>7</sup> “Icon” is The Emoji Company’s preferred replacement for generic uses of “emoji”; *see, e.g., id.*

<sup>8</sup> EMOJI®: THE ICONIC BRAND – CORPORATE, *supra* note 7.

<sup>9</sup> Simon Brew, *The Bidding War for The Emoji Movie*, DEN OF GEEK! (Sept. 11, 2017), <http://www.denofgeek.com/us/movies/the-emoji-movie/267485/the-bidding-war-for-the-emoji-movie>.

accumulate a huge competitive advantage and continues using them to protect and reinforce its dominance as an incumbent firm. The most straightforward version of this theory explains that TEC's operation is facilitated by an arbitrary byproduct of Apple's introduction of emojis to the U.S.—the off-the-charts generic exposure to emojis as generic, public domain symbols. The context in which people most encounter emojis is on their digital keyboards, which presents them as equivalent to basic public-domain letters. This repeated exposure gives TEC an unearned competitive advantage, since this exposure has a familiarizing effect, as can be seen from basic advertising principles.

This Note argues that this creates an anticompetitive monopoly, which is true in several ways. First, Part II described the parties as The Emoji Company, an international trademark licensing operation based in Germany, and Sony Pictures Animation, a competitor in the market for big-budget Hollywood children's movies. Part III goes into greater detail in defining that market, whose scope, for U.S. purposes at least, is dictated by U.S. trademark laws, namely the Lanham Act, and identifies external factors that could have dramatic effects on the channels of market power. Finally, Part IV sets forth two rough models for antitrust liability, cartel activity in violation of Sherman Act § 1, and single-firm monopolistic conduct in violation of Sherman Act § 2.

## II. THE FIRMS

### *A. The Official Emoji Brand®*

The Emoji Company's official website, emoji.com, is a sight to behold, a must for the emoji completist. The header on the home page, prominently declares that visitors are now in the presence of "The Official Brand" and "emoji®: THE ICONIC BRAND."<sup>10</sup> The site itself is divided into two parts: the store, which offers nearly any imaginable emoji-themed consumer good; and the licensing shop, where TEC does brisk business with advertising firms who seek to use emojis in their work.<sup>11</sup> The licensing industry—TEC and competitors—perpetuates itself in large part through global conventions like the Las Vegas

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<sup>10</sup> This paper will use this notation for convenience, and SEO. EMOJI®: THE ICONIC BRAND – CORPORATE, *supra* note 7.

<sup>11</sup> See EMOJI®: THE ICONIC BRAND – LICENSEES, <http://www.emoji.com/corporate/partner/> (last visited Oct. 27, 2018) ("Our clients come from the classic licensing industry, they are active in the field of promotions, they do loyalty programs or integrate our brand and our icons into their global marketing campaigns.").

Licensing Expo<sup>12</sup> and Brand Licensing Europe,<sup>13</sup> sponsored by the International Licensing Industry Merchandisers' Association (LIMA), and TEC has fared quite well at these shows. According to un-bylined articles in licensing industry trade blogs, written in the same anachronistic English as the emoji.com copy, TEC was shortlisted in 2017 for “Best teen or adult brand” at the “Licensing Awards” at last year’s Las Vegas event.<sup>14</sup> To speculate based on recent trademark application activity and news announcements on emoji.com, the next phase in the brand’s development includes “financial services” involving a lottery, emoji-themed pet boarding services, and a record label called—what else?—Emoji Records.<sup>15</sup>

Marco Hüsge, Founder and CEO of The Emoji Company, claims he became interested in emojis sometime in 2013.<sup>16</sup> By that time emojis had been in wide use for about 2 years in the United States, since the Apple keyboard was introduced in 2011.<sup>17</sup> Hüsge explains that

[a]t an early stage in 2013 the management of today’s emoji company GmbH was simply amazed by the beauty of communicating via digital icons and this perfect method to express any sort of emotions when using social messenger applications or sending SMS text messages. The management also realized that those little small [*sic*] icons had only been used in the field of digital communication. It was this moment that made the management think about the idea to create an iconic life style brand [*sic*] that would deliver its message to customers all over the world solely by using icons. So the idea was born.<sup>18</sup>

<sup>12</sup> *The World’s Largest Trade Show Dedicated to Licensing*, LIMA: LAS VEGAS LICENSING EXPO 2019, <http://www.licensingexpo.com/about> (last visited Jan. 19, 2018, 11:12 PM).

<sup>13</sup> *The Definitive Event for the Licensing Industry in Europe*, LIMA: BRAND LICENSING EUROPE 2019, <http://www.brandlicensing.eu/about> (last visited Jan. 19, 2018, 11:20 PM).

<sup>14</sup> Samantha Loveday, *Property Shortlist Confirmed for the Licensing Awards*, LICENSINGSOURCE.NET (Jan. 26, 2018), <http://www.licensingsource.net/property-shortlist-confirmed-for-the-uk-licensing-awards/> (the Emoji Company’s homepage also claims it was named #3 “Most Influential Brand of 2017” by Licensing.biz. Coca-Cola is #2, but this claim could not be verified because the post does not include a link).

<sup>15</sup> See EMOJI®: THE ICONIC BRAND – EMOJI RECORDS, <http://www.emoji.com/emoji-records/> (last visited Oct. 27, 2018) (direct Apple Music, iTunes, Spotify, Amazon Music, and Google Play links available to purchase new single “emoji®: We don’t need words to talk”).

<sup>16</sup> EMOJI®: THE ICONIC BRAND – CORPORATE, *supra* note 7.

<sup>17</sup> *Standard Emoji Keyboard Arrives to iOS 5, Here’s How to Enable it*, 9TO5MAC (Jun. 8, 2011), <https://9to5mac.com/2011/06/08/standard-emoji-keyboard-arrives-to-ios-5-heres-how-to-enable-it/> (This was followed in 2013 by Android introducing its own emoji keyboard); see also Arielle Pardes, *The WIRED Guide to Emoji*, WIRED (Feb. 1, 2018), <https://www.wired.com/story/guide-emoji/>.

<sup>18</sup> EMOJI®: THE ICONIC BRAND - CORPORATE, *supra* note 7.

“[T]he idea” being to start an “Official Emoji Brand.” Reading between the lines of this statement somewhat, Hüsge is setting out his theory of the “Official Emoji Brand”: that people had, until 2013, only encountered “those little small icons” via digital communication channels, and The Official Emoji Brand’s great achievement was to start offering real life products inspired by emojis. Extrapolating from this general idea, one finds, perhaps surprisingly, that this is all perfectly legal within the Lanham Act, specifically within the anonymous source provision at § 77.<sup>19</sup> First of all, there is nothing *per se* preventing a private company from co-opting a brand new viral concept, branding it as it pleases (in terms of goods and services offered and the visual presentation of that viral concept—emojis are a fairly unusual example because they are inherently visual, meaning even fewer sunken costs for TEC), and then claiming the acquired meaning of the association between the company and the “brand” of the viral concept as a result of this investment. This roughly tracks the very behavior anticipated in the Lanham Act’s provision at § 2(f), recognizing acquired secondary meaning for otherwise generically descriptive trademarks.<sup>20</sup> In this case, the easy argument would be that “emoji” is a generic word and therefore has no source-identifying capabilities. However, there is nothing, in theory, that can negate the argument that the common notion of emojis, which most people think of as generic for the genre of things that are little smiley faces that people send through their phones, is a product of The Official Emoji Brand’s branding—for all we know, The Emoji Company’s careful quality control in its licensing practices is responsible, at great expense no less, for the very idea, or “brand,” of emojis many people think of as “generic.” Of course nobody would consciously *know* the source, since nobody has ever heard of The Emoji Company, but the Lanham Act goes out of its way to protect trademarks even when the source is *unknown*.<sup>21</sup>

This is interesting in a mostly academic trademark law sense, but it is also not hard to see the next example being not so clear-cut, in terms of what percentage of the “primary significance” of an alleged trademark in a given market is due to that trademark claimant’s

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<sup>19</sup> 15 U.S.C. § 1027(1)-(2) (2006) (“to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”).

<sup>20</sup> 15 U.S.C. § 1052(f); *see, e.g.*, *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

<sup>21</sup> 15 U.S.C. § 1027(1)-(2).

investment as an “anonymous source” of the aesthetic qualities, etc., of the goods or services.<sup>22</sup> Indeed, in the years since the company’s inception in 2013, it has aggressively expanded and acquired trademark rights in the EMOJI as a word mark in as many product categories as possible.<sup>23</sup> As the company’s website puts it, “[its] trademarks cover up to 25 categories throughout the world. From apparel to cosmetics, from lifestyle to jewelry, from food and beverages to sweets and beverages [*sic*], from sporting articles to beachwear, from household; school and teaching articles, from toys and playthings to printed matters of any kind. Obtain a license from one of [its] representing agencies[.]”<sup>24</sup>

### B. Sony Pictures Animation

Sony is relevant to the extent its relationship between The Emoji Company and Sony Pictures Animation is relevant. SPA and TEC have both horizontal and vertical business relationships—Sony is a manufacturer and distributor of movies, TEC is an IP licensing firm; Sony is a manufacturer and distributor of films and other entertainment, TEC has expressed an interest in expanding into such a market role.<sup>25</sup>

Another crucial point is that the SPA-TEC deal was completely above-board and approved by its competitors. The least interesting perspective in the entire story is the industry perspective, which sees the deal as a standard boilerplate merchandising deal. SPA is merely competing in a well-established entertainment market according to widely accepted business practices. As we will see, if we conceive of the “market” that is being monopolized here as the market corresponding to the possible demand for emoji-licensed merchandise

<sup>22</sup> See generally *Kellogg Co. v. Nat’l Biscuit Co.*, 305 U.S. 111, 119 (1938).

<sup>23</sup> EMOJI®: THE ICONIC BRAND - CORPORATE, *supra* note 7 (at the “cross category merchandise” heading on this page of the website).

<sup>24</sup> *Id.* (it is not at all hard to imagine, especially given the unpredictability of media markets, emojis eventually becoming highly guarded proprietary cultural assets, like Disney characters. There is something to be said for this arrangement, that a major Hollywood studio knows better how to “manage the franchise,” so to speak. There are some interesting parallels between this attitude towards borderline public-domain cultural properties and the pharmaceutical industry-dictated norms around extending drug patent monopolies (see § IV(A), *infra.*) and some of Microsoft’s initial arguments for allowing it to push Netscape out of the browser market by packaging its Internet Explorer with its market-dominant Windows 95 operating system (see § IV(B)(2) *infra.*). “Any other rule, Microsoft argues, ‘would enmesh the courts with technical and uncertain inquiry into the technological justifiability of functional integration and cast unfortunate doubt on the legality of product innovations in serious detriment to the industry and without any legitimate antitrust purpose.’”).

<sup>25</sup> *The Emoji Company: Writing a New Language*, LICENSE GLOBAL (Oct. 4, 2017) <https://www.licenseglobal.com/magazine-article/emoji-company-writing-new-language>.

and services, one effect of the SPA-TEC deal was to draw a hard line in that market that effectively excludes all producers smaller than Sony, by legal budget. As though the picture is not bleak enough, the agreement exists in a market with few competitors—other Hollywood studios, streaming sites, and maybe foreign studios—whose interests happen to dovetail with both Sony and TEC. Even though the SPA-TEC is behind the scenes for most people, its consequence is present in the “overall commercial impression” of the movie, so to speak. It presents emojis as though they are the X-Men, a proprietary film franchise that is the property of one studio (an industry heavyweight). When it is seen as normal that big entertainment conglomerates can just reach out and claim something like emojis as their own, no questions asked, all big entertainment conglomerates win. It would be like a pharmaceutical company suddenly crusading for more principled enforcement of patent laws, so drugs could go generic sooner.

### III. THE MARKET

Defining the market affected is one of the most important and debated requirements of a successful antitrust complaint. Here, the market is likely the most difficult element of the claim to establish, but, by looking to predictable sorting factors in the collective supply chain available to meet the available demand for Emoji Stuff (ES), versus the currently practicable supply chain, a workable market definition is possible.

As a starting point, it is possible to pinpoint a but-for cause of The Emoji Company’s anticompetitive power (at least as it relates to the U.S. market and U.S.P.T.O. trademark registrations) to a single act: Apple’s 2011 release of iOS 5, a fairly routine update to the operating system software that runs iPhones.<sup>26</sup> Although it was possible to text emojis on U.S. smartphones before this update, this is the official Apple update that made the emoji keyboard part of the standard suite of communication tools at one’s disposal when entering text into a digital field on that or any other touch screen device.<sup>27</sup> The scale of this decision is difficult to wrap your head around, since on one hand the emoji keyboard is a novelty, a tiny widget that can only really be used in certain contexts. On the other hand, however, this iPhone software update caused emoji use to skyrocket, spurred heated intergenerational

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<sup>26</sup> Jeff Blagdon, *How Emoji Conquered the World*, VERGE, March 4, 2013, <https://www.theverge.com/2013/3/4/3966140/how-emoji-conquered-the-world>.

<sup>27</sup> *Id.*

debates about culture and society, altered the nature of human communication in a discernable, fundamental way. According to experts, 3.2 billion people worldwide – nearly half the world’s population – had internet access by 2016, and an overwhelming 75 percent of those used smart phones.<sup>28</sup> Current estimates put the number of emojis sent each day at around 6 billion, making it the most used system of communication on Earth.<sup>29</sup>

This creates an intellectual property valuation problem of an unprecedented scale. Brand marketers struggle to get their trademarks in front of enough of the right target audience to eke out slim profit margins, often requiring large investments in advertising. Each day, the Official Emoji Brand gets billions of free impressions when people across the world pull up their smart phone keyboard to send any communication.<sup>30</sup> This creates almost a category-error-like effect when analyzed according to standard IP valuation methods, and similarly when subject to the available methods for discerning and attributing meaning for the purposes of trademark law, as provided in the U.S. Lanham Act. Toward a workable model of the facts, this uncertainty can be explained by several baseline facts unique to the emoji example. First, the unusual degree to which trademark registration(s) of EMOJI as a standard character mark can allow the trademark registrant to exercise control over the representation of emojis in that specific product category.<sup>31</sup> Second, the inherently visual nature of emojis.

<sup>28</sup> VYVYAN EVANS, *THE EMOJI CODE: THE LINGUISTICS BEHIND SMILEY FACES AND SCAREDY CATS* 21-22 (Picador 2017).

<sup>29</sup> See generally *id.* (Evans points out that this makes it more popular than any traditional language, including English and Chinese. This point seems to be largely rhetorical, as he is playing fast and loose with the methodology, but still, pretty impressive).

<sup>30</sup> See Mitchel Broussard, *Messages in iOS 10: How to Use Emoji Replacement and Prediction*, MACRUMORS (Sept. 13, 2016, 6:21 PM), <https://www.macrumors.com/how-to/ios-10-messages-emoji/> (in its intervening OS updates, Apple has updated to the full predictive emoji AutoCorrect, free advertising for TEC on a biblical scale); see MARA EINSTEIN, *BLACK OPS ADVERTISING: NATIVE ADS, CONTENT MARKETING, AND THE COVERT WORLD OF THE DIGITAL SELL*, 109-111 (O/R Books 2016) (“Bottom line: companies need to get people talking about their product, and the more the better. Luckily for them, because of digital technology we share more content with more people than we ever have, more quickly and more often . . . [W]ord of mouth is integral to stealth forms of marketing because ‘peer group recommendation is the ultimate marketing weapon.’”) (quoting Andrew M. Kaikati & Jack G. Kaikati, *Stealth Marketing: How to Reach Consumers Surreptitiously*, 46 CALIFORNIA MANAGEMENT REVIEW 6-21 (2004)).

<sup>31</sup> Cf. *Elliott v. Google, Inc.*, 860 F.3d 1151, 1160 (9th Cir. 2017) (“Here, [the survey administrator] asked 251 respondents: ‘If you were to going to ask a friend to search for something on the Internet, what word or phrase would you use to tell him/her what you want him/her to do?’ Over half of 251 respondents answered this question by using the word ‘google’ as a verb.”). Imagine the numbers if the administrator asked, “If you were going to ask a friend to text you a little expressive smiley face that helps clarify the tone of the message, what word or

Perhaps because they were intended to ameliorate confusion between two parties when communicating via text-based medium, they draw one's attention in, they inspire positive feelings, and the like.<sup>32</sup>

Finally, from a purely economic perspective, there is one hard number: the \$209 million SPA made at the box office with *The Emoji Movie*. The Emoji Company, to be fair, has this scale of goodwill at its disposal only after a few years hard work (although with presumably low sunken costs). The method used starts with establishing filing dates, via trademark applications in jurisdictions across the world.

### A. U.S. Trademark Law

A trademark is “any word, name, symbol, or device, or any combination thereof. . . used by a person. . . to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”<sup>33</sup>

Until the 1900s, trademarks were largely unnecessary in the United States.<sup>34</sup> Most people lived in rural areas and did their shopping face-to-face with local merchants with whom they were familiar, so there was no need for source-identifying branding.<sup>35</sup> As the twentieth century got underway, however, Americans began migrating to large cities and commerce expanded beyond one's familiar town of people (and products) to faraway sources, and the number of commercial options facing the average consumer skyrocketed.<sup>36</sup> Interestingly, this is also the era in which brands began putting faces on their products to seem more trustworthy and likable.<sup>37</sup> The advertising industry during this period,

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phrase would you use?” or “If you wanted to search an online retailer for merchandise relating to the little yellow smiley faces, what word or phrase would you use?”

<sup>32</sup> Marc Schenker, *The Surprising History of Emojis*, WEB DESIGNER DEPOT (Oct. 19, 2016, 3:54 PM), <https://www.webdesignerdepot.com/2016/10/the-surprising-history-of-emojis> (detailing the actual invention of emojis, by Japanese designer Shigetake Kurita, as inspired by the need to ameliorate interpretive confusion in emails, still a new medium in 1999).

<sup>33</sup> 15 U.S.C.A. § 1127 (West 2006).

<sup>34</sup> Edward S. Rogers, *Some Historical Matter Concerning Trade Marks*, 9 MICH. L. REV. 29, 41-43 (1910).

<sup>35</sup> *Id.* at 39.

<sup>36</sup> See Bartholomew, *supra* note 1, at 14, at n. 118 (“[T]he variety of foods and the number of brands being introduced to the American woman by 1910 must have been staggering.”) (quoting JAMES D. NORRIS, *ADVERTISING AND THE TRANSFORMATION OF AMERICAN SOCIETY, 1865-1920*, 107 (1990)).

<sup>37</sup> MATT HAIG, *BRAND FAILURES: THE TRUTH ABOUT THE 100 BIGGEST BRANDING MISTAKES OF ALL TIME 1* (Kogan Page Ltd., 2003) (“In the 1880s, companies such as Campbell's, Heinz and Quaker Oats were growing ever more concerned about the consumer's

such that it was, had shifted from the purely informational approach to such bare persuasion tactics, appealing to consumers' sub-rational psychological impulses.<sup>38</sup>

Trademark courts were not thrilled with this. The whole point of trademark law was to preserve the goodwill engendered by high quality products and minimize the consumer's search costs in the marketplace.<sup>39</sup> Judge Learned Hand, for one, worried that the new mass persuasion techniques of advertising would warp this entire incentive dynamic, namely, that "the art of advertising [would] spuriously reinforce[] a genuine demand [for a mediocre product] by the power of suggestion."<sup>40</sup> A Pennsylvania district court speculated that "a very small improvement" to a product, multiplied by "a mastery of the psychology of advertising" could lead to a *de facto* monopoly in the market for the product in question.<sup>41</sup> Meanwhile, the advertising industry was just coalescing into its modern form, both structurally and morally; a popular trade publication went as far as to refer to advertising agents, not as agents, but as "attorneys."<sup>42</sup>

The federal trademark act, introduced into the House of Representatives by Texas Congressman Fritz Lanham and signed into law by President Harry S. Truman in 1946, was necessitated by the Supreme Court's decision in *Erie Railroad Co. v. Tompkins* eight years before.<sup>43</sup> As illustrated in the foregoing, U.S. trademark law until the 1900s was a state common law matter. As the economy expanded with

reaction to mass-produced products. Brand identities were designed not only to help these products stand out, but also to reassure a public anxious about the whole concept of factory-produced goods. By adding a 'human' element to the product, branding put the 19th-century shoppers' minds at rest. They may have once placed their trust in their friendly shopkeeper, but now they could place it in the brands themselves, and the smiling faces of Uncle Ben or Aunt Jemima which beamed down from the shop shelves.").

<sup>38</sup> Bartholomew, *supra* note 1, at 12-13 ("Between 1880 and 1920, advertising evolved from a relatively small part of American commercial life into a crucial component of the national economy. The nature of advertising also changed. Where advertising had once simply supplied raw information about a product to consumers, by the 1920s, advertising was a professional art that relied on emotional appeals with little to no informational content.").

<sup>39</sup> See, e.g., Stacey L. Dogan & Mark Lemley, *What the Right of Publicity Can Learn from Trademark Law*, 58 STAN. L. REV. 1161, 1165 (2006) ("Trademarks are not property rights in the traditional sense, though a few courts and commentators have suggested that trademark owners should have property-like rights over their marks. Trademark cases tend instead to be decided either based on likelihood of confusion or on dilution grounds, both of which bear a clear relationship to the goal of protecting trademarks as informational symbols in the marketplace.").

<sup>40</sup> *Shredded Wheat Co. v. Humphrey Cornell Co.*, 250 F. 960, 962 (2d Cir. 1918).

<sup>41</sup> *Dayton Eng'g Labs. Co. v. Kent*, 260 F. 187, 189 (E.D. Penn. 1918).

<sup>42</sup> Bartholomew, *supra* note 1, at 19.

<sup>43</sup> 304 U.S. 64 (1938); see, e.g., Sergei S. Zlinkoff, *Erie v. Tompkins: In Relation to the Law of Trade-Marks and Unfair Competition*, 42 COLUM. L. REV. 955 (1942).

the help of mass media advertising and cheap long-distance shipping in the early twentieth century, trademark common law expanded with it.<sup>44</sup> Eventually, by the time the Supreme Court decides *Erie* in 1938, there was something like a federal common law of trademarks.<sup>45</sup> *Erie*, however, held that federal courts sitting in diversity jurisdiction were to apply state law, rather than federal common law.<sup>46</sup> Trademark courts were especially confused by the change, since this area of the law happens to require a comprehensive registry and registration infrastructure. “Are all cases of trade-marks and unfair competition to be resolved by reference to ‘state’ law, or is there to be a differentiation between cases involving trade-marks registered under the Trade-Mark Acts, and those not so registered?” practitioners wondered.<sup>47</sup> Would different law apply “depending upon whether the marks in question are registered under the 1905 Act or the 1920 Act? Will the ‘remedies’ provided for by the Trade-Mark Acts be governed by federal law whereas the determination of the ‘rights,’ upon the basis of which the remedies are invoked, be controlled by state law?”<sup>48</sup> The passage of the Lanham Act would consolidate and streamline the existing, roughly agreed-upon nationwide trademark law.<sup>49</sup>

### 1. The Lanham Act

The Lanham Act is built on a few broad, interlocking principles. First, trademarks are basically only as strong as their source-identifying capability.<sup>50</sup> That is, trademarks are chiefly concerned with making it very easy for consumers to spot the product they want from among a shelf of competitors’ products, and with instilling confidence that when a person buys a company’s trademarked products, the products will actually have been made by the company the trademark identifies as the source of the products. Second, this source-identifying function—the Prime Directive of trademarks, so to speak—is operationalized through the concept of distinctiveness. The Lanham Act has a very positivist

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<sup>44</sup> Bartholomew, *supra* note 1, at 30-32.

<sup>45</sup> See generally Zlinkoff, *supra* note 44.

<sup>46</sup> *Erie R.R. Co. v. Tompkins*, 304 U.S. at 64 (1938).

<sup>47</sup> Zlinkoff, *supra* note 44, at 956.

<sup>48</sup> *Id.*

<sup>49</sup> *Id.* at 986.

<sup>50</sup> See, e.g. *Elliott*, 860 F.3d at 1156 (holding that GOOGLE remains a valid trademark, despite massive-scale use of the word as an indiscriminate verb meaning “to search the internet,” since the vast bulk of these consumers still know that this indiscriminate use references a particular source of internet searches, namely Google).

attitude about distinctiveness. It takes the view that even if a trademark would seem to have no source-identifying capability, such as a sporting goods store called “Sports Store,” the application will be registered if the applicant can show that the seemingly merely descriptive phrase has acquired sufficient distinctiveness through repeated exposures to consumers in its capacity as identifying this particular producer as the source of this particular version of a generic good.<sup>51</sup> Third, this concept of source-identifying use is often framed as the counterpart to a given specific category of *per se* non-source-identifying trademarks: marks that are used merely ornamentally.<sup>52</sup> This distinction is often a fine one, one instantiation being the difference between a T-shirt with a random word or phrase across the front and a similar T-shirt with another word, a trademark, across the front that registers to people who encounter the shirt as the name of the brand that made the shirt.<sup>53</sup>

The Lanham Act evaluates a proposed mark according to a scale of generally increasing distinctiveness: “(1) generic; (2) descriptive; (3) suggestive; and (4) arbitrary or fanciful.”<sup>54</sup> A trademark is valid if it is able to identify the source of goods it marks, thereby distinguishing them from others’ goods.<sup>55</sup> Thus, a trademark that is generic is held to be invalid because it only identifies the genre of product, not a specific producer. Merely descriptive marks—e.g. Sports Store—are invalid because they only describe *any* version of a member in the given genre (here, sporting goods stores), not those of any particular source.<sup>56</sup>

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<sup>51</sup> See, e.g., *Kellogg Co.*, 305 U.S. at 118-19 (discussing, in an influential pre-Lanham Act case, the process of a merely descriptive phrase acquiring trademark distinctiveness as a byproduct of a patent monopoly); see also *Miller’s Ale House, Inc. v. Boynton Carolina Ale House, LLC*, 702 F.3d 1312, 1320 (11th Cir. 2012) (considering the possibility of the merely descriptive mark ALE HOUSE acquiring sufficient distinctiveness without the help of a patent monopoly, and holding that it could not); *Hard Rock Cafe Int’l. v. Hard Rock Cafe Int’l, Inc.* 951 F.2d 684, 691 (5th Cir. 1992) (addressing a similar issue with respect to the trademark PIG SANDWICH); *Boston Duck Tours, LP v. Super Duck Tours, LLC*, 531 F.3d 1, 21 (1st Cir. 2008) (addressing a similar issue with respect to the trademark DUCK TOUR).

<sup>52</sup> See, e.g., *In re David Crystal, Inc.*, 296 F.2d 771, 132 USPQ 1 (C.C.P.A. 1961) (two parallel colored stripes on the top of a sock design held merely ornamental absent evidence that the purchasing public recognized the design as a trademark); *In re Sunburst Prods., Inc.*, 51 USPQ2d 1834 (TTAB 1999) (holding that the color scheme of a sports watch would not be perceived as a source indicator); see generally TMEP 1202.03 Refusal on Basis of Ornamentation.

<sup>53</sup> *Id.*

<sup>54</sup> *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).

<sup>55</sup> *Bayer Co. v. United Drug Co.*, 272 F. 505, 509 (S.D.N.Y. 1921); *DuPont Cellophane Co. v. Waxed Prods. Co.*, 85 F.2d 75, 82 (2d Cir. 1936); *Freecycle Network, Inc. v. Oey*, 505 F.3d 898, 905 (9th Cir. 2007).

<sup>56</sup> *Henry Siegel Co. v. M & R Int’l Mfg. Co.*, 4 U.S.P.Q.2d 1154, 1159 (T.T.A.B. 1987) (“[a] term is merely descriptive [under Section 2(e)(1) of the Trademark Act where] if, as applied to

However, a descriptive mark may achieve distinctiveness if it acquires additional meaning that ties it to the producer in the minds of consumers—the “acquired meaning” after Sports Store has been a famous sporting goods store for 20 years. Moving from “(1) generic” towards “(5) fanciful,” after passing non-distinctive “merely descriptive” to “descriptive but with acquired distinctiveness,” everything else is inherently distinctive.<sup>57</sup> A trademark is “suggestive” if its connection to the goods or services “cannot be understood without “some measure of imagination and ‘mental pause.’”<sup>58</sup> An example of a suggestive trademark would be “Greyhound”—a long, skinny dog, who is known for being fast, and is grey, a subdued color appropriate for long distance bus travel. Some courts call this “multi-stage reasoning” or “tak[ing] a moment to use one’s imagination, memory, or experience to reach a conclusion as to the nature of the goods or services.”<sup>59</sup> Arbitrary marks are trademarks in the form of a cognizable word or phrase, among other things, that happen to not have any connection to the trademarked good or service. The obvious example of an arbitrary trademark is Apple, which would not have source-identifying capability for an apple orchard, but is distinctive when used to mark the goods of a computer company. Finally, fanciful trademarks are simply made-up words that have come to be associated with a particular brand in a particular context. “Google” is a fanciful trademark.<sup>60</sup> This framework is, again, all premised on the principle that the producer of a product should get credit for the goodwill generated by his or her product in the market for that product, and make it as easy as possible for consumers to find that product when they want to buy it again.<sup>61</sup>

In the United States, one can acquire a trademark in several ways. One way is to just use it in commerce until it becomes distinctive for a given good or service and, registration or not, that is a trademark.<sup>62</sup> The Lanham Act also allows applicants to simply begin using a mark in a brand new commercial enterprise, show proof of the mark’s use in

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the goods or services in question, it describes an ingredient, quality, characteristic, function, feature, composition, purpose, attribute, use, etc. of such goods or services”); *see also* TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1209.01 (2017).

<sup>57</sup> *See Miller’s Ale House, Inc.*, 702 F.3d at 1318; *see also Boston Duck Tours, LP*, 531 F.3d at 10, 14.

<sup>58</sup> *In re Shutts*, 217 U.S.P.Q. 363, 364-5 (T.T.A.B. 1983); *see also* TRADEMARK MANUAL OF EXAMINING PROCEDURE § 1209.01(a).

<sup>59</sup> *In re Shutts*, 217 U.S.P.O. at 364-5.

<sup>60</sup> *See Elliott*, 860 F.3d at 1231.

<sup>61</sup> *Trade-Mark Cases v. Steffens*, 100 U.S. 82, 92-96 (1879).

<sup>62</sup> *See generally Kellogg Co.*, 305 U.S. at 111.

commerce in the form of a photo of the product with the trademark on it (a specimen), and be issued a registration. This is the 1(a) filing basis, set forth in the first section of the Act.<sup>63</sup> The other popular filing basis is provided at Lanham Act § 1(b). A 1(b) application does not require the applicant to prove use of the trademark in commerce; it does not even require that the applicant be engaged with any commerce.<sup>64</sup> Section 1(b) requires only that the applicant sign a declaration that it *intends* to use the mark. The advantage of this is it does not require a specimen and the applicant can establish a filing date on the date of the 1(b) filing, but the registration will not be issued until the PTO receives from the applicant a specimen, or “statement of use” within six months of the filing date.<sup>65</sup>

Once a trademark is granted registration on the Principal Registry it enjoys a heightened level of protection in the form of the statutory presumption of validity of the mark.<sup>66</sup> Specifically, once a mark is registered it is assumed to have source-identifying capability. Unregistered marks, even if clearly valid source-identifying trademarks, still have the burden to prove distinctiveness as a threshold matter.<sup>67</sup>

A critical feature of trademark law in the United States is the Nice Classification of Goods and Services. The Nice Classification, promulgated by an international multilateral treaty organized by the World Intellectual Property Organization, is a critical feature of over 80 countries’ trademark jurisprudence worldwide.<sup>68</sup> Its function is to delineate internationally agreed-upon categories of goods and services.<sup>69</sup> It is broken up into 45 International Classes; Classes 1-35 for goods, and Classes 36-45 for services.<sup>70</sup> For example, Class 25 covers, generally, clothing and apparel.<sup>71</sup> This is particularly popular with the licensing industry. Another very busy category is Class 09—consumer electronics. There is also Class 08 relating to hand tools, Class 20 for furniture and mirrors, Class 28 for games and toys (another gem in the

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<sup>63</sup> Lanham Act § 1(a), 15 U.S.C. § 1051(a) (2002).

<sup>64</sup> Lanham Act § 1(b), 15 U.S.C. § 1051(b); *see also* TRADEMARK MANUAL OF EXAMINING PROCEDURE, *supra* note 57, at § 1101.

<sup>65</sup> Lanham Act § 1(d), 15 U.S.C. § 1051(d).

<sup>66</sup> Lanham Act § 1(a), 15 U.S.C. § 1051(a).

<sup>67</sup> *Id.*

<sup>68</sup> *About the Nice Classification*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, <http://www.wipo.int/classifications/nice/en/preface.html> (last visited May 13, 2018).

<sup>69</sup> *Id.*

<sup>70</sup> *Id.*

<sup>71</sup> *Trademark Class 25: Everything You Need to Know*, UPCOUNSEL, <https://www.upcounsel.com/trademark-class-25>.

crown of any promotional merchandising portfolio),<sup>72</sup> Class 29 for meat and poultry, *etc.* The services classes are, e.g., Class 36 for insurance services, Class 38 for telecommunication, and Class 41 for education and entertainment.<sup>73</sup>

These categories simply provide a common baseline for comparing goods and/or services, since all applicants for trademarks from the PTO must specify, often in some detail, the types of goods or services that will be offered under the mark, always including the Nice Classification number.<sup>74</sup>

## 2. Merchandise Licensing

The Lanham Act, rooted in the earliest trademark decisions, developed in a face-to-face agrarian economy and codified into statute in 1946, had certainly been interpreted to adapt to radically different marketplace conditions by the end of the twentieth century. The economy, with the help of the advertising industry, was in the process of tilting from a system of allocating scarce supply according to a fixed demand, to a system of engineering demand according to the most profitable mass-produced consumer goods.<sup>75</sup> By the 1970s, certain markets of consumer goods were overcrowded, with products that were nearly exactly the same, and the challenge for companies in these markets became to distinguish their own consumer products from the nearly identical versions flooding the marketplace. One way to do that, as it turns out, is through intellectual property licensing, namely, the trademark merchandising right.

<sup>72</sup> *Trademark Classes: Which One Fits the Mark You Are Registering*, NOLO, <https://www.nolo.com/legal-encyclopedia/trademark-classes.html>.

<sup>73</sup> *Id.*

<sup>74</sup> TRADEMARK MANUAL OF EXAMINING PROCEDURE §§ 805, 1401.02(a).

<sup>75</sup> See *Shredded Wheat Co.*, 250 F. at 962; cf. Alexis C. Madrigal, *The Strange Brands in Your Instagram Feed*, ATLANTIC (Jan. 10, 2018), <https://www.theatlantic.com/technology/archive/2018/01/the-strange-brands-in-your-instagram-feed/550136/> (examining a YouTube subculture of get-rich-quick-style ecommerce enthusiasts who use Chinese drop-shipping companies, online storefronts like Shopify, and Facebook's advertising tools to create quasi-disposable clothing "brands" based on the popular Instagram keywords at the moment and then target ads at users who likely to "convert" (buy). "I went to the West Louis Instagram account and found 20 total posts, all made between June and October of 2017. Most are just pictures of clothes. Doing a reverse image search, it's clear that the Business-Man Windproof Long Coat is sold throughout the world on a variety of retail websites. Another sweatshirt I purchased through Instagram—I tracked down no less than 15 shops selling the identical item. I bought mine from Thecuttedge.life, but I could have gotten it from Gonthwid, Hzijue, Romwe, HypeClothing, Manvestment, Ladae Picassa, or Kovfee. Each very lightly brands the sweatshirt as its own, but features identical pictures of a mustachioed, tattooed model.").

In 1975, a minor league hockey team in Boston discovered a hat manufacturer selling a hat with an unauthorized use of its team logo.<sup>76</sup> The hockey team wanted to control the use of its logo, so it sued under the Lanham Act.<sup>77</sup> It does seem quite counterintuitive to our modern eyes, but until this point such unlicensed merchandise was fairly normal, and the proposition of “unlicensed merchandise,” or at least had never been subject to a dispute that reached the courts. That changed with *Boston Professional Hockey Association v. Dallas Cap & Emblem Manufacturing*, a 5th Circuit decision that essentially created trademark merchandising when it found trademark infringement had occurred because the inclusion of the illicit logo was the “triggering mechanism for the sale.”<sup>78</sup> That is, even though the court found that this had occurred without any confusion as to the source of the good. This was a paradigm shift in that it recognized the violation had occurred purely as a function of the relationship between the consumer and the plaintiff’s mark, the attached goods being totally irrelevant.<sup>79</sup> Soon thereafter, the Illinois Court of Appeals reached a similar decision in a case involving the sale of products bearing the unauthorized logo of a sports team.<sup>80</sup> The court held that the traditional confusion requirement for infringement could be expanded to include consumers mistakenly thinking the mark holder had sponsored the product, when in reality it had no idea this merchandise was being produced and sold.<sup>81</sup> Other courts quickly reinforced and expanded this reasoning and built the foundation of the modern licensing industries.<sup>82</sup>

In 1988, this broadening of the confusion requirement was reflected in the Trademark Revision Act, which officially added the concept of “confusion of sponsorship” to the standard of confusion as to source.<sup>83</sup> With the rule preserved in statute, trademark holders now realized that they could further monetize the goodwill they had accrued as a source of quality goods by “sponsoring” goods from other merchants and making those other merchants’ goods available under

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<sup>76</sup> *Boston Prof’l Hockey Ass’n v. Dallas Cap & Emblem Mfg., Inc.*, 510 F.2d 1004, 1009 (5th Cir. 1975).

<sup>77</sup> *Id.* at 1012.

<sup>78</sup> *Id.*

<sup>79</sup> Irene Calboli, *The Case for a Limited Protection of Trademark Merchandising*, 11 U. ILL. L. REV. 865, 881 (2011).

<sup>80</sup> *See generally Nat’l Football League Props., Inc. v. Consumer Enters., Inc.*, 327 N.E.2d 242 (Ill. App. 1975).

<sup>81</sup> *Id.*

<sup>82</sup> *Id.*

<sup>83</sup> Calboli, *supra* note 80, at 869.

their mark.<sup>84</sup> Critics of this development worried that it strayed too far from the original understanding of the trademark purely as a signifier of value to a trademark as something that could be seen as having value in itself.<sup>85</sup> It also added an entirely new dimension to the mark in the mind of the consumer: now a given trademark not only signaled some set of information about the source trademark holder's goods, but it suggested a whole range of taste preferences, sensibilities, values, partnerships, aesthetics, *etc.* This addition to the Lanham Act invited the onslaught of brand merchandising that characterizes the marketplace today.<sup>86</sup>

This general trend continued with the passage of the 1995 Trademark Dilution Act, which codified in federal law the dilution statutes that state legislatures had been passing since 1947.<sup>87</sup> As a cause of action, dilution protects the "gradual whittling away or dispersion of the identity and hold upon the public mind of the mark."<sup>88</sup> Importantly, consumer confusion is completely unnecessary under this theory, as is similarity of the goods. This represents an important value shift in the concept of the trademark. For example, now Blue Goose orange company could sue on a theory of dilution to stop another company from selling Blue Goose fountain pens, without even claiming that consumers would be confused by the same phrase as a mark in two very different contexts.<sup>89</sup> For one, by concerning itself only with a possible erosion of the consumer's *opinion* of the mark, dilution effectively takes the product out of the picture completely.<sup>90</sup> And second, by enforcing this cause of action strictly in the interest of protecting the brand's psychological hold on the public, these dilution-statutes overstep the

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<sup>84</sup> *Id.* at 867-73.

<sup>85</sup> Rochelle Cooper Dreyfuss, *Expressive Genericity: Trademarks as Language in the Pepsi Generation*, 65 NOTRE DAME L. REV. 397, 405-10 (1990).

<sup>86</sup> Katya Assaf, *Brand Fetishism*, 43 CONN. L. REV. 83, 120-23 (2010); *see also* Deven R. Desai & Sandra L. Rierson, *Confronting the Genericism Conundrum*, 28 CARDOZO L. REV. 1789, 1790 (2006) ("[A] company's marketing goal is to build brand dominance to the point of ubiquity, so that the brand is the first thing on a consumer's mind when considering a purchase of a particular type of good. Further, the brand identifies the company and/or its products for the consumer, and ideally it conveys (hopefully positive) information as well. Put differently, the trademark holder's goal is to build and maintain consumer awareness of the trademark so that consumers come to see the trademark as a sign of 'consistent source and quality.' Indeed, one of the touchstones of trademark law is the idea that 'the value of a trademark is the saving in search costs made possible by the information or reputation that the trademark conveys or embodies about the brand. . . .").

<sup>87</sup> Bartholomew, *supra* note 1, at 36.

<sup>88</sup> Frank I. Schechter, *The Rational Basis of Trademark Protection*, 40 HARV. L. REV. 813, 825 (1927).

<sup>89</sup> *Id.* at 827-30; *see also* Bartholomew, *supra* note 1, at 36.

<sup>90</sup> *See* Madrigal, *supra* note 76.

original trademark law mandate of transmitting the neutral information about source of product.<sup>91</sup>

These shifts toward protecting trademarks simply and transparently, on the basis of preserving trademark holders' control of the mark's image, were necessary to accommodate a new practice in the business of trademarks: licensing. One kind of trademark licensing is collateral licensing; initially justified on the theory of economic efficiency, ambitious trademark holders realized that they could exploit goodwill in their marks by putting it on items in other categories, in which they had no expertise (or investments in production infrastructure, etc.).<sup>92</sup> As an example: a company that held a trademark under which it produced computers could enter a deal with a company that produces TVs to produce and sell TVs under that same trademark. These agreements are touted as economically efficient because they allow brands to expand their goodwill into further product categories without having to expend the time and cost of becoming proficient in manufacturing the new product: the computer company does not have to learn how to make TVs and the TV company can trade its product under the mark of the computer company and all its associated good will.<sup>93</sup>

Then, there is promotional licensing, the subset of collateral licensing concerned with producing merchandise completely unrelated to the trademark.<sup>94</sup> Trademark owners lend their marks to third party manufacturers who produce completely unrelated merchandise with the trademark on it.<sup>95</sup> For example, t-shirts with college logos, bank pens, and movie merchandise.

When The Emoji Company struck its deal with Sony, which would allow Sony to move forward with its project *The Emoji Movie*, TEC wasted no time publicizing the new partnership on its blog, under the

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<sup>91</sup> Cf. *Shredded Wheat Co.*, 250 F. 962 (“[A] very small improvement’ in a product ‘backed by a mastery of the psychology of advertising could result in a de facto monopoly.’”).

<sup>92</sup> Radianc A. Walters, *Partial Forfeiture: The Best Compromise in Trademark Licensing Protocol*, 91 J. PAT. & TRADEMARK OFF. SOC’Y 126, 129-31 (2009); see also Calbioli, *supra* note 80.

<sup>93</sup> Walters, *supra* note 93, at 130-31; Calbioli, *supra* note 80, at 872; see also, *Quality Control and the Antitrust Laws in Trademark Licensing*, 72 YALE L. J. 1171, 1190 (1963) (“Unrestricted trademark licensing may inhibit high quality performance by discouraging innovation. It permits the trademark owner who has developed a mark worth licensing to reap potentially great royalty benefits without any further activity on his part other than controlling licensees. Arguably, a firm that would otherwise continue to carry on active research and improve its service will be content to rest on past performance which is paying handsome dividends in the form of licensing royalties.”).

<sup>94</sup> Walters, *supra* note 93, at 131.

<sup>95</sup> See Calbioli, *supra* note 80, at 872.

headline, naturally, “[The Emoji Company] Reaches Agreement That Will Allow The Use Of The Term “Emoji” In Sony’s Upcoming Movie Merchandising Program”.<sup>96</sup>

### B. Branding

Jon Iwata leans casually against the corner of a desk as he explains the secret of IBM’s success: “We’ve never defined IBM by what we’re selling.”<sup>97</sup> A series of non-computer products from throughout IBM’s century of business—a meat slicer, wall clock, industrial scale, a lawnmower, etc—flash on screen as the company’s Senior Vice President for Marketing continues. “So then what are we selling? [. . .] [O]ur belief system, our purpose, our mission that makes us *us*, if we take care of that, the brand will take care of itself.”<sup>98</sup> Implied in this fairly standard branding language, albeit casually, is the premise that what companies sell, what consumers buy, is the brand.

This is in stark contrast to the idea of market value as conceived by the 9th Circuit in its 2017 decision in *Elliott v. Google*: “First, we take this opportunity to clarify that a claim of genericide or genericness must be made with regard to a particular type of good or service.”<sup>99</sup> Ultimately the point is academic, since the loophole that allows TEC to function is procedural and not a failure with respect to the enforcement of the Lanham Act’s genericness and descriptiveness provisions, but on a macro level, this distinction is glaring. The marketing industry best practices demonstrated in the IBM video seem to face nearly no opposition from the law as formulated by the Ninth Circuit in the case of a firm that, rather than establish a reputation of quality, like IBM, simply slip into an existing unclaimed valuable trademark, and mold that popularity into the most inoffensive, mass-appealing version possible.

With this premise in mind, we can assume typical branding practice—the kind used by The Emoji Company and IBM alike—in the present day economy can allow a firm to squeeze nearly unlimited value

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<sup>96</sup> *Emoji, Sony Pictures Reach Trademark Agreement*, LICENSE GLOBAL (Jan. 13, 2017), <https://www.licenseglobal.com/entertainment/emoji-sony-pictures-reach-trademark-agreement>.

<sup>97</sup> Michael Lippert, “*IBM: Brand on Brand*” by Jon Iwata, VIMEO (Sept. 2017), <https://vimeo.com/226358680>.

<sup>98</sup> *Id.*

<sup>99</sup> *Elliott*, 860 F.3d at 1231.

out of the EMOJI mark via branding and rebranding.<sup>100</sup> Taking into account the unusual premise that *prima facie* legal control over the EMOJI trademark can translate to an unusually high degree of control over the representation of emojis in that market, it is reasonable to draw a correlation between the number of trademarks a firm has and the amount of control, and particular type of market control, a firm has over the actual object of the trademarks (in this case, emojis, or Emoji Stuff).<sup>101</sup> IBM has control over the IBM trademark in all 45 Nice Classification categories, in all different product iterations. The Emoji Company can actually only police and enforce the use of emojis in a very small fraction of circumstances compared to a brand like IBM. But it just so happens that the few little pieces of real estate in the wider market TEC can claim—industry-enforced cooperation with an exclusionary scheme that has been institutionalized, and known to be incredibly litigious. Moreover, a major studio like SPA, seen seeking permission from this company to make an expressive work about emojis, sends a fairly clear message to potential innovators around the topic of emojis (in all areas, not just film). Now TEC does not even need to continue policing possible infringing uses for deep-pocketed corporate marketing or entertainment firms; it has its foot in the door. It can just sit back and wait for another Hollywood studio, or Target or Wal-Mart, to want to capitalize on the supermarket value (for marketing projects) of The Official Emoji Brand®.

#### IV. THE ANTICOMPETITIVE CONDUCT

##### A. *The Trademark Shield Method*

The world's best-selling drug is called Humira and it is manufactured by a pharmaceutical company called AbbVie Inc.<sup>102</sup> Humira is used as an anti-inflammatory to treat patients with rheumatoid arthritis.<sup>103</sup> It costs patients about \$4370 per month in 2017

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<sup>100</sup> See, e.g., Eliana Dockterman, *Here's Why Hollywood Will Never Stop Making Spider-Man Movies*, TIME (June 20, 2017), <http://time.com/4784729/spiderman-homecoming-sony-marvel-reboot/>.

<sup>101</sup> See *Elliott*, 860 F.3d at 1160 (and accompanying thought experiment); see also Lanham Act § 1(a); 15 U.S.C. § 1051(a).

<sup>102</sup> Cynthia Koons, *This Shield of Patents Protects the World's Best-Selling Drug*, BLOOMBERG BUSINESSWEEK (Sept. 7, 2017, 6:00 AM EDT), <https://www.bloomberg.com/news/articles/2017-09-07/this-shield-of-patents-protects-the-world-s-best-selling-drug>.

<sup>103</sup> *Id.*

and makes about \$16 billion every year for AbbVie.<sup>104</sup> Competitors, however, are upset that, although Humira's was released nearly 15 years ago, AbbVie has managed to keep the drug from going generic until

In a presentation by AbbVie in October 2015, a slide titled 'Broad U.S. Humira Patent Estate' detailed its strategy: patents covering every aspect of the drug's life, from its origins to the diseases it's approved for. The company listed 22 patents for various diseases or methods of treatment, 14 on the drug's formulation, 24 on its manufacturing practices, and 15 'other' patents.<sup>105</sup>

The Emoji Company employs a similar "suit-of-armor" approach, leveraging the PTO's policy of loosening formal standards of distinctiveness for trademark applications of brands who already have similar marks registered to cobble together a diversification of trademarks that just happens to track exactly the most desirable merchandising categories. So, for example, just like a competing drug maker could feel free to use AbbVie's patent for Fed-Batch Method of Making Anti-TNF-Alpha Antibody, a process used to create these antibodies "in a cell culture medium with a specific pH." Likewise, another merchandising company who wanted to start an Official Emoji Brand lifestyle brand could surely obtain a U.S. trademark registration to use its EMOJI mark for the sale of "certain special industrial oils and greases, for example, oils for tanning leather" (International Class 1) or "rubber material for recapping tires" (International Class 17), but "clothing/apparel" (International Class 25) and "school supplies" (International Class 16) is another matter.<sup>106</sup>

So far in the U.S. alone The Emoji Company holds 12 trademark registrations for the word EMOJI in standard characters. These 12 registrations each recite goods and/or services in between one and 12 Nice Classification product categories, covering 22 of 45 total Nice categories (including multiple EMOJI trademarks in 11 of the 22

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<sup>104</sup> *Id.*

<sup>105</sup> *Id.* ("Typical drugs, made through chemical synthesis, usually have no more than a dozen or so patents, if that. But biologic medicines such as Humira, which accounts for more than 60 percent of AbbVie's revenue and can carry a list price of more than \$50,000 per patient, are typically made in living cells rather than chemically manufactured. That process often involves more steps and a higher level of complexity, which opens the door to more potential steps to patent.")

<sup>106</sup> *Nice Classification*, WORLD INTELLECTUAL PROPERTY ORGANIZATION, [http://www.wipo.int/classifications/nice/nclpub/en/fr/20180101/hierarchy/class-8/?basic\\_numbers=show&explanatory\\_notes=show&lang=en&menulang=en&mode=flat&pagination=no](http://www.wipo.int/classifications/nice/nclpub/en/fr/20180101/hierarchy/class-8/?basic_numbers=show&explanatory_notes=show&lang=en&menulang=en&mode=flat&pagination=no) (last visited May 13, 2018).

covered Classes), with a total of 38 separate registered classes.<sup>107</sup> In addition, it holds 13 pending trademark applications, over 15 of 45 product classes, totaling 20 separate registered classes.<sup>108</sup> The Nice Classification categories in which The Emoji Company owns U.S. trademark registrations or pending applications\* are Class 3 (non-medicated cosmetics; shampoo; essential oils) (three registrations),<sup>109</sup> Class 5 (dietary supplements),<sup>110</sup> Class 8 (hand-operated tools, to include scissors),<sup>111</sup> Class 9 (electronics) (two marks),<sup>112</sup> Class 10 (manually operated exercise equipment; sex toys),<sup>113</sup> Class 11 (bathtubs; beds; car parts) (one application),<sup>114</sup> Class 12 (cars; vehicles),<sup>115</sup> Class 14 (watches; jewelry) (two marks),<sup>116</sup> Class 15 (musical instruments) (one application),<sup>117</sup> Class 16 (paper goods; stationary) (two marks),<sup>118</sup> Class 17 (rubber packaging supplies),<sup>119</sup> Class 18 (bags; athletic bags) (two marks),<sup>120</sup> Class 20 (air mattresses) (one registered mark, one application),<sup>121</sup> Class 21 (cleaning tools; kitchen utensils),<sup>122</sup> Class 22

<sup>107</sup> EMOJI, Registration No. 5073890; EMOJI, Registration No. 4595110; EMOJI, Registration No. 4868832; EMOJI, Registration No. 5415510; EMOJI, Registration No. 5343650; EMOJI, Registration No. 5357376; EMOJI, Registration No. 5202078; EMOJI, Registration No. 5489322; EMOJI, Registration No. 3565487; EMOJI, Registration No. 4766492; EMOJI, Registration No. 5516082; and EMOJI, Registration No. 4893876.

<sup>108</sup> U.S. Trademark Application Serial No. 87976644 (filed Dec. 9, 2016); U.S. Trademark Application Serial No. 86768309 (filed Sep. 25, 2015); U.S. Trademark Application Serial No. 79136472 (filed Aug. 19, 2013); U.S. Trademark Application Serial No. 79975145 (filed Aug. 26, 2014); U.S. Trademark Application Serial No. 79975149 (filed Aug. 26, 2014); U.S. Trademark Application Serial No. 88018382 (filed Jun. 28, 2018); U.S. Trademark Application Serial No. 87913284 (filed May. 9, 2018); U.S. Trademark Application Serial No. 88018402 (filed Jun. 18, 2018).

<sup>109</sup> EMOJI, No. 4868832; EMOJI, No. 5073890; EMOJI, No. 4595110 (please note product category descriptions are approximations. The Emoji Company's recitations of goods in its applications (and subsequent registrations) are uniformly much longer and more comprehensive for the category than the average mark's recitation of goods, for obvious reasons).

<sup>110</sup> EMOJI, Registration No. 5415510.

<sup>111</sup> *Id.*

<sup>112</sup> EMOJI, Registration No. 5357376; EMOJI, Registration No. 5343650.

<sup>113</sup> EMOJI, *supra* note 111.

<sup>114</sup> U.S. Trademark Application Serial No. 87976644 (filed Dec. 09, 2016).

<sup>115</sup> EMOJI, Registration No. 5489322.

<sup>116</sup> EMOJI, Registration No. 5343650; EMOJI, Registration No. 4595110.

<sup>117</sup> U.S. Trademark Application Serial No. 86768309 (filed Sep. 25, 2015).

<sup>118</sup> EMOJI, Registration No. 4868832; EMOJI, Registration No. 4595110.

<sup>119</sup> EMOJI, Registration No. 4868832.

<sup>120</sup> EMOJI, Registration No. 4868832; EMOJI, Registration No. 5202078.

<sup>121</sup> EMOJI, Registration No. 5343650; U.S. Trademark Application Serial No. 79975145 (filed Aug. 26, 2014).

<sup>122</sup> EMOJI, Registration No. 4868832.

(bags; textile products; hammocks),<sup>123</sup> Class 24 (linens) (one registered mark, one application),<sup>124</sup> Class 25 (clothing; apparel) (two marks),<sup>125</sup> Class 26 (sewing equipment),<sup>126</sup> Class 27 (mats; rugs) (two marks),<sup>127</sup> Class 28 (stuffed animals) (one registered mark, two applications),<sup>128</sup> Class 29 (snack foods) (two marks),<sup>129</sup> Class 30 (foods; confectionary products; coffee) (three marks),<sup>130</sup> Class 31 (animal food; horticultural products) (one application),<sup>131</sup> Class 32 (beers; beverages) (two marks),<sup>132</sup> Class 34 (tobacco),<sup>133</sup> Class 36 (financial services) (one application),<sup>134</sup> Class 41 (entertainment services) (two marks),<sup>135</sup> and Class 43 (boarding services for animals) (one application).<sup>136</sup>

Crucially, of these 12 U.S. registrations, eight were filed on a § 66(a) basis.<sup>137</sup> Applications filed under the Lanham Act § 66(a), also known as “requests for extension of protection” under the Madrid Protocol, do not require a specimen, and are issued solely based on a trademark registration from another party country to the Madrid Treaty.<sup>138</sup> A major problem with this system is that many trademark jurisdictions around the world do not require specimens. Therefore, specimens do not need to be shown at any point in the process. This

<sup>123</sup> *Id.*

<sup>124</sup> EMOJI, Registration No. 5343650; U.S. Trademark Application Serial No. 79975145 (filed Aug. 26, 2014).

<sup>125</sup> EMOJI, Registration No. 5202078; EMOJI, Registration No. 4868832.

<sup>126</sup> EMOJI, Registration Nos. 4868832, *supra* note 108.

<sup>127</sup> EMOJI, Registration Nos. 4868832, *supra* note 108; EMOJI, Registration No. 4766492, *supra* note 108.

<sup>128</sup> EMOJI, Registration No. 5343650; U.S. Trademark Application Serial No. 79975148; U.S. Trademark Application Serial Number 79975149.

<sup>129</sup> EMOJI, Registration No. 486883; EMOJI, Registration No. 4595110.

<sup>130</sup> EMOJI, Registration No. 4868832; EMOJI, Registration No. 4595110; EMOJI, Registration No. 5365487.

<sup>131</sup> U.S. Trademark Application Serial No. 88,018,382 (filed June 28, 2018).

<sup>132</sup> EMOJI, Registration No. 4,868,832; EMOJI, Registration No. 4,595.110.

<sup>133</sup> EMOJI, Registration No. 5,516,082.

<sup>134</sup> U.S. Trademark Application Serial No. 88,018,382 (filed May 9, 2018).

<sup>135</sup> EMOJI, Registration No. 4,766,492, *supra* note 128, and EMOJI, Registration No. 4,893,876.

<sup>136</sup> U.S. Trademark Application Serial No. 8,801,8402, (filed June 28, 2018).

<sup>137</sup> EMOJI, Registration Nos. 4766492, *supra* note 108, 5516082, *supra* note 108, 5357376, *supra* note 113, 5343650, *supra* note 11, 5202078, *supra* note 121, 4893876, *supra* note 136, 4868832, *supra* note 110, 4595110, *supra* note 117; *see also* Barton Beebe & Jeanne C. Fromer, *Are We Running Out of Trademarks? An Empirical Study of Trademark Depletion and Congestion*, 131 HARV. L. REV. 947, 955, n. 32 (2018) (“Section 66(a) applications are also rare. There were 15,374 such applications filed in 2016 [of a total of 385,249 applications filed for the principal register].”).

<sup>138</sup> 15 U.S.C. 1141(a) (Lanham Act § 66(a)).

eliminates one huge pitfall for parties interested in selling the appeal of a mark itself, by featuring it on products ornamentally, rather than developing goodwill in a brand through producing quality products for which quality is traceable via a distinct trademark back to the trademark owner. Of the 12 registered trademarks, a specimen is featured in one mark's application materials.<sup>139</sup> Three of The Emoji Company's pending applications were also filed on a § 66(a) basis, all claiming prior international Madrid Protocol registrations.<sup>140</sup>

Of the four remaining registered marks, two were filed on a 1(b) intent-to-use basis, including one that claimed an existing U.S. registration as its "parent."<sup>141</sup> Two remaining registrations and four outstanding applications were filed on a 44(d) or 44(e) basis.<sup>142</sup> Section 44(d) provides a method of filing an application in the U.S. and a foreign country simultaneously (the U.S. application beginning within six months of the filing of the foreign filing, before that mark has registered). This also does not require a specimen and there is no specimen attached to any of these trademarks' prosecution materials. A § 44(e) filing basis is similar to the 44(d) except an applicant for a U.S. trademark under 44(e) need not present their foreign registration or application number. Instead, 44(e) allows U.S. applicants to claim a filing date on the promise that it will submit a proper foreign registration within six months, and the foreign registration must be from the applicant's country of origin.<sup>143</sup>

One can easily see The Emoji Company's strategy coming into focus. In fact, it shares all the hallmarks of a standard corporate trademark licensing strategy. A trademark registration of the word mark EMOJI for "lip balm" in Class 3 grants the registrant the exclusive right to use the word EMOJI in connection with the sale of those identified

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<sup>139</sup> EMOJI, Registration No. 5073890, (for, in relevant part, hair accessories and lip balm in Class 3. The specimen depicts a hard plastic molded package containing several lip balms against a cardboard display with the Official Emoji Brand branding. The lip balm and the cardboard display are covered with emojis. This mark was filed on a 1(b) intent-to-use basis.)

<sup>140</sup> U.S. Trademark Application Serial Nos. 79975148 & 79975149, *supra* note 129; U.S. Trademark Application Serial No. 79975145, *supra* note 109.

<sup>141</sup> EMOJI, Registration Nos. 4893876, *supra* note 108 (claiming U.S. Trademark Registration Nos. 4868832, *supra* note 110, of existing international registration filed in the Philippines).

<sup>142</sup> Beebe & Fromer, *supra* note 138, at 955 ("Section 44(e) applications are rare. The PTO data indicate that of the 385,249 Principal Register trademark applications filed in 2016, 5585 were filed on this basis.")

<sup>143</sup> EMOJI, Registration No. 5489322, *supra* note 116; EMOJI, Registration No. 5415510, *supra* note 108; U.S. Trademark Application Serial No. 88018402, *supra* note 109; EMOJI, Registration Nos. 88018382, *supra* note 109; EMOJI, Registration Nos. 87913284, *supra* note 109; EMOJI, Registration Nos. 87976644, *supra* note 109.

goods in a trademark capacity.<sup>144</sup> This is defined in the Lanham Act at § 45: “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 [. . .] from those manufactured or sold by others and to indicate the source of the goods[.]”<sup>145</sup> Often, the requirement that a mark be used in a trademark capacity is operationalized in the prosecution stage as a bulwark against applications in which the applied-for mark is used merely ornamentally.<sup>146</sup> The doctrine of ornamentality is grounded in two core functions of trademark law: (1) to ensure that registered trademarks indeed have source-identifying capacity to reduce consumer confusion, and (2) to maintain the essential nexus between a trademark and the product by association with which, in theory, the registrant of the trademark built the goodwill into the mark.<sup>147</sup> Otherwise, a firm could do what The Emoji Company is doing and leverage merchandise licensing precedent to establish an entire business based on capturing a valuable concept and selling versions of it printed, ornamentally, on various low-cost consumer goods. In other words, like the purchasers of the hats for which the hockey team’s logo was the “trigger of the sale,” purchasers of The Emoji Company’s goods and services are not purchasing, for example, lip balm from The Emoji Company because they have compared The Emoji Company’s lip balm to the other leading lip balms and selected the one they deem the highest quality lip balm; they are buying the emoji lip balm because it has emojis on it.<sup>148</sup>

The ornamentality provisions of the Lanham Act and federal trademark precedent are designed to prevent what The Emoji Company is doing. The good faith interpretation of the proposition of registering EMOJI as a trademark for, say, cosmetics in International Class 03 is formally very similar to an arbitrary or fanciful trademark like Apple—an existing generic word—used for something completely different from apples: computers. There is no per se reason to think EMOJI-brand cosmetics would be emoji-themed. It could also conceivably be

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<sup>144</sup> See Lanham Act § 45.

<sup>145</sup> *Id.*

<sup>146</sup> *Refusal Based on Ornamentation*, TRADEMARK MANUAL OF EXAMINING PROCEDURE (5th ed. Sept. 2007) (TMPE) at §1202.03.

<sup>147</sup> See generally *id.*

<sup>148</sup> Compare to Madrigal, *supra* note 76 (reporting describing the small, super-dedicated YouTube subculture dedicated to finding the products on Chinese dropshipping sites that they will be able to sell vis-à-vis targeted Instagram ads, using some balancing of price and brand loyalty. “Big things, but nothing the consumer would have brand loyalty to. Stuff like bookshelves, mirrors. . .”).

an upscale designer perfume in a very serious black bottle with just the word “emoji” on it. This would be using APPLE for computers. What The Emoji Company has done is register the word APPLE for “computers” and then sell freshly picked apples with a generic clip-art picture of a computer on the little sticker.

This is facilitated by a few key circumstances. For one, none of The Emoji Company’s U.S. registrations (and associated international registrations) were filed on a basis that requires a specimen, save the one specimen for the lip balm and nail polish in Class 03, filed on a §1(b) intent-to-use basis.<sup>149</sup> The §44 and §66 applications, in practice, apparently make it very easy to bypass the specimen requirement entirely. But another hugely helpful circumstance for The Emoji Company’s U.S. operation is the high amount of “incumbent applications,” or existing registrations held by the given applicant. “One class of applicants continues to do well in the face of word-mark depletion: those that apply based on already-owned registrations. Applicants must identify whether an application is based on a previous registration and indicate their ownership of that registration.”<sup>150</sup> According to Beebe & Fromer’s Harvard Law Review article, from 2003 to 2014, 13.1% of applications were based on one or more previous registrations.<sup>151</sup> During those 12 years, “incumbent applications enjoyed lower section 2(d) [likelihood of confusion] refusal rates, and when they did receive section 2(d) refusals, they tended to be very successful in overcoming them. Overall, [ . . . ] 10.5% of incumbent word-mark applications received a section 2(d) refusal, and 78.8% of these applications overcame that refusal[.]”<sup>152</sup> On the other hand, “14.2% of nonincumbent applications received a section 2(d) refusal and only 36.5% overcame the refusal[.]”<sup>153</sup> These data suggest that trademarks have a kind of cumulative “strength in numbers” effect, or at least having at least one other mark predisposes the examining attorney to view an applicant’s materials with a more sympathetic eye.

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<sup>149</sup> EMOJI, Registration No. 5365487, *supra* note 131.

<sup>150</sup> Beebe & Fromer, *supra* note 138, at 1009 (“For example, a Korean company recently applied for the word TRY in Class 25 (apparel goods). In doing so, the company cited its prior registration of the word in stylized format in the same class. This disclosure prevented the possibility of a section 2(d) refusal based on that prior registration.”).

<sup>151</sup> *Id.*

<sup>152</sup> *Id.*

<sup>153</sup> *Id.*

### B. Applicable Law

Perhaps anticipating allegations of anticompetitive conduct, The Emoji Company released this statement just after the TEC-Sony Pictures Animation deal:

[E]moji company GmbH and Sony Pictures Animation (SPA) today announced that they have entered into a licensing agreement with regard to emoji company's registered emoji® trademark. The agreement covers the use of the term "emoji" in connection with SPA's worldwide merchandising program for SPA's upcoming comedy feature *The Emoji Movie*, coming to theatres August 11th, 2017.

Both parties will offer their unique sets of icons and characters and target different markets.

"We are happy to enter into this agreement with Sony Pictures," says Marco Huesges, CEO of the emoji company. "There will be no confusion in the marketplace since SPA's products will be from their original and proprietary *The Emoji Movie* motion picture content while the emoji company is offering its own developed icons with the classic look & feel known from the Unicode."<sup>154</sup>

This statement does not actually offer a justification for the agreement at all. The argument suggested in the last paragraph seems focused on consumers' ability to discern the actual emoji characters themselves, as rendered in the SPA movie, from the particular "developed" aesthetic of its own emojis. This completely skips over the fundamental concern of trademark law, that marks designate a particular source from between multiple competing sources. The consumer confusion is not which "source" of "icons," from among several, to attribute "icons" to when they are offered under the trademark EMOJI; the confusion is whether any why SPA or TEC or anyone else has any legitimate claim to being a "source" of consumers' willingness to spend money on the EMOJI movie and not *The Yellow Smiley Face Movie*.<sup>155</sup> Obviously neither SPA nor TEC can make such a claim, and even if it could, it would be voided by a very easy showing that the U.S. purchasing public (for the purposes of TEC's U.S. trademark

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<sup>154</sup> *Emoji Company GmbH Announces Agreement with Sony Pictures Animation on The Emoji Movie*, CISION PR NEWswire (Jan. 16, 2017), <https://www.prnewswire.com/news-releases/emoji-company-gmbh-announces-agreement-with-sony-pictures-animation-on-the-emoji-movie-610875505.html> ("SOURCE emoji Company GmbH").

<sup>155</sup> *But see* Joel Golby, *The Man Who Owns the Smiley Face: Behind the Scenes at Smiley, One of the World's Biggest Licensed Lifestyle Brands*, VICE (Aug. 9, 2017), [https://www.vice.com/en\\_uk/article/j5pyyb/the-man-who-owns-the-smiley-face](https://www.vice.com/en_uk/article/j5pyyb/the-man-who-owns-the-smiley-face) (reporting on another lifestyle brand based on another sort of smiley face).

registrations) understands “emoji” primarily to mean a genre of concept and not a single source from among many.

In any event, the TEC-SPA agreement is an anticompetitive restraint of trade in violation of § 1 of the Sherman Act, recently demonstrated EU antitrust principles, and likely those in many other jurisdictions. For purposes of the two-firm § 1 Sherman Act claim, the assumed working market is the market for emoji-themed studio movies: premium-talent, mass-market blockbuster Hollywood movie offerings (and attendant merchandising). SPA and TEC are a “hard-core cartel” restricting the supply of public domain emoji content, which consequently imposes an unjustifiable cost in the form of restricting innovation. No matter how you slice it, there is a demand for emoji movies, and if *The Emoji Movie* is the best a market can offer, there is certainly room for innovation. It is also important that the but-for cause of this unaccounted-for goodwill that has been claimed by TEC is Apple’s OS software update in 2011.<sup>156</sup>

The Emoji Company itself is also a monopoly in violation of Sherman Act § 2. The monopolistic behavior in this case is harder to quantify, as the industry licensing standards are interwoven with the standards of Lanham Act jurisprudence, resulting in a situation where all the trademark prosecution and licensing activity, while viewed from 30,000 feet, creates a picture that is clearly counter to fundamental trademark doctrines. But upon zooming in, each and every licensing contract and Office Action were within the bounds of the Lanham Act. On this point a recent European Commission court order against Google might suggest a way forward.

### 1. Sherman Act § 1: The Emoji Cartel

Section 1 of the Sherman Act prohibits “contract[s], combination[s] in the form of trust or otherwise, [and] conspirac[ies]” that unreasonably “restrain trade.”<sup>157</sup> Broken down, that means the claim has two elements. First, there must be “concerted action”—that is, coordinated action by more than one person or firm.<sup>158</sup> The second element is that the conduct challenged must have an unreasonably adverse effect on competition.<sup>159</sup> Since the Supreme Court’s 1911 *Standard Oil* decision, the accepted standard for determining a

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<sup>156</sup> *Standard Emoji Keyboard Arrives to IOs 5, Here’s How to Enable it, supra* note 18.

<sup>157</sup> Sherman Antitrust Act, 15 U.S.C. § 1 (2013).

<sup>158</sup> Andrew I. Gavil & Harry First, *THE MICROSOFT ANTITRUST CASES: COMPETITION POLICY FOR THE TWENTY-FIRST CENTURY* 8 (MIT 2014).

<sup>159</sup> *Id.*

concerted action's effect on competition has been the "rule of reason."<sup>160</sup> Under this standard, adverse competitive effect sometimes can be presumed, as with the most obvious kinds of anticompetitive conduct—for example, the formation of a cartel to fix prices rather than compete. In such cases, the courts have traditionally used a "*per se*" approach in applying the rule of reason that presumes that the conduct in question is unreasonably anticompetitive and precludes evidence of any defenses. The presumption is therefore irrebuttable.<sup>161</sup>

Often, however, the effects of concerted action are less obvious. In such cases, courts and enforcement agencies are tasked with weighing the anticompetitive effects of the concerted action against its precompetitive effects.<sup>162</sup> The concerted action in this matter is the SPA-TEC deal, licensing the EMOJI marks for the rumored number of \$1 million.<sup>163</sup> To the extent this assumption is workable, the first element, concerted action, is satisfied.

The basis upon which this model of antitrust liability for the SPA-TEC agreement rests is very simple: if another major studio wanted to make a movie about emojis, complete with the standard array of merchandising, it would be restrained from doing so by the trademark licensing agreement between The Emoji Company and Sony Pictures Animation. If one seriously buys the premise that "emoji" is a public domain word like "aspirin" rather than a source-identifying brand name like GOOGLE, it must be true that the EMOJI trademarks are illegitimate, and therefore the licensing agreement from which they form that basis is also illegitimate. In addition, the TEC-SPA agreement also puts a second barrier to entry in place: the hypothetical studio who wanted to compete with SPA, and was even able to reach an agreement with SPA for an emoji-themed *Deep Impact-Armageddon* scenario, using, e.g., the title *An Emoji Story*, would have to either make a deal with TEC or face expensive and risky litigation. On this juncture, TEC's, SPA's, and the hypothetical third competitor's (another Hollywood studio competing horizontally with TEC in the same capacity as SPA) interests all align, and the other studio could even deal with SPA to split the market, and all three firms would control the mass-market emoji entertainment (and merchandising) markets. Other studios would gladly pay the rumored \$1 million license fee, in

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<sup>160</sup> *Id.* (citing *Standard Oil Company of New Jersey v. United States*, 221 U.S. 1 (1911)).

<sup>161</sup> GAVIL & FIRST, *supra* note 159.

<sup>162</sup> *Id.*

<sup>163</sup> Brew, *supra* note 10 (this is a UK film blog reporting on a rumor, so this number is not actually reliable).

exchange for a \$200 million-like figure in return, and it is also reasonable to imagine price fixing could occur. This is very rough circumstantial evidence of cartel activity, but *per se* anticompetitive harm to horizontal competition.<sup>164</sup>

## 2. Sherman Act § 2: The Monopolist

Single-firm monopoly power liability under the Sherman Antitrust Act requires: “(1) the possession of monopoly power in the relevant market and (2) the willful acquisition or maintenance of that power as distinguished from growth or development as a consequence of a superior product, business acumen, or historic accident.”<sup>165</sup> The Third Circuit in 2005 stated firmly that a firm has monopoly power if it “can profitably raise prices without causing competing firms to expand output and drive down prices.”<sup>166</sup> In the scenario described above, that another Hollywood studio could reasonably reach a deal with SPA and then deal with TEC to release a “competing” emoji movie, *An Emoji Story*, provides a simple basis for satisfying this first requirement: TEC could likely raise the licensing price to, say \$2 million for the next studio, without any compensatory effect on competition. Therefore, it has monopoly power.

In this case, the more interesting element is the “willful acquisition” requirement. The facts surrounding TEC and the SPA-TEC deal can be framed as analogous to the series of litigation occurring in the 1990s between two rivals in the computer industry, Microsoft and Netscape. The dual horizontal and vertical relationships between the competitors may be illuminating, as well as the nature of the market value created. First, two claims in the 1998 litigation, and the approach demonstrated by the D.C. District, have some remarkable similarities to the facts of the TEC-SPA agreement. For one, the claim that Microsoft had engaged in anticompetitive tying and exclusive dealing practices to push competitor Netscape out the web browser market, on a theory that it would benefit innovation; and second, that Microsoft’s decision to

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164 *Freedom Holdings, Inc. v. Spitzer*, 357 F.3d 205, 225 (2d Cir. 2004) (“Horizontal agreements among competing sellers to fix prices or restrict output are, absent more, per se violations of Section 1 of the Sherman Act[.]”); *Broad. Music, Inc. v. Columbia Broad. Sys., Inc.*, 441 U.S. 1, 19-20 (1979) (“Horizontal price fixing and output limitation are ordinarily condemned as a matter of law under an ‘illegal per se’ approach because the probability that these practices are anticompetitive is so high; a per se rule is applied when ‘the practice facially appears to be one that would always or almost always tend to restrict competition and decrease output[.]’”) (underlining in original).

165 *United States v. Grinnell Corp.*, 384 U.S. 563, 570-71 (1966).

166 *Harrison Aire, Inc. v. Aerostar Int’l, Inc.*, 423 F.3d 374, 380 (3d Cir. 2005).

choose its own browser over Netscape's was evaluated in a rule of reason mode of analysis, in light of its likely effects on the Java programming language and software innovation.<sup>167</sup>

From the horizontal competition perspective, SPA is dealing in its capacity as a manufacturer and distributor of big commercial movies that function as loss-leaders for massive ancillary merchandising campaigns, and TEC is dealing in its capacity as a trademark licensing firm, in a transaction that appears *prima facie* perfectly standard industry practice. But vertically, TEC has publicly announced that it seeks to expand into the manufacturing sector of film and television entertainment in Class 41 (rather than only vertically licensing its marks to external manufacturers).<sup>168</sup> In the mid-1990s, Netscape and Microsoft had already become heated horizontal competitors in the web browser market, with Netscape winning easily, and in a way that seriously threatened Microsoft's industry dominance.<sup>169</sup>

Microsoft had huge exclusionary power over Netscape too, however, since they were also vertical competitors—Netscape beholden to operating system compatibility, Microsoft the manufacturer of the market-dominant Windows operating system. The issue arose that Microsoft had pre-installed Internet Explorer within its soon-to-be-released Windows 98 version, which predictably crushed Netscape in the browser market.<sup>170</sup>

The presumption is that this was anticompetitive tying of the browser product and the operating system product. In response, the Court writes, Microsoft pushed for a standard by which “technologically tying,” as in software products like browsers tied to operating systems, are one in the same unless plaintiffs prove that “the challenged combination was carried out solely for the purpose of tying two separate products together ‘rather than to achieve some

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<sup>167</sup> See *United States v. Microsoft Corp.*, 1998 U.S. Dist. LEXIS 14231, at \*5, \*13-14 (D.C. Cir. 1998).

<sup>168</sup> See generally *EMOJI®: THE ICONIC BRAND*, *supra* note 7 (announcing new plans for projects regularly at “Press & Corporate News”).

<sup>169</sup> See *GAVIL & FIRST*, *supra* note 159, at 52-53; see also Aaron S. Edlin, *Stopping Above-Cost Predatory Pricing*, 111 *YALE L. J.* 941, 989 (2002) (“Netscape created and marketed an Internet browser, giving the browser away to some users and selling it to others. Microsoft was concerned that the Netscape browser and Java, which came with it, both had application program interfaces (APIs) that could ultimately challenge Microsoft's Windows operating system. Microsoft therefore created a rival browser, which it initially gave away for free or in many cases even paid OEMs [original equipment manufacturers], to install. Netscape began to give away its browser to all users, effectively cutting its price in response to Microsoft.”).

<sup>170</sup> See *Microsoft Corp.*, 1998 U.S. Dist. LEXIS 14231, at \*5.

technologically beneficial result.”<sup>171</sup> “Any other rule, Microsoft argues, ‘would enmesh the courts with technical and uncertain inquiry into the technological justifiability of functional integration and cast unfortunate doubt on the legality of product innovations in serious detriment to the industry and without any legitimate antitrust purpose.’”<sup>172</sup> So, this is the procompetitive effect of making competition more efficient, since innovators will not fear costly litigation and therefore decline to take risks, says Microsoft. But on the other hand, a specific anticompetitive effect: Netscape’s browser, Navigator, at one point claiming 70% market share against Microsoft, was valuable (and valuable to innovation) because of its role in the spread of the Java programming language, which allowed software applications to operate across operating systems.<sup>173</sup> This was a threat to Microsoft because its monopoly control over the operating system market was effectuated by the fact that software engineers had to decide between several competing operating systems to write programs for, since programs written for Windows would not run on other operating systems and vice versa. Netscape Navigator was “one means by which Java is distributed to consumers, since a JVM [Java Virtual Machine] component is shipped with Netscape’s browser. Furthermore, Navigator is itself a “platform” to which many [Java] applications are written.”<sup>174</sup> In other words, Microsoft’s argument that innovation would be more harmed by the chill of a court intervening and possibly getting it wrong, than it would be helped by this new language that allows greater interoperability, solving one of the major vexing problems for software developers, the marginal costs associated with being forced to choose an operating system.

Another account of TEC’s acquisition of its monopoly power, however, is as a process of Apple’s iOS 5 creating this huge glut of goodwill in these particular trademarks, TEC noticing this and capitalizing on it could be classified, in some sense, as a historical

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<sup>171</sup> *Id.* at \*27.

<sup>172</sup> *Id.* at \*28 (quoting *Telex Corp. v. IBM*, 367 F. Supp. 258, 347 (N.D. Okla. 1973), rev’d on other grounds, 510 F.2d 894 (10th Cir. 1975).

<sup>173</sup> *Microsoft Corp.*, 1998 U.S. Dist. LEXIS 14231, at \*13-14 (“A new programming language, known as ‘Java’, designed in part to permit applications written in it to run on any platform or operating system (‘across platforms’), thus permitting ISVs to create and distribute a single version of their software capable of operating on many otherwise incompatible system platforms and browsers. Programs written in Java are compiled into intermediate instructions which are then ‘interpreted’ by another computer program which emulates a hypothetical CPU called a ‘Java Virtual Machine’ (‘JVM’). The JVM translates the instructions into language that can be understood by the specific CPU on which the JVM is running.”).

<sup>174</sup> *Id.* at \*14.

accident.<sup>175</sup> Really, the sudden availability of this goodwill *was* a historical accident: Apple did not think to register the EMOJI trademarks in advance, to head off such a private monopoly situation, which it could have. On the other hand, however, antitrust enforcers could also argue that Apple *did* anticipate emojis being popular, as they were already fairly popular, and relied on industry-standard-like thinking when deciding to release the emoji keyboard with the iOS5 update. In other words, it would have been such a breach of norms to exploit the EMOJI marks to the degree TEC has, that Apple had to have released the emoji keyboard on the assumption that it did not even have to be said that it was not a proprietary IP, like Spiderman.

This year the European Commission fined Google \$5 billion for doing essentially the same thing as Microsoft, in forcing manufacturers of its smart phones using its Android operating system to pre-install Google apps as a precondition to use.<sup>176</sup> The European Commission said this unfairly cemented Google's search monopoly.<sup>177</sup> Google says that the open-source Android operating system has already enabled innovation orders of magnitude more helpful to innovation.<sup>178</sup> Inherent in both these cases is a vertigo-inducing contrast in perspectives inherent in the whole premise of ecommerce.

A popular affirmative defense from Silicon Valley, against antitrust accusations, is that nobody is forcing anyone to use any website. There can be no anticompetitive monopoly power when it is so easy to just click out of the browser window or go to another site. But the key premise the EU recognizes in this case, that U.S. antitrust law should also embrace, is that all the huge economic structures that are now all looped through this common circuit of the smart phone screen interface, are now all fully beholden to the thoughtless, arbitrary, disposable decision-making that people engage in on their phones. The Android-installed smart phones were a massive competitive advantage to Google for the search market. But it would have taken literally 10 seconds for a user to delete it and download another browser. The

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<sup>175</sup> Sherman Antitrust Act § 1.

<sup>176</sup> See Adam Satariano & Jack Nicas, *E.U. Fines Google \$5.1 Billion in Android Antitrust Case*, N.Y. TIMES (July 18, 2018), <https://www.nytimes.com/2018/07/18/technology/google-eu-android-fine.html>.

<sup>177</sup> *Id.*

<sup>178</sup> Google Europe (@googleeurope), TWITTER (July 18, 2018, 4:10 AM), <https://twitter.com/googleeurope/status/1019539840457723904> (“@Android has created more choice for everyone, not less. #AndroidWorks [...] Android has created more choice for everyone, not less. A vibrant ecosystem, rapid innovation and lower prices are classic hallmarks of robust competition. We will appeal the Commission’s decision.”).

power of the emoji monopoly is in all the billions and billions of times per day peoples' eyes flick over emojis, on various menus and interfaces, and make them part of our personal relationships. Trademark and antitrust courts should consider such practical, user-experience-based analysis when evaluating novel technological issues.

## V. CONCLUSION

The full title of Sony's movie is actually *The Emoji Movie: Express Yourself*. Upon even the most shallow reflection it is clear that emojis are an exceptionally powerful cultural symbol. They should come with all the benefits of use of anything else in the public domain, which includes expressive commercial speech involving trademarks, without worrying if you will get sued. From a pure competition perspective, moreover, the commercial artistic works that would exist but for the SPA-TEC deal would benefit the economy in a way that may not even diminish the market for *Emoji Movie*-specific merchandise. Emojis—and consumers—deserve better than *The Emoji Movie*.