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IP Basics

Intellectual property is perhaps the area of law that has the greatest overlap with franchise law, stemming from the fact that franchisors must protect the brand and business system that they license to franchisees. The category of intellectual property most intertwined with franchising is the trademark, and accordingly the majority of this paper is devoted to trademarks. After providing an overview of trademark laws and how to register and protect your trademarks within the United States, this paper focuses on the important role that trademarks play in franchise disclosure documents (FDDs) and franchise agreements. The paper then provides a summary of recent developments in trademark litigation and a brief overview of international trademark law before turning to the other types of intellectual property that are relevant to franchising.

I. Trademark Basics

Trademarks remain one of the most important and accessible forms of intellectual property in the United States and internationally. Everyday consumers interact with hundreds of trademarks in a variety of forms. As such, business owners who are not carefully curating a brand through the trademark system are missing out on the innumerable benefits intellectual property protections have to offer.

Protected by the Lanham Act, trademarks are defined as words, names, symbols, or devices used to distinguish goods or services from one another. Functionally, trademarks serve more specific roles than just a good or service's source of origin. Trademarks also protect a brand's reputation, goodwill, and intrinsic value created by the products or services themselves. Not limited to just a logo or wordmark, trademarks may encompass the overall appearance, packaging, and design of a product as well, known as "trade dress."[1]

In franchising, a system's trademark is unquestionably its most valuable asset. When franchisees sign on to start their own franchised business within the system, they benefit from the corporate structure and established supplier connections, but most of all, franchisees benefit from the trademarks they are now licensed to use. The ability to use an established brand is what sets franchising apart of from other business models, and the goodwill generated from a well-known brand provides profound business advantages irrespective of industry. Trademark law is the vehicle in which this goodwill can be protected and fostered even further.

A. Overview of Trademarks, Generally.

Colloquially, "trademark" is often used in two ways. It is most often used as an umbrella term to identify any type of mark, including trademarks for goods, service marks for services, and trade dress. More specifically, it is a reference to a brand's mark under which an item is being sold. In truth, the distinction between trademarks, service marks, and trade dress, while seemingly subtle, harbors important nuances.[2]

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[1] IF12456 (congress.gov)
[2] TRADEMARKS, IPMB MD-CLE 5-1

Service marks differ from trademarks, as one would expect, in that they are used to distinguish the source of services.[3] Some recognizable service marks include the FEDEX logo, SHELL symbol, or AT&T sphere. Beyond ubiquitous branding, service marks can be used in connection with the offering of any service, so long as it is not physically tangible, such as insurance providers or tax professionals.[4] These marks can serve as both a trademark and service mark where the owner provides both goods and services. In practice, this would look like a NIKE branded store selling NIKE branded shoes or a STARBUCKS branded coffee shop selling STARBUCKS branded coffee.

Trade dress, itself a distinct aspect of intellectual property, encompasses a product's total image and overall appearance. Differentiation can be traced to anything from size, shape, color, texture, sales technique, or any combination thereof.[5] An easily identifiable example of trade dress is the COCA-COLA bottle's shape.

Additionally, trademarks are not to be confused with trade names. A trade name is used to identify a company, partnership or business rather than the goods or services the entity provides. The key difference between a trade name and trademark is that trade names cannot be registered under the Lanham Act unless they are done so to identify the source of a particular good or service rather than identification of the entity itself.[6] Whether a trade name may also operate as a trademark depends on the specifics of its use in commerce and whether customers can derive a good or service's source therefrom.[7]

1. Derivation of Value

Ensuring a mark is a source indicator to consumers is one of the key value-adds trademark law provides the market as a whole. Of course, companies derive a separate but correspondingly important source of value from protecting their mark. In safeguarding customers from the confusion of the source of a good or service, entities are able to capitalize on their own, earned reputation in the marketplace. This is known as "goodwill."

Goodwill is an intangible business value that reflects the inclination to continue doing business with a vendor offering goods and services which effectively fulfil a consumer's needs.[8] The United States Supreme Court defines goodwill as the expectancy of continued patronage.[9] The value derived from goodwill is not just speculative. Goodwill, while itself intangible, does have a tangible impact on businesses and is itself a worthwhile asset to protect via trademark registration. In fact, it is often the most valuable asset a brand can have. There is no question that,

[3] IF12456 (congress.gov)
[4] 15 U.S.C.A. § 1127 (West)
[5] *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 n. 1 (1992); *Leviton Mfg. Co., Inc. v. Universal Sec. Instruments, Inc.*, 304 F. Supp. 2d 726, 735 (D. Md. 2004).
[6] Trade name (no date) Legal Information Institute. Available at: https://www.law.cornell.edu/wex/trade_name (Accessed: 15 February 2025).
[7] *See* Trademark Manual of Examining Procedure ("TMEP"), USPTO, TMEP 1202.01 Refusal of Matter Used Soley as a Trade Name.
[8] § 2:17. Good will—Judicial definitions of good will, 1 McCarthy on Trademarks and Unfair Competition § 2:17 (5th ed.)
[9] *Newark Morning Ledger Co. v. U.S.*, 507 U.S. 546, 555, 113 S. Ct. 1670, 123 L. Ed. 2d 288, 21 Media L. Rep. (BNA) 1289, 26 U.S.P.Q.2d 1427, 93-1 U.S. Tax Cas. (CCH) P 50228, 71 A.F.T.R.2d 93-1380 (1993)

in a business model that relies so heavily on the licensing of a brand name, goodwill may be the most important aspect of a franchise system.

B. Trademark Protection

Unlike other intellectual property rights, trademarks are only property in a limited sense. Trademarks may be transferred, like other property, but the right the new owner acquires is the negative right to prevent its use by others.[10] This negative right holds intrinsic value only in the market's ability to distinguish the source of a product through the trademarks itself. In a direct sense, consumers dictate the viability of a trademark insofar as the mark maintains its status as a source indicator to consumers. To do so, marks must, at all costs, preserve their distinctiveness.

1. Trademark Distinctiveness

Inherent in a trademark's ability to act as both an indication of source and symbol of goodwill is the requirement of distinctiveness. Being distinguishable from other marks is the bare minimum standard to gain protection of a mark. The courts have agreed upon this prerequisite and have provided a spectrum of classifications for the level of distinction a mark has. The "Abercrombie Spectrum" provides the framework by which all trademark applications are evaluated in terms of the requisite level of distinctiveness.[11] The five categories of the Abercrombie Spectrum, in ascending order of distinctiveness, are as follows:

- Generic: A generic word literally refers to the "genus of which a particular product is a species."[12] In actuality, a generic term simply states what the source of the product of service *is*. (e.g., SHOE for a shoe).[13] No amount of effort put into a generic term will provide the term with protection under trademark law. Rooted in public identification of the source of a good or service, the most generic description of the source of a product cannot be protected. Protection of a generic term would deprive competitive businesses of the right to call a product by its name.

- Descriptive: A term that is merely descriptive stands on a more stable basis for protection than a generic term, but not substantially. Descriptive terms describe a quality, ingredient, characteristic, or function of a product or service.[14] In doing so, descriptive terms provide little to no assistance in consumers discerning the source or quality of the product or service. This does not, however, prevent a descriptive term from generating distinctive properties over time in the minds of consumers, warranting analysis of whether the term has risen to the level of protectable (called "secondary meaning"). Examples of descriptive terms gaining secondary meaning include KENTUCKY FRIED CHICKEN for fried chicken; COLD STONE CREAMERY for cold stone prepared ice cream; and AMERICAN AIRLINES for an aviation company. It must take at least five years for a brand to officially gain this level of distinction through notoriety, usage, and acceptance into the public consciousness.

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[10] *DuPont Cellophane Co. v. Waxed Prod. Co.*, 85 F.2d 75, 80 (2d Cir. 1936)
[11] *Abercrombie & Fitch Co. v. Hunting World, Inc.*, 537 F.2d 4, 9 (2d Cir. 1976).
[12] *Id.*
[13] *Id.*
[14] *Id.* at 10.

- Suggestive: Suggestive terms require more imagination, thought, and perception to reach the conclusion as to the nature of a good or service. Unlike descriptive marks, no secondary meaning is required for a suggestive mark to be entitled to registration.[15] Examples of suggestive marks would include NETFLIX for online movie streaming, BURGER KING for a burger restaurant, and UNDER ARMOUR for temperature regulating undergarments. A consumer's ability to both understand what the product or service is while being unable to confuse the source is the nexus for a suggestive mark.

- Arbitrary: A trademark that is arbitrary applies a common word in an unfamiliar way to a product or service in which that word had no prior relationship.[16] Examples of arbitrary trademarks include TIDE for laundry detergent, DOVE for chocolate, and SHELL for gasoline. Arbitrary marks hold sufficient distinctiveness to be automatically protectable.[17]

- Fanciful: Fanciful trademarks are words coined solely for their use as trademarks. These are the strongest class of trademark and inherently maintain a distinction that warrants registration. Examples of fanciful marks include EXXON for gasoline, KODAK for film and cameras, and UNIQLO for clothing.[18]

2. Rights and Protections Through Registration

Securing federal trademark protection in a distinctive mark is reliant on its use in interstate commerce. United States trademark law rewards the owners of marks who use the mark first in commerce, even if the first user is not the first to file a trademark registration application. That is not to say registration does not provide its own unique protections, however. Federal registration still creates trademark rights that cannot be replicated, including avenues of recourse for infringement. Above all, however, use is the prerequisite to trademark protection.

Common Law Protections

United States common law does not require registration for trademark rights. These common law rights arise from actual use of a distinctive mark in United States commerce in connection with a specific good or service.[19]

Trademark rights in common law must stem from usage of the mark that is deliberate, continuous, and not sporadic or casual.[20] Courts have often denied trademark protection where use is too minimal or infrequent, such as periodic distribution of samples[21] or menial use over a multi-year period.[22] Common law protections, however, are limited to the geographic area of use, which

[15] *Id.* at 11.
[16] *Id.*
[17] *Id.* at n. 12.
[18] *Id.*at 11.
[19] *Investacorp, Inc. v. Arabian Inv. Banking Corp. (Investcorp) E.C.*, 931 F.2d 1519, 1522 (11th Cir. 1991).
[20] *Larsen v. Terk Techs. Corp.*, 151 F.3d 140, 146 (4th Cir. 1998); Allard Enters., Inc. v. Advanced Programming Res., Inc., 146 F.3d 350, 358-59 (6th Cir. 1998).
[21] *Harod v. Sage Prod., Inc.*, 188 F. Supp. 2d 1369, 1376 (S.D. Ga. 2002).
[22] *Int'l Healthcare Exch., Inc. v. Glob. Healthcare Exch.*, LLC, 470 F. Supp. 2d 365, 371 (S.D.N.Y 2007).

must be proven in a specific territory where the owner seeks to assert its rights.[23] This area can develop, however, based on a natural zone of expansion of the mark.[24]

State-Level Registration

While unnecessary where a federally registered mark exists, owners can register their mark on a state-by-state basis. This can be used as a less expensive, and in some states, less time consuming, path to registration while putting competitors on notice of the mark's existence and usage in commerce.

Federal Trademark Registration

A federal registration, like common law protection, begins with use of the mark. An owner of a trademark must be using the mark in *interstate* commerce to be eligible for registration with the United Stated Patent and Trademark Office ("USPTO"). This differs slightly from the common law standard of United States commerce; transactions must take place across state lines. Once achieved, however, federal registration fosters significant advantages for the trademark's owner, including:

- Presumed ownership of the mark, including nationwide trademark rights and priority as of the registration date;
- Prima facie evidence of validity;
- Right to use the ® symbol, deterring any possible adopters of similar goods and services;
- Presumption the mark has not been "abandoned" despite non-use of the trademark for a time;
- Use of the federal court system to litigate infringement of the mark;
- Enhanced remedies for infringed marks, which may include triple damages and criminal penalties of counterfeiting; and
- Incontestability, vesting after five years of unopposed registration. Rights in an incontestable mark cannot be challenged by a third party in federal court or through the Trademark Trial and Appeal Board (TTAB) absent demonstrable evidence of fraud, generic nature, or further grounds for contest.

Importantly, registering a trademark exempts a franchisor from the business opportunity statutes in Connecticut, Georgia, Louisiana, Maine, North Carolina and South Carolina. Once a franchisor has secured a federal trademark, it may immediately begin offering franchises in these states with a compliant FDD without submitting a filing under their relevant business opportunity statutes.

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[23] *See Emergency One, Inc. v. Am. Fire Eagle Engine Co.*, 332 F.3d 264, 268 (4th Cir. 2003).
[24] *See Tally-Ho, Inv. v. Coast Cmty. Coll. Dist.*, 889 F.2d 1018, 1027-28 (11th Cir. 1989).

Principal vs. Supplemental Register

In instances where a trademark is merely descriptive and cannot be registered on the Principal Register, the trademark owner may still protect their mark beyond what common law provides via use of the Supplemental Register. The Supplemental Register is the secondary register maintained by the USPTO in which trademarks are given some level of protection despite being non-distinctive and lacking a secondary meaning. Descriptive marks, surnames, and trademarks containing geographic terms are most likely found in the Supplemental Register.[25]

There are still some tangible benefits for trademark owners with marks on the Supplemental Register. When compared to the Principal Register, the benefits are as follows:

Comparison of USPTO Trademark Registers[26]

Advantages	Principal	Supplemental
Right to use the ® Symbol	✓	✓
Appearance on USPTO databases	✓	✓
Right to use federal court system	✓	✓
Bars subsequent applications of similar marks	✓	✓
Use of trademark as basis for foreign registration	✓	✓
Presumption of ownership	✓	✕
US Customs protection from infringing goods	✓	✕
Incontestability	✓	✕

C. Trademark Application

To procure the full protection of the USPTO for a trademark, owners must obtain a federal trademark registration on the Principal Register. This is done through the application process with the USPTO. Applications must be filed based on: (a) the use of the mark; (b) a bona fide intention to use the mark; (c) a foreign application; or (d) a combination of methods (a)-(c).[27]

The USPTO has made concerted efforts to standardize the application across all variables when applying for a trademark. Applications begin at the USPTO website: **https://www.uspto.gov**. The USPTO website provides guidance on how to best prepare your application. The USPTO urges new applicants to consider, before filing, whether the mark the applicant wants to register is registerable, and how difficult it will be to protect the mark based on its strength. In doing so, the USPTO provides resources and links to help an applicant come to their own conclusions for these questions.[28] Applicants should:

- Identify the mark format;
- Identify the precise goods and/or services the mark will apply under;

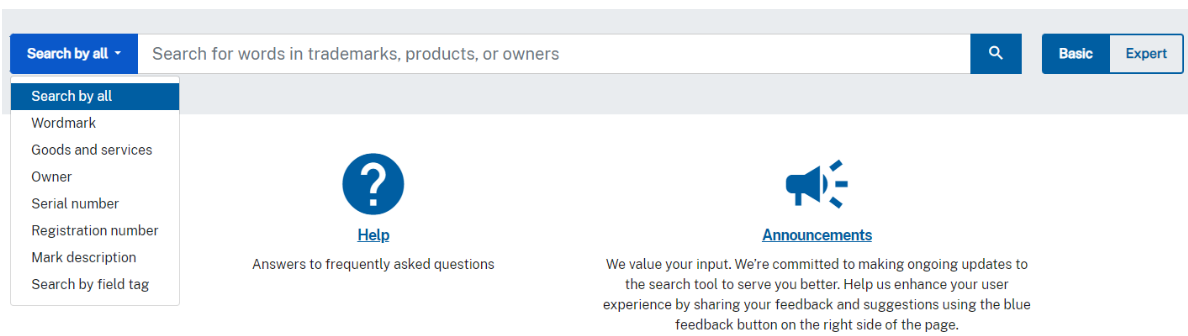
[25] Supplemental Register (no date) Legal Information Institute. Available at: https://www.law.cornell.edu/wex/supplemental_register (Accessed: 15 February 2025).
[26] *Id.*
[27] 15 U.S. Code § 1051
[28] Trademark process (2025) United States Patent and Trademark Office - An Agency of the Department of Commerce. Available at: https://www.uspto.gov/trademarks/basics/trademark-process#step2 (Accessed: 15 February 2025).

- Search for a potentially confusingly similar mark;
- Understand the basis for filing; and
- Consider hiring a trademark attorney if you are domiciled in the United States (foreign-domiciled applicants are required to do so).

1. Searching for Similar Marks

Arguably the most important preliminary step is an applicant's search for any pre-existing confusingly similar mark. One of the most common reasons an application is rejected is the similarity of the applied-for mark to already registered marks that the USPTO deems will create a likelihood of confusion. Knowing this, applicants should spend a sizable amount of time ensuring their mark does not fall victim to this hang-up and also does not infringe another party's mark. The USPTO recommends potential applicants search the USPTO database as well as the internet for third-party references to their marks, or similar marks, that may share goods and services provided.[29] Because the USPTO database does not include unregistered common law marks, it is important to search resources beyond the USPTO.

The USPTO trademark search system itself provides several methods of searching for marks prior to or after the application process. You can search for a mark based on the mark itself, goods and services, the owner of the mark, or the identifying registration/serial numbers.[30] The search interface is displayed below:



If an applicant finds a mark they believe may be confusingly similar, they can navigate to the "Documents" section of the mark and review the documents submitted to the USPTO thus far. Some of the most pertinent information may be found in Office Actions presented by the assigned examiner, sometimes providing information on how to clarify the unique nature of the mark. These concepts are explained more thoroughly below but should not be overlooked to first-time applicants.

[29] Comprehensive clearance search for similar trademarks (2025) United States Patent and Trademark Office - An Agency of the Department of Commerce. Available at: https://www.uspto.gov/trademarks/search/comprehensive-clearance-search-similar-trademarks (Accessed: 15 February 2025)
[30] Trademark search. Available at: https://tmsearch.uspto.gov/search/search-information (Accessed: 15 February 2025).

2. Application Examination

In the months following the filing of an application, the filing will be assigned a USPTO examining attorney who will determine whether the mark is statutorily sound enough to be registered and whether the application formalities have been completed. As of early 2025, the USPTO is currently experiencing review times of approximately 7 months for a new application.

Questions about the viability of registration of a mark and other identified issues come in the form of an Office Action from the examiner.

Office Actions are official letters sent by the USPTO listing any legal issues with the chosen mark or application.[31] Applicants can respond to Office Actions within three months of the date from which it is issued. An additional three-month period will be provided to the applicant for an extension fee. Any issue brought to the applicant's attention must be resolved before the application will be approved to move to the next step in the registration process. Certain issues raised in an Office Action may be resolved by making simple amendments to the application; other issues involve more lengthy submissions to the USPTO.[32] Some of the most common reasons for simple amendments include required clarifications to the description of goods or services or disclaimers for a portion of the mark. Common substantive legal refusals requiring more lengthy submissions are likelihood of confusion with another registered mark and descriptiveness of the applied-for mark. Substantive legal rejections and refusals by examiners may be especially difficult to overcome and must be carefully responded to.

Disclaiming a Portion of the Mark

Where a trademark contains a word or phrase that describes some aspect of the good, service, or business, applicants must provide a disclaimer – a statement in which the applicant does not claim exclusive rights to the specific term. An example of this would be terms like SHOPPE, STORE, or BAR. Exclusive rights to these terms cannot be given by the USPTO because other services and businesses of the same type use these words to describe their business also.

Likelihood of Confusion

Under Section 2(d) of the Lanham Act, a likelihood of confusion refusal is made when an examiner finds one or more registered trademarks that are similar to the applicant's mark, so much so that the examiner believes consumers are likely to be confused by the similarity. This refusal makes it paramount for applicants to utilize the search tools to research similar marks prior to applying for their trademark. While this type of Non-Final Office Action can be fairly common, the USPTO has ways in which applicants can try to differentiate their trademark while making minimal changes to the application itself.

The USPTO provides the following guidance on how to respond to the "likelihood of confusion" refusal[33]:

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[31] Responding to Office Actions (2023) United States Patent and Trademark Office - An Agency of the Department of Commerce. Available at: https://www.uspto.gov/trademarks/maintain/responding-office-actions#:~:text=What%20is%20an%20office%20action,we%20can%20register%20your%20trademark. (Accessed: 15 February 2025).

[32] *Id.*

[33] *Id.*

- Provide the examiner with fact-based points about why the trademark is not similar to other, registered trademarks in meaning, sound, appearance, or commercial impression.
- Explain how the goods and services provided under the applied-for trademark are different or unrelated from those already registered.
- Amend the goods and services provided under the applied-for trademark to be narrower to decrease the likelihood of overlap.
- Provide a consent agreement from the owners of other registered trademarks which the examiner deemed confusingly similar.
- Ensure none of the trademarks the examiner deemed confusingly similar are "dead" from non-use.

Descriptiveness

Under Section 2(e)(1), a refusal may be made where an examiner finds evidence that the text or design of a trademark merely describes some aspect of the goods and services related to the mark. Examiners will often refuse words like "bold" for coffee or "creamy" for ice cream.

The USPTO provides guidance on how to respond to a "descriptiveness" refusal[34]:

- Argue against the examiner's evidence making fact-based, specific points as to why the mark is not merely descriptive.
- Amend your application to indicate your trademark has acquired distinctiveness, with evidence.
- Apply for the Supplemental Register instead.
- Narrow the listed goods and services, where appropriate.

3. Publication and Registration

Upon timely response to an Office Action, or if there is no Office Action, and subsequent acceptance by the examiner, the trademark will be approved. Following the approval, the examiner will publish the mark in the "Official Gazette." This does not mean the mark is registered, however. Third parties who believe they may be damaged by registration of the trademark in question have 30 days from the publication date to file an opposition to the registration or request to extend the time to oppose the registration.[35] If no opposition is filed, or the registration survives an opposing filing, the registration process will continue to its next phase, which depends on the basis of application.

The final steps of the application process depend on whether the application is based on *use* or *intent to use*. If no opposition is filed, or the application survives the opposition period, a notice of allowance will be issued by the examiner. If the application is based on use, and the mark is not contested or survives contest, the approval is final because the mark is already in use. A certificate of registration will be issued shortly after this final approval. When the application is

[34] *Id.*
[35] *Id.*

based on intent to use, as many new marks are, the applicant has six months from the date of notice of allowance to either (i) use the mark in interstate commerce and submit a statement of use to the USPTO; or (ii) request a six-month extension of time to file the statement of use.

The statement of use must be approved by the examiner before the mark can become registered. Further Office Actions may result from the statement of use, so applicants must be diligent in surveying their mark's application and ensuring the examiner's required changes or updates are made.

It is only after the certificate of registration issues that the applicant may use the ® symbol with the mark.

4. Maintenance of a Registered Mark

Procedurally, a trademark owner must take specific steps following the registration of the mark to maintain its protected status. Trademark owners must keep in mind the following filing deadlines[36]:

- After continuous use of the trademark in commerce for five consecutive years after the date of registration, trademark owners may file a declaration for incontestability under Section 15.
- Between the 5th and 6th year after registration, trademark owners must file a Section 8 declaration, specimen of use, and fee. Failure to do so will result in cancellation of the registration.
- Every 10 years following registration, trademark owners must file a Section 8 declaration, specimen of use, and fee, and a Section 9 renewal application. These filings can be made simultaneously with a combined form. Failure to do so will result in cancellation of the registration.

Maintenance of a trademark is not limited to filings with the USPTO, however. Maintenance of a mark also pertains to ensuring the mark is properly noticed, continuously used, and does not fall into obscurity.

When a mark is registered with the USPTO, designating the mark with the ® symbol continues to inform the public of the source of the goods and services, as well as potential competitors from using similar or infringing trademarks. Neglecting to use the ® mark may bar trademark owners from being awarded damages or lost profits when pursuing infringing marks, because actual notice is required for these awarded damages.[37] Owners of unregistered marks protected by common law should still take the time to distinguish their mark with the "TM" symbol.

Beyond putting others on notice, trademark owners must be careful how the trademark is used in commerce. Trademarks should be used in a consistent way with the registration itself.

[36] Registration maintenance/renewal/correction forms (2025) United States Patent and Trademark Office - An Agency of the Department of Commerce. Available at: https://www.uspto.gov/trademarks/maintain (Accessed: 15 February 2025).
[37] 15 U.S.C. § 1117(a).

Using the colors, fonts, and exact lettering of a trademark that is registered prevents the use of the mark from falling into obscurity or being accepted in an incorrect manner.

It's important to keep the product name separate from the type of product itself to avoid it becoming genericized by the public at-large.. Famous examples of products losing their identifying source include "googling," "airfrying," or putting on a "band-aid." These words have become, on their own, verbs and nouns describing the action or object, not the source of a search, appliance, or bandage, respectively. Trademarks that have fallen into the public lexicon to the extent they were rendered generic include Aspirin, Kerosene, Trampoline, Videotape, and Escalator.

Trademark owners should take heed and ensure, internally and externally, the brand is not slowly becoming genericized. This can be done by placing the good or service directly after the mark (i.e. ZIPLOC bag) or placing the word "brand" after the mark (i.e. NIKE brand shoes). This is especially true for franchisors, who are in the business of licensing their brand to several parties at once. Allowing third-parties to use a mark in commerce as a part of a franchised business has the potential to lose control of how the mark itself is used. Franchisors must take special care to control their mark despite it being licensed to franchisees. Setting rigid standards with zero-tolerance policies for misuse is one of the few ways to maintain control of the mark once it is released to franchisees within the system. Later sections of this paper discuss the ways in which the important trademark rights and protections described above are licensed to franchisees and included inFDDs and franchise agreements.

Certain aspects of the trademark application process described in this section, as well as the ability to challenge some of the rights afforded by this process, were recently altered by the Trademark Modernization Act.

D. Trademark Modernization Act

As a part of the Consolidated Appropriations Act of 2021, the Trademark Modernization Act ("TMA") was signed into law on December 27, 2020. Most, but not all, of the regulations within the TMA were implemented by the USPTO on November 17, 2021; however, many of the actual changes to how the USPTO operates were not implemented until December 2021.

The major changes include:

- The Lanham Act now authorizes *ex parte* expungement and *ex parte* re-examination proceedings to challenge marks that have never been used in commerce or have not been used since registration;
- The TTAB will permit petitions to cancel the registration of marks that have never been used in commerce;
- A shortened Office Action timeline;
- Codification of Letters of Protest against pending applications;
- Codification of the presumption of irreparable harm under the Lanham Act; and
- Confirmation of the constitutionality of appointments of administrative judges to the TTAB.

1. *Ex Parte* Expungement and *Ex Parte* Re-Examination Proceedings

In an effort to address stagnant and unused trademarks, the TMA enacted *ex parte* re-examination and expungement proceedings to provide an avenue of challenge for those seeking the rights to marks that are dormant or abandoned. Owners of a registered mark are only required to submit proof of use after the first six years of registration, then every ten years after. This staggered timeline leads to marks only being put to use around the time proof must be submitted, remaining inert otherwise. Third-party petitioners, or the Director of the USPTO, may now file to enact proceedings to re-examine, remove or limit trademark registrations for trademarks that were improperly registered or currently not in use.

The new *ex parte* expungement proceedings provide a basis for cancellation of a mark's registration where the mark has never been used in commerce for some or all the goods and services categories in which it is registered. Such proceedings can only begin between three and ten years following the date of registration.

The *ex parte* re-examination proceedings may be enacted in instances where the registered mark was never used in commerce on or before the relevant date for any of the goods or services categories in which it is registered. If the application is use-based, the relevant date is the date of application's filing. For intent-to-use applications, the relevant date is the deadline for filing a statement of use.

To institute an expungement or re-examination proceeding, the petitioner must pay a $400 filing fee per class of goods or services, submit a verified statement establishing they reasonably investigated whether the mark was actually used in commerce, and submit their own evidence supporting a prima facie case for non-use as of the respective relevant date, if applicable.

A successfully filed petition will be recorded and viewable on the USPTO website. Should the Director institute the proceedings, the USPTO will issue an Office Action to the original registrant providing a three-month period to respond. An additional month may be given as an extension for a $125 fee. If the registrant fails to respond or insufficiently shows use, a Final Office Action will be issued, recommending the registration be cancelled.

2. Trademark Trial and Appeal Board Cancellation Proceedings

The TMA will also allow for *inter partes* cancellation proceedings based on non-use. The TTAB previously only permitted cancellation of registered marks for non-use if a petitioner established abandonment. The TMA now permits Petitions to Cancel for non-use where the mark has never been used in United States commerce for all or some of the goods and/or services after the mark has been registered for three years. As the proceedings are *inter partes*, or between parties, responsive filings, discovery, and evidence must be filed in support of each side's case.

3. Shorter Office Action Response Time

Under the TMA, Office Actions will be issued by the USPTO with a three-month response deadline, cutting the previous six-month deadline in half. For a $125 fee, the deadline can be extended an additional three months at any point prior to the initial three-month deadline's expiration. For a response to be timely, it must be received on or before the response deadline.

4. Codification of Letter of Protest Procedure

The previously informal procedure of filing letters of protest during the examination of a mark has also been codified by the TMA. Now, third-party letters of protest submitted during the trademark examination process providing evidence bearing on a mark's registrability are officially recognized by the USPTO. The filing fee for letters of protest is $150, and filers will receive notification within 60 days regarding the acceptance or rejection of a letter of protest.

5. Restoration/Confirmation Of The Presumption Of Irreparable Harm In Trademark Litigation

The Lanham Act provides trademark owners with a robust weapon to secure preliminary and ultimately permanent injunctive relief to address the infringement of their trademarks. To obtain injunctive relief, trademark owners typically must demonstrate: (1) a likelihood of success; (2) irreparable injury; (3) the threatened injury to the movant outweighs the harm the relief sought would inflict on the opposing party; and (4) the injunction would not be adverse to the public interest.

Prior to 2006, courts routinely held that a movant was entitled to injunctive relief merely by demonstrating a likelihood of success on the merits of a trademark infringement claim. The reason for this was judicial recognition of a "presumption" of irreparable harm to the movant because of the infringement. However, this changed in 2006 because of the United States Supreme Court's decisions in *eBay Inc. v. MercExchange, L.L.C.*[38], and *Winter v. Natural Resources Defense Counsel, Inc.*,[39] which eliminated similar presumptions in litigation brought under patent and environmental law.

After eBay and Winter, there has been a substantial debate over whether those holdings should be limited to their respective subject matters or given broader application to other areas of the law such as trademark infringement and other Lanham Act matters. Over the past 15 years, court decisions have been decidedly mixed on the issue of whether a presumption of irreparable harm continues apply in trademark infringement matters.[40] The Third, Ninth, and Eleventh Circuits held it did not.[41] The First and Second Circuits questioned the ongoing viability of the presumption without expressly resolving the issue.[42] To add to the confusion, at least the Fifth and the Eighth Circuits, as well as numerous district courts, affirmed findings of irreparable harm in trademark cases after eBay without clearly addressing eBay or the presumption.[43] Practically speaking, the circuit split meant that a trademark owner's chances of success in obtaining

[38] 547 U.S. 388 (2006)
[39] 555 U.S. 7 (2008)
[40] The extent of the split of authority in such matters has been well documented in two excellent Franchise Law Journal articles, which discussed the evolution of this authority five and ten years post eBay and Winter. See Ronald T. Coleman, Jr., Trishanda Treadwell, & Elizabeth A. Loyd, Applicability of the Presumption of Irreparable Harm After eBay, 32 Franchise L. J. 3 (2012); Scott McIntosh & Jonathan Labakus, To Presume Or Not To Presume, Irreparable Injury in Trademark Disputes Involving Franchisees Following eBay and Winter, 36 Franchise L. J. 43 (2016).
[41] *See* Ferring Pharmaceuticals, Inc. v. Watson Pharms., Inc., 765 F.3d 205 (3d Cir. 2014); Herb Reed Enters. v. Fla. Ent. Mgmt., Inc., 736 F.3d 1239, 1249-50 (9th Cir. 2013); Commodores Entm't Corp. v. McLary, 648 F. App'x 771 (11th Cir. 2016) (per curiam).
[42] *See* Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc., 645 F.3d 26, 33 (1st Cir. 2011); U.S. Polo Ass'n v. PRL USA Holdings, Inc., 511 F. App'x 81, 85 (2d Cir. 2013).
[43] *See, e.g.*, Warner Bros. Ent., Inc. v. X One X Prods., 840 F.3d 971, 982 (8th Cir. 2016); Abraham v. Alpha Chi Omega, 708 F.3d 614, 627 (5th Cir. 2013); Ent. One UK Ltd. v. 2012Shiliang, 384 F. Supp. 3d 941, 955 (N.D. Ill. 2019).

injunctive relief varied significantly depending on whether the circuit maintained or dispensed with the presumption of irreparable harm, and accordingly encouraged forum shopping.[44]

The TMA has now resolved these ambiguities and inconsistencies by codifying in Section 34(a) of the Lanham Act[45] that a trademark owner seeking an injunction in an infringement case is entitled to a rebuttable presumption of irreparable harm upon establishing infringement at the proof stage, or showing a likelihood of liability in the context of motions for temporary restraining orders or for preliminary injunctions.[46] This abrogates court decisions that have applied eBay to trademark cases and eliminated the presumption of irreparable harm.

However, since the passage of TMA, there has been disagreement between courts as to the strength of the presumption and in particular how easy it may be to rebut. On one end of the spectrum, several courts have described the presumption as "heavy." Others have characterized it "slight."[47] Still others have recognized a variety of evidence that may rebut the presumption including delay by the plaintiff in filing the underlying action or pursuing injunctive relief, a showing of purely pecuniary injuries, demonstration that the non-movant has or will soon cease the allegedly infringing activity, insufficient evidence of likelihood of confusion or the existence of other evidence including statements of the plaintiff's witnesses suggesting that the harm alleged is not irreparable.

Several recent decisions have also demonstrated the risks trademark owners face in relying solely on the presumption of irreparable harm to establish that factor in the preliminary injunction analysis. Not only do trademark owners risk having the presumption rebutted by the non-movant, some courts have also found the presumption to be inadequate to claim the upper hand in the analysis of the balancing of hardships.[48] On the other hand, those trademark owners who have paired reliance on the presumption of irreparable harm with affirmative evidence have materially improved their prospects of prevailing on both the irreparable harm and balancing of harm factors and in ultimately securing injunctive relief.

E. FDD Disclosure Items

Given the importance of trademarks to a franchisor's system, it is not surprising that information regarding trademarks appears throughout the FDD. While Item 13 is the primary section dedicated to trademarks, there are several other disclosures that relate directly or indirectly to a franchisor's trademark.

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[44] For a more detailed treatment of this subject *see* Christopher P. Bussert, The Presumption of Irreparable Harm After the Trademark Modernization Act of 2020: Have All Issues Been Resolved? 42 Franchise L.J. 375 (2023); *see also* Christopher P. Bussert & Marisa Faunce, Significant Developments in Trademark Law and Their Impact on Franchising, ABA 45th ANN. FORUM ON FRANCHISING W-12 (2022)

[45] 15 U.S.C. § 1116(a) (Supp. III 2021).

[46] *See* ReBath LLC v. Foothills Serv. Sols. Co., No. CV-21-00870-PHX-DWL, 2021 WL 2352426, at *11 (D. Ariz. June 9, 2021) ("[T]he recently enacted Trademark Modernization Act of 2020 ('TMA') amended [Section 35(a)] to provide a franchisor plaintiff seeking an injunction 'a rebuttable presumption of irreparable harm upon a finding of a violation.'" (quoting Consolidated Appropriations Act, 2021, PUB. L. NO. 116-260, § 226, 134 STAT. 1182 (2020)).

[47] *See*, *e.g.*, Nichino Am., Inc. v. Valent U.S.A. LLC, 44 F. 4th 180 (3rd Cir. 2022).

[48] Concord Music Group, Inc. v. Stax Pty. Ltd., 2023 WL 2977495 (C.D. Cal. Apr. 6, 2023); Kohler Co. v. Whistling Oak Apartments LLC, 2021 WL 2977475 (C.D. Cal. June 14, 2021).

1. Item 13

Item 13 of the FDD is solely focused on the franchisor's trademarks, with nine different subsections that necessitate disclosures regarding their registration status, relevant proceedings and contractual agreements regarding infringers and other users of the same or similar marks, as well as a summary of some of the more important franchise agreement provisions that dictate the franchisor's and franchisee's respective rights and obligations regarding the franchisor's trademarks.[49]

Trademark Registration

The first disclosure in Item 13 is a list of each "principal trademark" licensed to the system's franchisees, with "principal trademark" defined as "the primary trademarks, service marks, names, logos, and commercial symbols the franchisee will use to identify the franchised business. *It may not include every trademark the franchisor owns.*" (emphasis added).[50] This last sentence is noteworthy because the Federal Trade Commission Franchise Rule, 16 CFR Parts 436 and 437, (the "FTC Rule") makes it clear that franchisors need not list every single one of their marks in Item 13. At a minimum, franchisors should list the principal mark displayed on the FTC Cover Page of the FDD, as well as a corresponding logo mark if the franchisor has secured or is pursuing a registration for both a word mark and logo mark.

Beyond that, franchisors can use their discretion to determine what else constitutes a primary mark used to identify the franchised business. Primary slogans, alternative versions of the franchisor's logo, and marks regarding key products or services offered by the franchise are commonly included in Item 13. Some franchisors may choose to include a large number of registered marks to demonstrate to franchisee prospects that they have federal trademark rights that protect their franchisees against infringement in their market. For example, Burger King's 2024 FDD includes 17 different trademarks, consisting of 5 word marks for "BK" or "Burger King", 7 variations of their primary logo, and 5 additional marks containing their primary slogan or primary products. [51]

The format for disclosure of the franchisor's trademarks is prescribed in the second and third subsections of Item 13 disclosures. If one or more trademarks are registered, franchisors must disclose (1) the USPTO registration number, (2) the registration date, and (3) whether the trademark is registered on the Principal or Supplemental Register of the UPSTO.[52] If one or more trademarks are not registered but the franchisor is seeking registration (either on an actual use or intent to use basis), the franchisor must disclose (1) the USPTO application/serial number and (2) the application date.[53] This information is generally presented in a table at or toward the beginning of Item 13.

Just before or after the table, franchisors should present the remaining required disclosures. For registered trademarks, this includes whether the franchisor has filed all required affidavits in connection with the trademarks and whether the registrations have been renewed. These additional disclosures are generally just presented as an affirmative statement, but they are mandated as a

[49] 16 C.F.R. § 436.5(m).
[50] 16 C.F.R. § 436.5(m)(1).
[51] *See* Burger King Corporation Franchise Disclosure Document, 2024, Item 13.
[52] 16 C.F.R. § 436.5(m)(2).
[53] 16 C.F.R. § 436.5(m)(3).

safeguard to require franchisors to represent that they are taking the necessary procedural steps to ensure the continued registration of the listed marks.

The fourth subsection of Item 13 requires the following specific negative disclosure if the franchisor's principal trademark is not registered on the Principal Register of the USPTO:

We do not have a federal registration for our principal trademark. Therefore, our trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.[54]

This disclosure underscores the importance of securing a federal trademark registration, and is intended to alert franchisees of the possible risks of joining a system without the protection afforded by a registration. Notably, the fact that a franchisor may have certain primary marks that are not registered does not mean that this disclosure must be included in Item 13. As long as the franchisor has a registration for its principal trademark on the Principal Register of the USPTO, this disclosure may be omitted.

Administrative Proceedings, Litigation, and Agreements

The fifth, sixth, seventh, and ninth subsections of Item 13 involve disclosures regarding third party actions that may impact the franchisor's trademarks and the resulting rights that are granted to franchisees.

First, franchisors must disclose any effective material decisions of the USPTO, TTAB, or any state trademark administrator or court regarding its marks.[55] This is meant to capture any administrative determination that may limit the strength or scope of protection of a franchisor's trademarks separate from its current registration status. The required disclosure must include a description of how the decision affects the ownership, use, or licensing of the franchisor's marks.

In addition to concluded proceedings impacting the franchisor's marks, franchisors must also disclose pending infringement, opposition, or cancellation proceedings, which includes pending proceedings against a franchisor's marks as well as proceedings initiated by the franchisor against another's marks. The FTC Rule specifically requires disclosure of any unsuccessful proceedings initiated by the franchisor to prevent registration of another third party's marks in order to protect the franchisor's marks.

Next, franchisors must disclose any pending litigation regarding the franchisor's use or ownership of its marks, including case details, the types of claims that are made, and any effective rulings.[56] As with administrative actions, this includes both claims by others against the franchisor's marks as well as claims initiated by the franchisor opposing another's use of its mark or a confusingly similar mark. If a franchisor believes that it has a strong chance of success in any pending matter, the FTC Rule allows franchisors to include an attorney's opinion regarding the merits if it has the attorney's consent. Franchisors can summarize the opinion in Item 13, if their attorney consents to the summary, and the full opinion is attached to the FDD.

[54] 16 C.F.R. § 436.5(m)(4).
[55] 16 C.F.R. § 436.5(m)(5).
[56] 16 C.F.R. § 436.5(m)(6).

Franchisors must also disclose any currently effective contractual agreements that materially limit franchisees in their rights to use or license any of the trademarks listed in Item 13.[57] This captures the not-uncommon scenario where a growing franchise system encounters prior users of a franchisor's principal trademark that began operating before the franchisor's mark is able to gain incontestable status and a higher level of public awareness. In this scenario, franchisors often enters into agreements that governs the common law user's future use of the mark (often by limiting the manner in which the mark is used or the trade area in which the common law user can operate).

Franchisors must disclose all material terms of any such agreements, as these types of contracts may have an impact on a franchisee's ability to harness the power of the franchisor's brand in their territory. At a minimum, this includes a description of the parties and term length of the agreements, as well as the specific rights granted or limited, how it may impact franchisees, and any circumstances under which the agreement could be canceled or modified.

Finally, the ninth subsection of Item 13 addresses the franchisor's knowledge of either superior prior rights or infringing uses of the franchisor's marks, even if these have not yet resulted in an administrative proceeding, litigation, or binding agreement with a third party.[58] This requirement does contain language limiting the disclosure to rights or uses that impact the franchisee's use of the principal trademarks "in the state where the franchised business will be located," meaning that franchisors using a state-specific FDD need not disclose any infringers outside the state where the FDD is used (though they should still disclose third parties with superior prior rights if they could assert those rights on a nationwide basis). For any infringement that could materially impact a franchisee, the franchisor must disclose the location(s) and duration of the infringement as well as any actions that have or will be taken by the franchisor.

Franchisee's Contractual Rights and Obligations

The eighth subsection of Item 13 address important contractual rights and obligations between the franchisor and franchisee concerning the franchisor's marks. As these disclosures are mandatory in the FDD, franchisors should include corresponding language in their franchise agreements to provide a clear contractual enforcement mechanism regarding their trademark rights.

First, franchisors must disclose whether they must protect the franchisee's right to use the principal marks listed in Item 13 and whether they must protect the franchisee against claims of infringement or unfair competition stemming from the franchisee's use of the franchisor's marks.[59] Similarly, franchisors must disclose whether the franchisor is required to indemnify a franchisee that is a party to an administrative or judicial proceeding involving a licensed mark and whether the franchisor has the right to control any related administrative proceeding or litigation.[60]

While franchisors have a vested interest in protecting their marks, they will generally limit their affirmative obligations but will reserve the right to control any infringement claim or proceeding against a third party. On the other hand, many franchisors will agree to indemnify a franchisee against any third party claim brought against the franchisee that arises solely out of the franchisee's authorized use of the franchisor's marks, but only if the franchisee is using the marks

[57] 16 C.F.R. § 436.5(m)(7).
[58] 16 C.F.R. § 436.5(m)(9).
[59] 16 C.F.R. § 436.5(m)(8)(i).
[60] 16 C.F.R. § 436.5(m)(8)(iv)-(v).

in full compliance with the franchisor's standards, provides prompt notice of the third-party claim, and cooperates with the franchisor in connection with the franchisor's defense of the claim.

Franchisors must also disclose whether a franchisee is obligated to provide a franchisor with notice regarding a third party's use or claim of the right to use an identical or similar mark and whether the franchisor must take affirmative action when notified.[61] Generally, franchisors should require that franchisees provide notice but not obligate themselves to take any specific action. This ensures that the franchisor is aware of all potential infringers, but allows the franchisor to use its discretion in determining how to manage the situation. As franchisors are already incentivized to protect their marks, this structure provides the requisite flexibility to choose a course of action that take into account the nature of the infringement and the franchisor's business priorities and resources.

Finally, franchisors must disclose the parties respective rights and obligations under the franchise agreement if a franchisor elects to change trademarks or discontinue using a trademark licensed to a franchisee.[62] As franchise systems evolve, they consider rebranding as a way to refresh their public image or replace outdated marks, and changing signage and otherwise remodeling to accommodate a rebrand can be expensive. Therefore, while most franchisors require franchisees to bear these expenses and disclose such obligations in Item 13, it's important for franchisors to communicate the go-forward benefits of a rebrand notwithstanding their contractual rights in order to secure buy-in from their franchisees.

In addition to the specifically-mandated disclosure items, franchisors should also consider disclosing other material contract terms regarding their franchisees' license to use their principal marks, many of which are summarized in the "Franchise Agreement Provisions" section of this paper.

2. Other Relevant FDD Disclosures

While Item 13 is the primary area of the FDD that focuses on trademarks, there are several other notable places where important trademark-related disclosures appear.

FTC Cover Page

The first place that the franchisor's trademark appears is unsurprisingly the first thing that a franchisee prospect sees when they receive the FTC – on the top of the FTC Cover Page. Specifically, the FTC Rule mandates that the franchisor include a sample of the primary business trademark that the franchisee will use in its business.[63] In recent years, some registration state examiners have issued comments regarding franchisors using their logo on the FTC Cover Page when Item 13 shows a federal trademark registration for a word mark and not a logo mark. However, as the scope of the word mark's registration generally includes a logo containing this mark, franchisors are encouraged to use their logo on the FTC Cover Page if that is the primary trademark that franchisees will be using in the operation of their business.

Item 1

[61] 16 C.F.R. § 436.5(m)(8)(ii)-(iii).
[62] 16 C.F.R. § 436.5(m)(8)(vi).
[63] 16 C.F.R. § 436.3(c).

Item 1 of the FDD includes a general disclosure about the type of business that a franchisee will conduct.[64] Many franchisors will meet this disclosure obligation by providing a brief description of the business itself (a gym, a fast casual restaurant, etc.), as well as a general paragraph explaining that the business must offer the franchisor's approved products/services and must otherwise operate in accordance with the franchisor's system standards. Within this paragraph, franchisors often disclose that the business must be operated using the franchisor's then-current proprietary marks (frequently defined as "Proprietary Marks" or "Marks" such that the term can be used more easily through the remainder of the FDD).

In addition, franchisors must disclose their corporate structure in Item 1. Here, franchisors disclose any predecessor entities, all parent entities (up to and including the ultimate parent), and any affiliate entities that provide goods or services to their franchisees. [65] In many franchise systems, an affiliate of the franchisor is the registered owner of the trademarks used by franchisees in the franchise system. There are many reasons why a franchisor would choose to have an affiliate holding company own their principal trademarks namely, to silo the trademarks (often times the most valuable assets owned by a franchisor) into a non-operating entity, in an attempt to limit risk exposure to those assets. The idea here is if the operating franchisor entity incurs a liability, such as a lawsuit, then the trademarks owned by an affiliate holding company, which is completely unrelated to the liability, would be less likely to be impacted by the liability.

Items 6 and 11

Item 6 of the FDD contains a list of all fees that a franchisee may be required to pay to the franchisor or its affiliates, or that the franchisor or its affiliates impose or collect on behalf of a third party.[66] Three of the most commonly noted fees specifically relate to the franchisor's trademarks, specifically a national brand/marketing fee that the franchisor collects to build the goodwill of the brand on a systemwide basis, the franchisee's requirement to spend a certain amount advertising under the franchisor's marks in its local market, and the franchisor's reserved right to establish regional advertising collectives under its marks. More detail about each of these items can be found in Item 11.[67] Item 6 often will also a note about the franchisee's indemnification obligations, which may be triggered by the franchisee's misuse of the franchisor's trademarks.

Items 9 and 17

Items 9 and 17, which provide information about various sections of the franchise agreement, include references to contractual provisions that relate to the franchisor's trademark (including line item "h" in Item 19, that specifically discloses the sections in the franchise agreement that are related to trademarks and proprietary information).[68]

Item 12

With the exception of Item 13, Item 12 probably contains the most significant disclosures that relate to the franchisee's (and perhaps more notably, the franchisor's) use of trademarks within the franchisee's territory. Specifically, franchisors are required to disclose whether they grant

[64] 16 C.F.R. § 436.5(a)(6)(iii).
[65] 16 C.F.R. § 436.5(a)
[66] 16 C.F.R. § 436.5(f).
[67] *See* 16 C.F.R. § 436.5(k)(4).
[68] 16 C.F.R. § 436.5(i),(q).

franchisees an exclusive territory, and franchise registration states have developed very specific parameters of what exclusivity means. This is important because a franchisor that does not grant an "exclusive" territory is required to include a negative disclosure that notifies franchisees that they may face competition from other franchisees, franchisor-owned locations, as well as other channels of distribution or competing brands owned by the franchisor[69], *even if the franchisor actually protects the franchisee from some of these types of competition.*

Many franchisors offer contractual protection to their franchisees against the franchisor or another franchisee operating a substantially similar franchised business under the same trademarks within a franchisee's territory. However, franchisors often reserve the right to operate under the same trademark from non-traditional sites or through alternative channels of distribution in the franchisee's territory. Some common examples of non-traditional sites are pop-up locations or businesses operated at airports, hospitals, educational facilities, stadiums. If a franchisor reserves this right, registration state examiners have determined that they do not offer a truly exclusive territory, and therefore must include the negative disclosure described in the previous paragraph.

Finally, if a franchisor or its affiliates operates another franchise system under a *different* trademark that sells similar goods or services to those offered under the FDD, the franchisor must disclose general information about that system, as well as whether users of the other trademark can advertise or conduct business in the franchisee's territory and how the franchisor will resolve conflicts between the two systems. [70]

Item 20

In Item 20, franchisors are required to disclose contact and other basic information about any trademark-specific franchisee organizations that either have been created or endorsed by the franchisor, or were organized by franchisees and requested inclusion in the FDD.[71]

F. Franchise Agreement Provisions

Ensuring brand uniformity across the system and controlling the manner in which the franchisor's brand is presented to its customers and the general public are critical to the successful operation of a franchise system. The goodwill generated by the franchisor's brand is often a major component of what attracts franchisees to purchase a franchise in the first place. Therefore, its critical that the franchise agreement incorporates the correct safeguards and protections to provide franchisors with legally binding rights related to its marks.

To do so, franchisors will often create a defined term in the beginning of the franchise agreement that includes its then-current and proprietary marks, as well as certain other trade names, trademarks, service marks and trade dress, all of which the franchisor may modify, update, supplement or substitute in the future. Then, throughout the agreement, this defined term will be used to encompass the intellectual property that franchisors reference in various contractual provisions.

As described in the previous section, franchisors are required to include a number of disclosures in their FDD that describe the franchisor's and franchisee's respective rights and obligations as they relate to the franchisor's marks. Specifically, Items 12 and 13 require

[69] 16 C.F.R. § 436.5(l)(5).
[70] 16 C.F.R. § 436.5(l)(6)(iii).
[71] 16 C.F.R. § 436.5(t)(8).

disclosures regarding the franchisor's reserved rights to use its trademarks in a franchisee's territory, the parties' relative rights around trademark infringement and indemnification for third-party claims related to the marks, and the franchisor's right to modify or discontinue using certain marks.

While a franchise agreement does not contain mandatory disclosure items like its FDD counterpart, it is important that each franchise agreement carries over any provisions that its corresponding FDD has disclosed to maintain uniformity and consistency between the two documents. In addition, each franchise agreement should make it explicitly clear that while the franchisor is providing a non-exclusive license of its marks and business system to its franchisees (in return for a royalty fee), the franchisor retains full ownership of its marks. Correspondingly, the franchisee should have the right to use the franchisor's trademarks, but only in connection with the operation of the franchised business and only in the specific manners authorized by the franchisor. These rights may be limited in terms of geography (e.g., only within the franchisee's territory), how the marks are presented to the public (e.g., only permitting certain color schemes), and the ways in which the marks are presented (e.g., only using the marks in certain advertising channels).

Generally speaking, franchisees should not be permitted to use a franchisor's principal mark in its entity name, as this could be construed to be providing the franchisee with additional rights in the mark above and beyond that of a licensee. Instead, many franchisors will permit franchisees to use their mark in a "doing business as" (DBA) name to reflect that the franchisee is conducting business using the trademark (often with a geographic modifier such that multiple franchisees in a state can register a unique DBA name).

Most franchise agreements will also contain an entire section dedicated to advertising and marketing under the franchisor's trademarks. This section will cover not only the fees and required expenditures related to national, local, and regional advertising, but also the administration and organization of the national marketing fund, the franchisor's advertising guidelines and process for approval of advertising materials, and provisions regarding website/social media advertising.

Finally, every franchise agreement should contain trademark-specific language in the post-term obligations section. As soon as a franchisee exits the franchise system, whether it's due to termination, transfer, or expiration and non-renewal of the franchise agreement, that franchisee should immediately cease all use of the franchisor's marks and immediately de-identify its franchised location (unless it is being transferred to a new operator). All materials containing the franchisor's marks should either be returned to the franchisor or destroyed, and any listings, websites, or social media profiles containing the franchisor's marks should be assigned to the franchisor or deleted.

G. Recent Developments in Trademark Litigation

1. Supreme Court Decisions

After decades of expressing little interest in trademark related matters the Supreme Court has issued a surprising number of substantive trademark and unfair competitive decisions over the past couple of years.

> *Dewberry Group, Inc. v. Dewberry Engineers Inc.*: "Defendant's Profits" in the Lanham Act Only Encompass Profits Ascribable to the "Defendant" Itself.

The remedies section of the Lanham Act allows a successful plaintiff in a trademark infringement lawsuit to recover the defendant's profits attributable to the trademark violation as awarded damages.[72] When the damages amount based on profits is either inadequate or excessive, the court may apply equitable principles and instead award "such sum as the court shall find to be just."[73]

Under the corporate law principle of corporate separateness, affiliated companies are not treated as a single corporate entity. Instead, separately incorporated organizations are independent legal entities, each having distinct legal rights and obligations.[74] Having a common owner of the entities does not change this principle.[75] However, in some circumstances, a plaintiff may petition the court to pierce the corporate veil, including in situations where corporate formalities are potentially shielding assets from the consequences of fraudulent misconduct.[76]

An issue at the intersection of the above principles recently came before the Supreme Court. In February 2025, the Supreme Court in *Dewberry Group, Inc. v. Dewberry Engineers Inc*. addressed whether the lower courts could treat affiliated companies as a single entity to determine a "defendant's profits" when awarding damages under the remedies section of the Lanham Act.[77]

Dewberry Engineers and Dewberry Group are long-acquainted rivals in the southeastern United States real estate market; Dewberry Engineers had previously sued Dewberry Group for trademark infringement. Dewberry Engineers provides real-estate development services and owns a federal trademark registration for the mark DEWBERRY. Dewberry Group provides administrative services at below-market prices solely to its affiliated real estate-owning entities, all of which are under the ownership of John Dewberry. Dewberry Group operates at a loss requiring occasional cash infusions from John Dewberry. The affiliated entities, meanwhile, operate at a substantial profit. In a 2020 lawsuit against Dewberry Group, Dewberry Engineers successfully prevailed in its claims against Dewberry Group for trademark infringement and unfair competition under the Lanham Act and for a breach of contract claim for Dewberry Group's violation of a 2007 settlement agreement limiting its use of DEWBERRY.[78] Dewberry Engineers named Dewberry Group as the sole defendant in the lawsuit, not its affiliated companies. Dewberry Engineers also made no attempt to pierce the corporate veil that exists to isolate the unprofitable Dewberry Group from John Dewberry's other highly profitable affiliated companies to which Dewberry Group provided administrative services.

After finding Dewberry Group liable on all counts, the District Court awarded damages of almost $43 million, reasoning that the profits from Dewberry Group's willful infringement showed up on the affiliated entities' books.[79] To reflect the "economic reality" of the affiliated entities operating at a profit, the District Court treated the affiliated entities and Dewberry Group as one

72 15 U.S.C. § 1117(a).
73 *Id.*
74 Agency for Int'l Development v. Alliance for Open Society Int'l Inc., 591 U. S. 430, 435 (2020).
75 *Id.*, *see also* Dole Food Co. v. Patrickson, 538 U. S. 468, 474–475 (2003).
76 United States v. Bestfoods, 524 U.S. 51, 62 (1998); Dole Food, 538 U. S., at 475.
77 Dewberry Grp., Inc. v. Dewberry Eng'rs Inc., 145 S. Ct. 681 (2025).
78 Dewberry Grp., Inc. v. Dewberry Eng'rs Inc. 2022 WL 1439826, *1 (E.D. Virginia, Mar. 2, 2022)
79 *Id*. at *14.

entity. The court reasoned that to not do so would let all of the John Dewberry entities escape financial consequences from the infringement because of corporate formalities.

The Court of Appeals, though divided, affirmed the award and the determination of profits by "treat[ing] Dewberry Group and its affiliates as a single corporate entity."[80]

In an opinion authored by Justice Kagan, the Supreme Court unanimously vacated the damages award in *Dewberry* and remanded the matter for further proceedings, holding that "defendant's profits" in the remedies section of the Lanham Act only encompass profits ascribable to the actual, named defendant in the lawsuit. The Court reasoned that since the term "defendant" is not specifically defined in the statute, it bears its usual legal meaning. Also, the bedrock principle of corporate law that separately incorporated organizations are separate legal units further supported the Court's determination that "defendant's profits" does not mean "defendant's profits and its affiliated companies." As a result, the Supreme Court held that both lower courts erred in disregarding the principle of corporate separateness by treating Dewberry Group and its affiliates as a single entity to calculate the "defendant's profits" under the Lanham Act. It is only the profits of Dewberry Group that are recoverable. The Supreme Court vacated the judgment and remanded the case for a new award proceeding, noting that it does not address several questions. The Supreme Court specifically refused to weigh in when courts may look into a defendant's financial records to determine the defendant's true financial gain and the "economic realities" of the situation. The Supreme Court also refused to opine whether corporate veil-piercing was an available option on remand.

In a concurring opinion, Justice Sotomayor offered ways in which a court could examine the accounting arrangements between a defendant and its affiliates while keeping the corporate separateness doctrine intact, such as anticipatory assignment of a company's earnings or taking into account the cash infusions by the owner of an unprofitable company to make up losses.[81] These methods apply equitable principles which are conferred upon a court in 15 U.S.C. § 1117(a). Justice Sotomayor suggested that on remand the lower court might consider re-opening the record and examining Dewberry Group's books to assist in the damages determination.

Given the recency of this decision, its impact on federal trademark infringement and unfair competition lawsuits is unknown. It is likely that plaintiffs will name multiple defendants in complaints when they are unsure of where the profits from the infringement may flow.

Vidal v. Elster: Restrictions on Registering Trademarks Using Another Living Person's Name Trumps First Amendment.

Steve Elster, a labor attorney and impromptu political activist, saw an opportunity to capitalize on a phrase that emerged after an exchange between then-Senator Marco Rubio and then-presidential candidate Donald Trump in 2016. "Trump Too Small", a phrase launched into the public sphere was derived from Rubio's remarks about the size of Trump's hands, which was a point of contention between the two during their respective presidential campaigns. Elster seemingly hoped to cash in on the feud and planned to sell shirts with the phrase prominently displayed. In 2018 he applied for federal trademark registration of the mark TRUMP TOO

[80] Dewberry Grp., 145 S. Ct. at 686.
[81] *Id*. at 689-690.

SMALL. The USPTO refused registration based on the "names clause" of the Lanham Act (15 U.S.C. §1052(c), which prohibits the registration of a mark if it "[c]onsists of or comprises a name … identifying a particular living individual except by his written consent[.]".[82] The mark, which identified Donald Trump, a living individual, would not be granted federal trademark protections unless Donald Trump himself granted consent, which he had not. Elster then appealed the USPTO's decision to the TTAB. After the TTAB confirmed the USPTO's initial determination to reject registration of the mark, Elster further appealed the decision to the Federal U.S. Court of Appeals.[83]

Not only are the individuals that live in the U.S. afforded Constitutional rights and protections from the U.S. government, corporations operating within U.S. borders, such as franchisor/franchisee companies, are also given many of these rights and protections, namely, the freedom of speech as laid out in the First Amendment to the Bill of Rights.[84] As is commonly known, the First Amendment's freedom of speech protects a party's right to express themselves without the fear of government interference.[85] Clearly, the phrase Elster planned to include on his merchandise is an expression of political speech. So how, if at all, do the protections found in the First Amendment apply to Elster in his failure to register the TRUMP TOO SMALL trademark after the USPTO's rejection? This was the crux of the issue when Elster brought the case before the U.S. Court of Appeals. Because the Court of Appeals found Elster's trademark rejection as a "content-based" restriction on speech, the restriction was reviewed with a heightened level of scrutiny.[86] The Court of Appeals reversed the TTAB's decision stating that the decision unconstitutionally restricted Elster's free speech.[87] From there, the case was brought to the U.S. Supreme Court, where the Supreme Court granted *certiorari* on June 5, 2023. [88] A little over a week later, the Supreme Court reached a unanimous 9-0 decision, holding that the names clause of the Lanham Act was not an unconstitutional restriction on free speech.[89] While the decision was unanimous, the reasoning was not, which perhaps highlights the differences in how each of the Justices interpret(ed) the Constitution.

The majority opinion, written by Justice Clarence Thomas, relied on a historical analysis, finding that a viewpoint neutral restriction (i.e., the restriction applies to all people, whether Republican or Democrat) on content-based trademark laws such as the names clause, does not warrant the heightened scrutiny of review the Court of Appeals applied.[90] The majority opinion reasoned that because of the long-standing history and tradition of viewpoint neutral restrictions coexisting with First Amendment protections, the Supreme Court should not be tasked with evaluating the constitutionality of the content-based restriction of the names clause.[91] The other opinions also centered, in some form, around judicial restraint and reasonableness around viewpoint neutral restrictions, however the analyses in getting to those decisions were not

[82] 15 U.S.C. § 1052(a).
[83] *In re Elster*, No. 87312152, 2020 TTAB LEXIS 373 (T.T.A.B. Apr. 9, 2020).
[84] See, *e.g.* Citizens United v. FEC, 130 S. Ct. 876 (2010) (holding that the government may not suppress political speech on the basis of the speaker's corporate identity).
[85] U.S. Const. amend. I.
[86] In re Elster, 26 F.4th 1328 (Fed. Cir. 2022).
[87] *Id.* at 1339.
[88] Vidal v. Elster 143 S. Ct. 2579 (2023).
[89] Vidal v. Elster, 144 S. Ct. 1507, 1523 (2024)..
[90] *Id.* at 1518.
[91] *Id.*

uniform.[92] While the challenges to the Lanham Act in this case proved to be overcome by the U.S. Supreme Court, the other Justices' opinions that were not part of the majority opinion indicated a hesitancy to follow the doctrines of history and tradition.[93] This begs the question: will another Constitutional challenge to the current trademark laws elicit a more proactive approach by the Supreme Court, instead of the Supreme Court resting on the *status quo*?

Romag Fasteners, Inc. v. Fossil, Inc.: The Role of Willfulness in the Assessment of an Accounting of Profits.

Franchisors often have the opportunity to initiate litigation to enforce their trademark rights. Some of that litigation arises from "holdover" scenarios. These instances arise when the franchisee's franchise agreement and license to use the franchisor's trademarks has expired or been terminated and the franchisee continues operating the franchised business, or one competitive with it, while using the franchisor's trademarks or trademarks that are confusingly similar.[94] Because the franchisee is no longer licensed or otherwise authorized to use the franchisor's trademarks in this scenario, any use of such trademarks after termination or expiration constitutes trademark infringement.[95] Other trademark enforcement litigation involves franchisors pursuing third parties, including competitors, who have adopted trademarks identical or confusingly similar to those owned by the franchisors. In either case, if infringement is demonstrated, the Lanham Act provides franchisor trademark owners with seemingly robust monetary remedies, including the possible recovery of the defendant's profits attributable to the infringement.

Although Section 35(a) of the Lanham Act expressly contemplates the recovery of a defendant's profits, courts have struggled with articulating and balancing the factors properly considered as part of the profits analysis. As a result, many different tests emerged amongst the circuits for assessing the appropriateness of an accounting of defendants' profits. Up until 2020, perhaps the greatest point of disagreement in the various circuits was whether trademark owners must demonstrate that a defendant's infringement was willful or intentional as a prerequisite for an accounting of profits.[96]

Although over the years there have been several attempts to secure U.S. Supreme Court review of this issue, the Supreme Court only agreed in 2020 to address the matter in *Romag Fasteners, Inc. v. Fossil, Inc*. Romag and Fossil were well acquainted, having been parties to an

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[92] See, e.g., *id.* at 1529 (Barret, J., concurring in part) (reasoning that a trademark that includes another living person's name can undoubtably create consumer confusion and decrease a trademark ability to identify a good or service, the names clause is a reasonable restriction on Free Speech).

[93] *See, id.* at 1533 (Sotomayor, J.) (noting the lack of precedent, the "Court has never applied … [the] history-and-tradition test to a free speech challenge."); *See also, id.* at 1524 (Kavanaugh, J.) (stating, "a viewpoint-neutral, content-based trademark restriction might well be constitutional even absent such a historical pedigree.").

[94] *See* Christopher P. Bussert & William M. Bryner, *A Practical Approach to Addressing Holdover Ex-Franchisee Trademark Issues*, 27 FRANCHISE L.J. 30 (2007).

[95] *See*, *e.g.*, Burger King Corp. v. Mason, 710 F.2d 1480, 1492 (11th Cir. 1983) ("Common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks."); *see also* Tim Horton's USA, Inc. v. Tims Milner LLC., Bus. Franchise Guide (CCH) ¶ 16,442, No. 18-cv-24152-GAYLES/MCALILEY, 2019 WL 2515006 (S.D. Fla. June 17, 2019); New Horizons Educ. Corp. v. Krolak Tech. Mgmt. of Syracuse, LLC, Bus. Franchise Guide (CCH) ¶ 16,291, No. 5:18-cv-01223 (BKS/DEP), 2018 WL 5253070 (N.D.N.Y. Oct. 22, 2018); Mitsubishi Motors N. Am., Inc. v. Grand Auto., Inc., Bus. Franchise Guide (CCH) ¶ 16,181, No. CV 18-814 (SJF) (SIL), 2018 WL 2012875 (E.D.N.Y. Apr. 30, 2018); Peterbrooke Franchising of Am., LLC v. Mia. Chocolates, LLC, 312 F. Supp. 3d 1325 (S.D. Fla. 2018).

[96] *See* generally Christopher P. Bussert, *Trademark Law and Franchising: Five of the Most Significant Developments*, 40 FRANCHISE L.J. 127, 143-47 (2020).

agreement under which Fossil could use Romag's fasteners in connection with Fossil's leather goods. After Romag discovered Fossil was having products bearing imitations of Romag's fasteners made in China, Romag sued Fossil under the Lanham Act for trademark infringement. Despite finding in Romag's favor on its trademark infringement claim, as well as that Fossil had acted in "callous disregard" of Romag's rights, the jury declined to find that Fossil had acted willfully as the trial court had defined that term in its instructions. The Federal Circuit affirmed, holding that Romag's failure to prove willful infringement was fatal to its claim for profits.

In an opinion authored by Justice Gorsuch, the Supreme Court reversed that outcome and remanded the case, holding that Section 35(a) of the Lanham Act does not impose a "willfulness" requirement for accountings of profits in trademark infringement actions. At the outset, the Court found that a showing of willfulness was expressly required only as a precondition to an accounting in actions for trademark dilution under Section 35(a). The Court observed that the express language in Section 35(a)"had never required a showing of willfulness to win a defendants' profits" and that it was not inclined to "read into the statute words that aren't there," particularly when the term "willfulness" was used elsewhere in the same statutory provision.

The Court next addressed Fossil's argument that the "principles of equity" qualification of Section 35(a) contemplated a willfulness requirement for profits. The Court rejected Fossil's reliance on the "principles of equity" language for two reasons. First, it held such a reading was inconsistent with the express "mens rea" language in other sections of the Lanham Act, which expressly set forth whether certain actions were undertaken "intentionally," or with "knowledge," or were otherwise "willful". According to the Court, Fossil's interpretation was not "an obvious construction of the statute." Second, the Court rejected Fossil's contention that past precedent had consistently required a showing of willfulness before allowing a profits remedy, finding instead that Fossil's premise was "far from clear". In that regard, the Court observed that, although some courts had treated willfulness as a prerequisite for awarding profits, other courts had expressly rejected this rule. Moreover, this analysis was further complicated by the fact that several leading commentators had expressed disagreement about the relationship between willfulness and accountings of profits in trademark cases. At the end of the day, the Court concluded that the defendant's mental state should be considered in determining the propriety of an accounting of profits, but should not be an inflexible precondition to that relief.

So, what impact will *Romag* have on the pursuit of awarding profits under Section 35(a)? The short answer is that the issue is currently up for debate. For actions brought in those circuits which already have multi-factor tests that include the consideration of a defendant's mental state, nothing will likely change because *Romag* seemingly endorsed that approach. As to circuits that require proof of willfulness as a prerequisite to recover an infringer's profits, those courts' precedent is no longer good law, and they will likely end up formulating their own multi-factor tests for assessing the accounting of profits remedy that includes the defendant's mental state as one factor. Finally, for circuits which have either identified willfulness as an alternative basis or separate justification for an accounting of profits, any basis or justification not arguably predicated on a finding of willfulness alone on the behalf of the defendant is probably still good law.

United States Patent and Trademark Office v. Booking.com B.V.: Adding .com to a Generic Word May, In Some Cases, Result in a Protectable Mark

A foundational principle of trademark law is that generic terms or the names of classes of products or services, are ineligible for trademark protection. But what happens when two admittedly generic elements are combined? Is the resulting combination generic as well? According to the U.S. Supreme Court in *United States Patent & Trademark Office v. Booking.com B.V.*, at least in the case of a mark consisting of the combination of a generic term and the top-level domain ".com," the answer is "it depends."[97]

Booking.com involved a many years' long battle between Booking.com and the USPTO regarding the registrability of the BOOKING.COM mark. Both the examining attorney and the TTAB concluded that BOOKING.COM was generic for the travel reservation-related services, which resulted in the registration being refused. According to the TTAB, the term "booking" meant making travel registrations and ".com" was well recognized as signifying a website.[98] The TTAB added that "customers would understand the term BOOKING.COM primarily to refer to an online reservation service for travel, tours, and lodgings."[99]

Booking.com then appealed the TTAB's refusal to the U.S. District Court for the Eastern District of Virginia.[100] In the district court, Booking.com introduced new evidence including a "Teflon" survey which showed that 74.8 percent of the respondents identified BOOKING.COM as a brand name.[101] Relying in significant part on Booking.com's survey evidence, the district court concluded that unlike "booking" standing alone, BOOKING.COM was not generic. In so holding, the court found that the relevant consuming public "primarily understands that BOOKING.COM does not refer to a genus, rather it is descriptive of services involving 'booking' available at that domain name."[102]

The USPTO appealed the district court's determination that BOOKING.COM was not generic to the Fourth Circuit. Finding no error in the district court's assessment of how the relevant consuming public perceived the term "BOOKING.COM," the Fourth Circuit affirmed. Because

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[97] 140 S. Ct. 2298 (2020). An author's firm participated in this case as counsel for several amicus curiae including the America Intellectual Property Law Association in support of Booking.com.
[98] *Id.* at 2303.
[99] *Id.*
[100] Booking.com B.V. v. Matal, 278 F. Supp. 3d 891 (E.D. Va. 2017), *order amended*, No. 1:16-cv-425 (LMB/IDD), 2017 WL 4853755 (E.D. Va. Oct. 26, 2017), *vacated*, 141 S. Ct. 187 (2020), *and on remand*, No. 1:16-cv-425 (LMB/IDD), 2021 WL 2277331 (E.D. Va. June 3, 2021).
[101] *Id.* at 915-916. *Teflon* surveys have become the predominate survey format to resolve a genericness challenge and are recognized as having arisen from the survey introduced in *E.I. DuPont de Nemours & Co. v. Yoshida International, Inc.*, 393 F. Supp. 502 (E.D.N.Y. 1975). A *Teflon* survey begins by providing respondents with an explanation of the distinction between generic and common names and trademark or brand names and then presents respondents with a series of names, which they are asked to classify as common or brand names. *See Booking.com*, 278 F. Supp. 3d at 915. In this case, the list of terms shown to respondents were:

- The term at issue:
  - "BOOKING.COM"
- Three brand names:
  - "ETRADE.COM"
  - "PEPSI"
  - "SHUTTERFLY"
- Three common names:
  - "SPORTINGGOODS"
  - "WASHINGMACHINE.COM"
  - "SUPERMARKET"

[102] *Id.* at 918.

the Fourth Circuit's affirmance arguably created a split with earlier decisions from the Federal and Ninth Circuits on the treatment of this issue,[103] the Supreme Court granted certiorari.

The precise question before the Supreme Court was whether a "generic.com" term (i.e. the combination of a generic top-level domain (".com") with an otherwise generic term) could result a protectable mark.[104] In an opinion authored by Justice Ginsburg,[105] the Supreme Court declined to hold as a matter of law that "generic.com" marks such as BOOKING.COM were generic and therefore ineligible for federal registration.

In holding that BOOKING.COM was not generic for travel-related services, the Supreme Court articulated the following standard for assessing whether a "generic.com" term was generic:

> [W]hether "Booking.com" is generic turns on whether that term, taken as a whole, signifies to consumers the class of online hotel-reservation services. Thus, if "Booking.com" were generic, we might expect consumers to understand Travelocity—another such service—to be a "Booking.com." We might similarly expect that a consumer, searching for a trusted source of online hotel-reservation services, could ask a frequent traveler to name her booking "Booking.com" provider.[106]

The Supreme Court added that the evidence submitted by Booking.com before the district court established that consumers did not perceive "Booking.com" as generic but instead viewed it as a brand and that alone should resolve the case.

The USPTO opposed this conclusion and instead argued that "Booking.com" was ineligible for registration regardless of evidence of consumer perception. In doing so, it advanced a nearly per se rule that when a generic term is combined with ".com" the resulting combination is generic.[107] Subsequently, the Supreme Court found the USPTO's *per se* rule and analysis to be faulty for a number of reasons. First, the Supreme Court noted that the USPTO's past practice in assessing "generic.com" terms as trademarks was inconsistent at best. Among other things, the Supreme Court noted that the USPTO had previously allowed registration of ART.COM on the Principal Register for, inter alia, "[o]nline retail store services" offering "art prints, original art, [and] art reproductions"; and of DATING.COM on the Supplemental Register for "dating services".[108] Adopting the rule the USPTO advanced, according to the Supreme Court, would result in these and other existing registrations being inconsistent with this rule and to be at risk for cancellation.[109]

Second, the Supreme Court noted the USPTO's per se rule was based on its reading of *Goodyear's India Rubber Glove Manufacturing Co. v. Goodyear Rubber Co.*[110] In Goodyear, the Supreme Court had held that a generic corporate designation (i.e. Company) added to a generic

[103] *See* Advertise.com v. AOL Advertising, Inc., 616 F.3d 974 (9th Cir. 2010); *In re* Hotels.com, L.P., 573 F.3d 1300 (Fed. Cir. 2009)
[104] U.S. Pat. & Trademark Off. v. Booking.com B.V., 140 S. Ct. 2298 (2020).
[105] *Booking.com* was Justice Ginsburg's final opinion as a Supreme Court Justice.
[106] *Id.* at 2304-05.
[107] *Id.* at 2305.
[108] *Id.*
[109] *Id.*
[110] 128 U.S. 598 (1888).

term does not confer trademark eligibility.[111] The USPTO reasoned that a "generic.com" term was like a "generic company" and therefore was ineligible for trademark protection, let alone federal registration, because adding ".com" to a generic term conveyed no additional meaning that would distinguish one's goods or services from others.[112]

The Supreme Court rejected the USPTO's premise observing that a "generic.com" designation might also convey to consumers a "source-identifying characteristic" such as an association with a particular website. The Court added:

> '"[O]nly one entity can occupy a particular Internet domain name at a time, so "[a] consumer who is familiar with that aspect of the domain-name system can infer that BOOKING.COM refers to some specific entity." Thus, consumers could understand a given "generic.com" term to describe the corresponding website or to identify the website's proprietor."'[113]

Third, and more fundamentally, the Supreme Court found that the USPTO's reliance on Goodyear was flawed to the extent the agency argued that "generic company" terms were ineligible for trademark protection as a *matter of law*, regardless of how "consumers would understand" the term.[114] Because a decision on whether a term is generic depends on its meaning to consumers, the Supreme Court reasoned that an unyielding legal rule entirely disregarding consumer perception would be incompatible with the Lanham Act. The Court added that, although it was rejecting the inflexible rule proffered by the USPTO, it was also not necessarily embracing a rule automatically classifying generic.com terms as non-generic. Rather, whether any particular "generic.com" term is generic "depends on whether consumers in fact perceive that term as the name of a class or, instead, as a term capable of distinguishing among members of the class."[115]

The Supreme Court then rejected several policy arguments advanced by the USPTO. The Supreme Court noted the USPTO's concern that extending trademark protection for a term like "BOOKING.COM" would hinder competition. According to the USPTO, recognizing the protectability of BOOKING.COM as a mark might result in excluding or inhibiting competitors from using the term "booking" or adopting domain names like "ebooking.com" or "hotel-booking.com."[116] The Supreme Court found these concerns to be largely overstated and attended any descriptive mark, particularly a weak one, and that existing trademark doctrines guarded against these perceived anticompetitive efforts. For example, descriptive marks generally receive far narrower protection than their non-descriptive counterparts, and the descriptive components even of registered marks could also be used fairly by competitors to describe accurately their own goods and services. Indeed, the Supreme Court noted that Booking.com had conceded at oral argument (1) the BOOKING.COM mark would be weak, making it more difficult to establish likely confusion with close variations; and (2) federal registration of BOOKING.COM would not

[111] *Id*. at 602-03.
[112] 140 S. Ct. at 2305-06.
[113] *Id*. at 2306.
[114] *Id*.
[115] *Id*. at 2307.
[116] *Id*.

prevent competitors from using the term "booking" descriptively to indicate that they also provided booking services.[117]

The Supreme Court also rejected the USPTO's suggestion that offering protection to generic.com brands is unnecessary because they enjoy "competitive advantages" including that these websites were easy for consumers to find.[118] Rather, the Supreme Court observed:

> Those competitive advantages, however, do not inevitably disqualify a mark from federal registration. All descriptive marks are intuitively linked to the product or service and thus might be easy for consumers to find using a search engine or telephone directory. . . And the PTO fails to explain how the exclusive connection between a domain name and its owner makes the domain name a generic term, all should be free to use. That connection makes trademark protection more appropriate, not less.[119]

Consistent with its holding in *Romag*, the Court again declined to adopt an inflexible bright-line rule, in this case that a "generic.com" term must be generic, and instead advocated a flexible standard for assessing protectability and registrability, which would be governed by evidence of consumer perception.

Lucky Brand: An Update on the Circumstances under which Claim and Issue Preclusion Apply

Trademark disputes, as well as franchising disputes, regularly result in litigation. On some occasions, these disputes trigger multiple rounds of litigation between the same parties. *Lucky Brand Dungarees, Inc. v. Marcel Fashions Group, Inc*.[120] was one such case that raised for the Court the question of whether one party's failure to litigate one of its defenses in an earlier lawsuit prevented that party from asserting that defense in a subsequent, related lawsuit. The Court held that, although the traditional doctrine of claim preclusion *could* prevent a party from relying on the previously un-litigated defense under appropriate circumstances, this case at hand did not require that outcome.

The case involves three rounds of litigation between the same adversaries. In 2001, Marcel Fashions Group, Inc. ("Marcel") sued Lucky Brand Dungarees, Inc. ("Lucky Brand"), alleging that Lucky Brand's use of the phrase "Get Lucky" in advertising Lucky Brand's clothing infringed Marcel's federally registered GET LUCKY mark. In 2003, the parties settled the lawsuit by a written settlement agreement. In that agreement, Lucky Brand agreed to cease using the phrase "Get Lucky," while Marcel released Lucky Brand of any claims regarding Lucky Brand's use of Lucky Brand's *other* trademarks that incorporated the word "Lucky."[121]

Subsequently, in 2005, Lucky Brand sued Marcel alleging that, in launching a new clothing line, Marcel and a licensee had infringed Lucky Brand's trademarks by copying Lucky Brand's designs and logos. Marcel counterclaimed, alleging that (a) Lucky Brand had breached the 2003 settlement agreement by continuing to use the "Get Lucky" phrase; and (b) Lucky Brand's use of the phrases "Get Lucky" and "Lucky Brands" together infringed Marcel's GET LUCKY mark.

[117] *Id.*
[118] *Id.*
[119] *Id.*
[120] 140 S. Ct. 1589 (2020).
[121] *Id.* at 1592.

Marcel did *not* allege that Lucky Brand's use of Lucky Brand own marks alone—apart from uses of the phrase "Get Lucky"—infringed Marcel's GET LUCKY mark. Relying on the 2003 settlement agreement's release, Lucky Brand moved to dismiss the counterclaims. The district court denied Lucky Brand's motion without prejudice and, thereafter, Lucky Brand referenced the release defense in its reply to Marcel's counterclaims. But, as the 2005 lawsuit moved forward, Lucky Brand never again relied on the release defense.[122]

Ultimately, Lucky Brand lost the 2005 litigation. As a discovery sanction, the district court permanently enjoined Lucky Brand from copying or imitating Marcel's GET LUCKY mark. That injunction, however, did not prohibit, "or even mention," Lucky Brand's use of any other marks or phrases containing the word "Lucky." Subsequently, the jury found in Marcel's favor on Marcel's counterclaims that Lucky Brand's use of the "Get Lucky" phrase together with Lucky Brand's other marks infringed Marcel's GET LUCKY mark.

A third round of litigation ensued: In April 2011, Marcel sued Lucky Brand again. This time, Marcel alleged that Lucky Brand's post-2010 use of Lucky Brand's own marks—some of which contained the word "Lucky"—infringed Marcel's GET LUCKY mark. Marcel requested the district court to enjoin Lucky Brand from using any of Lucky Brand's marks containing the word "Lucky."[123]

After an interim appeal of a summary judgment order, and a remand by the Second Circuit, Lucky Brand moved to dismiss, arguing that the 2003 settlement agreement released Lucky Brand of the claims Marcel was now asserting in the 2011 lawsuit. Marcel responded that Lucky Brand was precluded from relying on the release because Lucky Brand could have, but did not, pursue its release defense in the 2005 litigation. The district court agreed with Lucky Brand and dismissed the action on the basis of the 2003 release. The Second Circuit, however, disagreed, holding that "defense preclusion" barred Lucky Brand from now raising the release defense. The Supreme Court granted *certiorari* "to resolve differences among the Circuits regarding when, if ever, claim preclusion applies to defenses raised in a later suit."[124]

In a unanimous opinion written by Justice Sotomayor, the Court held Lucky Brand was entitled to assert the 2003 release defense. After discussing general guideposts of the preclusion doctrine—including those of claim preclusion and issue preclusion—the Court held that its precedents require that "any . . . preclusion of defenses must, at a minimum, satisfy the strictures of issue preclusion or claim preclusion."[125] The parties agreed that issue preclusion was inapplicable, and the Court therefore focused its analysis on whether claim preclusion barred Lucky Brand's assertion of its defense.[126]

Claim preclusion can only apply "if the 'causes of action are the same' in the two suits – that is, where they share a 'common nucleus of operative fact[s].'"[127] Here, the Court reasoned,

[122] *Id.* at 1592-93.
[123] *Id.* at 1593-94.
[124] *Id.* at 1594.
[125] *Id.* at 1595.
[126] *Id.*
[127] *Id.* (alteration in original) (citation omitted).

the two suits in question "were grounded on different conduct, involving different marks, occurring at different times."[128] In particular, unlike the earlier actions, the 2011 suit did not involve allegations about Lucky Brand's use of the "Get Lucky" phrase, which were central to the earlier two actions and, specifically, to the 2005 litigation.[129] As a result, the Court concluded different marks were involved.[130] Additionally, the Court relied on the fact that the conduct alleged in the 2011 lawsuit commenced after the conclusion of the 2005 litigation, so different timeframes were involved as well. [131] At the end of the day, the Court held that the cases were simply too different for traditional claim preclusion principles to apply.[132]

Although *Lucky Brand* is not technically a trademark case *per se*—in the sense that the Court applied generally applicable preclusion doctrines, rather than interpreting provisions of the Lanham Act or other specific aspects of trademark law—the decision's underlying trademark background did play a role in the Court's decision. In particular, the Court noted, "[t]his principle [that later conduct often gives rise to new material facts and, therefore, to a new 'claim'] takes on particular force in the trademark context, where the enforceability of a mark and likelihood of confusion between marks often turns on extrinsic facts that change over time."[133] Indeed, the Court credited Lucky Brand's assertion that "liability for trademark infringement turns on marketplace realities that can change dramatically from year to year."[134]

In addition, trademark law incorporates quite a number of affirmative defenses that, pursuant to Lucky Brand, may be susceptible to "defense preclusion" principles in appropriate circumstances. For instance, Section 33(b) of the Lanham Act[135] enumerates nine "defenses or defects" to claims of trademark infringement. This list includes such items as fraud,[136] abandonment,[137] classic fair use,[138] functionality,[139] and other equitable defenses.[140] Case law has recognized additional trademark infringement defenses, such as nominative fair use.[141] Each of these defenses, at least theoretically, could be subject to Lucky Brand's "defense preclusion" principles if they arise from a previously litigated "common nucleus of operative facts."

Lucky Brand has been frequently cited by courts in their evaluation of issues of claim and issue preclusion involving a wide variety of subject matter[142] including in court proceedings

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[128] *Id.*
[129] *Id.* at 1596.
[130] *Id.*
[131] *Id.*
[132] *Id.*
[133] *Id.*
[134] *Id.*
[135] 15 U.S.C. § 1115(b).
[136] *Id.* § 1115(b)(1).
[137] *Id.* § 1115(b)(2).
[138] *Id.* § 1115(b)(4).
[139] *Id.* § 1115(b)(8).
[140] *Id.* § 1115(b)(9).
[141] *See*, *e.g.*, New Kids on the Block v. News Am. Publ'g, Inc., 971 F.2d 302 (9th Cir. 1992). For a deeper discussion of the nominative fair use defense. *See* J. David Mayberry, Nominative Fair Use: Affirmative or Negative Defense to Infringement, Landslide Vol. 14 No. 3 (2022).
[142] *See, e.g.,* Johnson v Caliber Homes Loans, Inc. Case No. CV 19-01387 P.A. (GJSx), 2021 WL4814986 (C.D. Cal. Feb. 3, 2021) (foreclosure of property); In re McDaniel, 973 F.3d 1083 (10th Cir. 2020) (discharability of student loan); Lenk v. Monolithic Power Sys., Case No. 20-cv-08094-CLF, 2021 WL 5233078 (N.D. Cal. Nov. 10, 2021) (termination of employment); Candler v. Palko, No. 2:19-CV-0394-MCE-DMC-P, 2021 WL 859060 (E.D. Cal. Mar. 8, 2021) (civil

involving trademarks. A fertile area for litigation, specifically as to trademark related issues, has been the extent to which claim or issue preclusion applies where the earlier litigation was in the context of an administrative proceeding before the TTAB.

VIP Products, LLC v. Jack Daniel's Properties, Inc.: The Impact of Parody on Trademark Infringement Analysis

VIP Products, LLC v. Jack Daniel's Properties, Inc.,[143] represents an effort by a dog toy manufacturer to develop and sell a dog chew toy, which was marketed under the name "Bad Spaniels", resembling the Jack Daniels No. 2 Tennessee Whiskey bottle as shown below:

After VIP introduced the Bad Spaniels product, Jack Daniel's promptly demanded that VIP stop selling it. VIP responded by filing a complaint seeking a declaratory judgment that the Bad Spaniels dog toy did not infringe or dilute any trademark or trade dress rights owned by Jack Daniel's. Jack Daniel's then filed counterclaims asserting trademark infringement and trademark dilution.

The matter eventually proceeded to a bench trial on Jack Daniel's claims. Jack Daniel's relied heavily on expert testimony and survey evidence in support of its claims. As to its dilution

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rights under 42 U.S.C. § 1983); Dana-Farber Cancer Institute, Inc. v. Bristol-Myers Squibb Co., Civil Action No. 19-cv-11380-PBS, 2021 WL3604809 (D. Mass. Aug. 13, 2021) (patent inventorship).

[143] No. 22-148, 2023 WL 3872519 (U.S. June 8, 2023). An author's firm participated in this case as post-appeal counsel for counterclaim plaintiff. *See also* Christopher P. Bussert, *What Franchising Can Learn from Trademark Disputes Over Dog Toys*, 26 FRANCHISE LAW. 3 (2024).

by tarnishment claim, Jack Daniel's relied on empirical marketing research studies that established the Bad Spaniels product had likelihood of tarnishing Jack Daniels' trademarks and trade dress by creating negative associations, either consciously or unconsciously, and undermining the pre-existing positive associations with its whiskey.

As to the trademark claim, the court applied the Ninth Circuit's eight-factor likelihood-of-confusion test (*Sleekcraft* factors*)*.[144] The court began its analysis by focusing on the actual confusion factor and Jack Daniel's survey evidence that 29% of the survey respondents were likely to be confused or deceived by the belief that Jack Daniels manufactured or otherwise authorized or approved the Bad Spaniels dog toy, a rate that nearly doubled the threshold typically needed in the Ninth Circuit to establish trademark infringement.

VIP countered by relying heavily on the defense of parody and the fact that its product packaging contained an express disclaimer of affiliation or association with Jack Daniel's. The district court rejected both arguments. As to VIP's parody argument, the court ruled that the defendant cannot use the parody defense if it also seeks to capitalize on a famous mark's popularity for its own commercial purpose. The court also noted the evidence of copying and discounted the product disclaimer because the defendant displayed it in tiny font on the reverse side of the packaging. The court then assessed the remaining *Sleekcraft* likelihood-of-confusion factors and found that each favored Jack Daniel's. As a result, the court ruled that Jack Daniel's had prevailed on its trademark infringement and trademark dilution claims and granted permanent injunction. VIP then appealed the district court's decision to the Ninth Circuit.

The Ninth Circuit vacated the district court's finding of infringement and dilution, reasoning that the district court had neither properly analyzed the nature of the Bad Spaniels toy nor applied the correct legal standard. The Ninth Circuit held that the district court failed to account for the fact that the Bad Spaniels toy constituted an "expressive work" designed to communicate a humorous message.[145] Because of its expressive work status, the court added that the district should have first required Jack Daniel's to demonstrate the Bad Spaniels toy was either (1) not at all artistically relevant to the underlying work or (2) expressly misled consumers as to the source or contents of the work.[146] Only if Jack Daniel's successfully navigated the Ninth Circuit's expressive work test would application of the *Sleekcraft* factors apply. The court added that the fact that the commercial nature of the Bad Spaniels toy did not render it non-expressive.

The Ninth Circuit then turned to Jack Daniel's trademark dilution by tarnishment claim and reached a similar conclusion based on the non-commercial nature of the Bad Spaniels toy. According to the Court, because the Bad Spaniels toy contained some protected expression in the form of a humorous message, the use of the Bad Spaniels mark was non-commercial despite its use in the sale of a product. After vacating both the district court's trademark infringement and trademark dilution judgments, the Ninth Circuit remanded the case to the district court for further proceedings consistent with its opinion.

The Supreme Court then granted a petition for a writ of certiorari presenting two questions: (1) whether humorous use of another's trademark as one's own on a commercial product must

[144] *See AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341 (9th Cir. 1979).
[145] 2023 WL 3872519, at *9.
[146] *Id.* at *8.

satisfy the Lanham Act's traditional likelihood-of-confusion analysis, or whether it instead receives heightened First Amendment protection from trademark infringement claims; and (1) whether humorous use of another's mark as one's own on a commercial product can nonetheless still be non-commercial, thus barring as a matter of law a claim of dilution by tarnishment under the Trademark Dilution Revision Act. The Supreme Court responded by vacating the Ninth Circuit's opinion, holding that when an alleged infringer uses a trademark in the way the Lanham Act most cares about—as a designation of source for the infringer's own goods or services—the infringement claim rises or falls on application of the traditional multifactor test for likelihood-of-confusion.[147] The Supreme Court added that the expressive work test articulated by the Ninth Circuit applied most appropriately in cases involving non-trademark uses, i.e., cases in which the defendant has used the mark at issue in a non-source-identifying way.[148]

As to the impact of parody in the likelihood-of-confusion analysis, the Supreme Court offered at least some guidance on how future inquiries should be conducted. According to the Supreme Court, a parody must conjure up "enough of an original to make the object of its critical wit recognizable."[149] At the same time, however, the Supreme Court explained that a successful parody must so contrast with the plaintiff's own mark "that its message of ridicule or pointed humor comes clear without resulting in likely confusion."[150] The Supreme Court added that courts could consider parody as part of the standard trademark infringement analysis.[151]

As to the second question, whether humorous use of another's mark as one's own on a commercial product can be non-commercial, thus barring as a matter of law a claim of dilution by tarnishment under the Trademark Dilution Revision Act, the Supreme Court again disagreed with the Ninth Circuit's conclusion. The Ninth Circuit's conclusion, according to the Supreme Court, rested on the erroneous assumption that VIP could shield itself from dilution liability because of Section 43(c) of the Lanham Act's "fair use" exclusion, which excluded from liability "[a]ny noncommercial use of a mark."[152] The Supreme Court held the Ninth Circuit erred in ignoring the statute's express exclusion to the fair use exclusion, namely that the fair use exclusion did not apply where a party's use "as a designation of source for a person's own goods and services."[153] (citing 15 U.S.C. §1125(c)(3)(A)(2018)). The Supreme Court added that adoption of the Ninth Circuit's approach would in effect reverse the result dictated by the statute. The Supreme Court further explained:

> Given the fair-use provision's carve-out, parody (and criticism and commentary, humorous or otherwise) is exempt from liability only if not used to designate source. Whereas on the Ninth Circuit's view, parody (and so forth) is exempt always – regardless whether it designates source. The expansive view of the "noncommercial use" exclusion effectively nullifies Congress's express limit on the fair-use exclusion or parody, etc. Thus consider how the Ninth Circuit's construction played out here. The District Court had rightly

147 *Id.* at *1, 7.
148 *Id.* at *8.
149 *Id.* at *10.
150 *Id.*
151 *Id.*
152 *Id.* at *19.
153 *Id.*

concluded that because VIP used the challenged marks as source identifiers, it could not benefit from the fair-use exclusion for parody. The Ninth Circuit took no issue with that ruling. But it shielded VIP's parodic uses anyway. In doing so, the court negated Congress's judgment about when – and when not – parody (and criticism and commentary) is excluded from dilution liability.[154]

In view of its ruling that the non-commercial exclusion could not shield parody or other commentary from trademark infringement or dilution-based liability where the defendant's use was source-identifying, the Supreme Court vacated the Ninth Circuit's judgment and remanded the matter for further proceedings.

On January 21, 2025, an Arizona federal judge held that VIP's "Bad Spaniels" products did not cause a likelihood of confusion about the source of the product.[155] However, the judge found that Jack Daniel's demonstrated by a preponderance of the evidence the elements for dilution by tarnishment: (1) Jack Daniel's trademarks and trade dress were famous prior to VIP's use of "Bad Spaniels," (2) the two marks are very similar, and (3) Jack Daniel's is likely to suffer reputational harm from a product associated with dog feces. The judge concluded VIP's "Bad Spaniels" products "create unsavory associations that denigrate Jack Daniel's marks and undermine the positive associate that Jack Daniel's has taken considerable expense to create."[156]

Arbitron Austria GmbH v. Hetronic Int'l, Inc.: Significant Limitations on Extraterritorial Enforcement of the Lanham Act

In *Abitron Austria GmbH v. Hetronic Int'l, Inc.*,[157] the Supreme Court adopted a restrictive rule governing extraterritorial applications of the federal Lanham Act. In doing so, the Court rejected the prevailing view among the federal circuit courts of appeals that the Act's text rebuts the general presumption against extraterritorial applications of federal law. Instead, it applied a two-step test consistent with the one it has applied in other contexts to hold that: (1) Congress did not affirmatively and unmistakably provide that the Act applies to foreign conduct; and (2) the focus of at least some of the alleged infringement in the case may not have been in the United States. On a going-forward basis, therefore, the Lanham Act's private causes of action will apply only to claims with such a focus, which likely means as a practical matter that a defendant outside the United States accused of infringement under the Act must have used its mark in commerce domestically for a finding of liability to attach to that use.

Abitron arose from litigation in which a prevailing plaintiff successfully secured an accounting of profits arising from the defendants' sales in Europe of goods bearing infringing marks and trade dress.[158] In that decision, the Supreme Court addressed and resolved some business left unfinished after its opinion seventy-one years ago in *Steele v. Bulova Watch Co.*, 344

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[154] *Id.* at *11.
[155] VIP Products LLC v. Jack Daniel's Properties Incorporated, CV-14-020257-PHX-SMM, Slip Copy 2025 WL 275909 (U.S. Dist. Ariz. Jan. 21, 2025).
[156] *Id*, at *19,
[157] 600 U.S. 412 (2023). An author's firm participated in this case as counsel of record for amicus curiae Intellectual Property Owner's Association in support of neither party.
[158] *See Hetronic Int'l, Inc. v. Hetronic Germany GmbH*, 10 F.4th 1016 (10th Cir. 2021), *vacated and remanded sub nom. Abitron Austria GmbH v. Hetronic Int'l, Inc.*, 600 U.S. 412 (2023).

U.S. 280 (1952). In *Steele*, the Court recognized a general presumption against extraterritorial applications of United States law.[159] At the same time, however, it affirmed a holding that a United States citizen and domiciliary who operated a business in Mexico selling watches bearing spurious copies of the plaintiff's BULOVA mark that made their way into the United States and were presented to the plaintiff's agents for repairs could be found liable for infringement. According to the Court in that case:

> In the light of the broad jurisdictional grant in the Lanham Act, we deem its scope to encompass petitioner's activities here. His operations and their effects were not confined within the territorial limits of a foreign nation. He bought component parts of his wares in the United States, and spurious 'Bulovas' filtered through the Mexican border into this country; his competing goods could well reflect adversely on Bulova Watch Company's trade reputation in markets cultivated by advertising here as well as abroad.[160]

The Court's failure to articulate a doctrinal test for evaluating the extraterritorial reach of the Act led the Second, Eleventh, and Federal Circuits to adopt the so-called *Vanity Fair* standard, which considers (1) whether the defendant's conduct had a substantial effect on U.S. commerce; (2) whether the defendant was a United States citizen; and (3) whether there was a conflict with trademark rights established under the relevant foreign law.[161] The Fourth and Fifth Circuits gravitated toward *Vanity Fair* as well, although the former modified the first factor to require a "significant" (as opposed to a "substantial") effect,[162] and the latter required only a demonstration that a defendant's conduct have "some" effect on United States commerce.[163] The Ninth Circuit adopted its own tripartite test, which allowed liability for extraterritorial activities if: (1) those activities had "some" effect on "American foreign commerce"; (2) that effect was sufficiently cognizable to injure the plaintiff; and (3) "the interests of and links to American foreign commerce were sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority."[164] Finally, the First Circuit applied the antitrust-based *McBee* test, pursuant to which: (1) the Lanham Act would usually extend extraterritorially when the defendant is an American citizen because "a separate constitutional basis for jurisdiction exists for control of activities, even foreign activities, of an American citizen,"[165] but (2) when the defendant was not a United States citizen, the Lanham Act applied "only if the complained-of activities have a substantial effect on [U.S.] commerce, viewed in light of the purposes of the Lanham Act."[166]

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[159] *See id.* at 285 ("This Court has often stated that the legislation of Congress will not extend beyond the boundaries of the United States unless a contrary legislative intent appears.").
[160] *Id.* at 286.
[161] *See Vanity Fair Mills, Inc. v. T. Eaton Co*., 234 F.2d 633, 642 (2d Cir. 1956); *see also Int'l Cafe, S.A.L. v. Hard Rock Cafe Int'l, (U.S.A.), Inc*., 252 F.3d 1274, 1278 (11th Cir. 2001); *Aerogroup Int'l, Inc. v. Marlboro Footworks, Ltd.*, 152 F.3d 948, 1998 WL 169251, at *2 (Fed. Cir. 1998) (per curiam) (unpublished).
[162] See Nintendo of Am., Inc. v. Aeropower Co., 34 F.3d 246, 250 (4th Cir. 1994).
[163] *See Am. Rice, Inc. v. Ark. Rice Growers Coop. Ass'n*, 701 F.2d 408, 414 n.8 (5th Cir. 1983).
[164] Trader Joe's Co. v. Hallatt, 835 F.3d 960, 969 (9th Cir. 2016) (alteration in original).
[165] McBee v. Delica Co., 417 F.3d 107, 111 (1st Cir. 2005),
[166] *Id.*

In a decision ultimately producing Supreme Court review of the issue, the Tenth Circuit picked that of the First Circuit, but with what it described as "one caveat."[167] That caveat was in reality the court's engrafting of a third prerequisite for extraterritoriality, namely, that "if a plaintiff successfully shows that a foreign defendant's conduct has had a substantial effect on U.S. commerce, courts should also consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under the relevant foreign law."[168] "Though the *McBee* court eschewed such an analysis," the court explained, "every other circuit court considers potential conflicts with foreign law in assessing the Lanham Act's extraterritorial reach."[169] It then summarized its holding in the following manner:

> To recap, in deciding whether the Lanham Act applies extraterritorially, courts should consider three factors. First, courts should determine whether the defendant is a U.S. citizen. Second, when the defendant is not a U.S. citizen, courts should assess whether the defendant's conduct had a substantial effect on U.S. commerce. Third, only if the plaintiff has satisfied the substantial-effects test, courts should consider whether extraterritorial application of the Lanham Act would create a conflict with trademark rights established under foreign law.[170]

The court then applied its new test to hold that the Act indeed reached the conduct of the defendants before it. Those defendants, none of which was a United States citizen or domiciliary, had for nearly a decade manufactured radio remote controls for heavy-duty construction equipment bearing the plaintiff's marks and trade dress, examples of which appear below:

The parties' amicable relationship abruptly ended, however, when the defendants decided on the basis of "an old research-and-development agreement between the parties" that they, rather than the plaintiff, owned the marks in question.[171] They then continued to manufacture and sell goods bearing the marks outside the United States, the similarity of which to the plaintiff's goods was apparent:

[167] *Hetronic*, 10 F.4th at 1036.
[168] *Id.* at 1037.
[169] *Id.* at 1030.
[170] *Id.* at 1038.
[171] *Id.* at 1023.

The defendants continued their sales of the offending goods even when found liable for infringement by a jury and having been permanently enjoined on a worldwide basis from doing so. Some of those goods wound up in United States markets, and the defendants apparently sold at least some of them directly to United States consumers.

Those facts were enough for the court to hold in the plaintiffs' favor on the issue of whether the defendants' conduct had had the required substantial effect on United States commerce, especially in light of the plaintiff's evidence that United States consumers encountering the defendants' goods were actually confused about the goods' origin:

> Viewing the evidence as a whole, [the plaintiff] has presented more than enough evidence to show that Defendants' foreign infringing conduct had a substantial effect on U.S. commerce. Besides the millions of euros worth of infringing products that made their way into the United States after initially being sold abroad, Defendants also diverted tens of millions of dollars of foreign sales from [the plaintiff] that otherwise would have ultimately flowed into the United States. Moreover, though much of [the plaintiff's] evidence focused on consumer confusion abroad, it also documented numerous incidents of confusion among U.S. consumers. We thus conclude that [the plaintiff] has presented evidence of impacts within the United States of a sufficient character and magnitude as would give the United States a reasonably strong interest in the litigation. Accordingly, the Lanham Act applies extraterritorially here to reach all of Defendants' foreign infringing conduct.[172]

The court therefore affirmed an accounting of profits decided upon by a jury, which included those made on the entirety of the defendants' sales. It did so despite evidence and testimony in the trial record that ninety-seven percent of those sales were to European customers, with only three percent of sales going directly to the United States.

The Supreme Court then granted the defendants' petition for a writ of certiorari, which presented a single question - "[w]hether the court of appeals erred in applying the Lanham Act extraterritorially to petitioners' foreign sales, including purely foreign sales that never reached the United States or confused U.S. consumers."[173] In answering that question, the Court first took on the general consensus among the federal courts of appeals that Congress had rebutted the presumption against territoriality when passing the Lanham Act by referring to its post-*Steele* decisions in *Morrison v. National Australia Bank Ltd.*, 561 U.S. 247 (2010), *RJR Nabisco, Inc. v.*

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[172] *Id.* at 1045–46.

[173] Petition for Writ of Certiorari at (I), *Abitron Austria GmbH v. Hetronic Int'l, Inc.*, 600 U.S. 412 (2023) (No. 21-1043), 2022 WL 253018, at *(I).

European Community, 579 U.S. 325 (2016), *WesternGeco LLC v. ION Geophysical Corp*., 138 S. Ct. 2129 (2018), and *Nestlé USA, Inc. v. Doe*, 141 S. Ct. 1931 (2021). Those decisions, it held, established a two-step test for the liability of foreign actors under federal law, the first of which was to determine "whether 'Congress has affirmatively and unmistakably instructed that' the provision at issue should 'apply to foreign conduct.'"[174] The second step was more complex:

> If a provision is not extraterritorial, we move to step two, which resolves whether the suit seeks a (permissible) domestic or (impermissible) foreign application of the provision. To make that determination, courts must start by identifying the "focus of congressional concern" underlying the provision at issue. . . .
>
> Step Two does not end with identifying statutory focus . . . . [T]o prove that a claim involves a domestic application of a statute, "plaintiffs must establish that the conduct *relevant to the statute's focus* occurred in the United States."[175]

"Step two," it continued, "is designed to apply the presumption against extraterritoriality to claims that involve both domestic and foreign activity, separating the activity that matters from the activity that does not."[176] "After all," the Court concluded, "we have long recognized that the presumption would be meaningless if any domestic conduct could defeat it."[177]

In applying step one of the two-part test to the Lanham Act, the Court noted that "[i]t is a 'rare statute that clearly evidences extraterritorial effect despite lacking an express statement of extraterritoriality.'"[178] It then held with respect to the plaintiff's causes of action under Sections 32(1) and 43(a) of the Lanham Act, 15 U.S.C. §§ 1114, 1125(a) (2018), that:

> [N]either provision at issue provides an express statement of extraterritorial application or any other clear indication that it is one of the "rare" provisions that nonetheless applies abroad. Both simply prohibit the use "in commerce," under congressionally prescribed conditions, of protected trademarks when that use "is likely to cause confusion."[179]

In so concluding, the Court rejected the argument that the unique definition of "commerce" found in Section 45 of the Act—"'commerce' means all commerce which may be lawfully regulated by Congress," 15 U.S.C. § 1127—necessarily entailed that the defendants' conduct was actionable because of the effect of that conduct on the plaintiff in the United States. Instead, the Court held, not only had it in the past restricted the extraterritorial effect of statutes expressly referring to "*foreign* commerce" when defining "commerce,"[180] but "the mere fact that the Lanham Act contains a . . . definition that departs from the so-called 'boilerplate' definitions used in other statutes cannot justify a different conclusion . . . ."[181]

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[174] *Abitron*, 600 U.S. at 417–18 (quoting *RJR Nabisco*, 579 U.S. at 335, 337).
[175] Id. at 418 (first quoting RJR Nabisco, 579 U.S. at 336; then quoting Nestlé, 141 S. Ct. at 1936).
[176] *Id.* at 419.
[177] *Id.*
[178] *Id.* at 420 (quoting *RJR Nabisco*, 579 U.S. at 337).
[179] Abitron, 600 U.S. at 420 (quoting 15 U.S.C. §§ 1115(1)(a), 1125(a)).
[180] Abitron, 600 U.S. at 421 (first citing Morrison, 561 U. S., at 262–263; then citing RJR Nabisco, 579 U.S. at 344).
[181] *Id.*

That left the second part of the inquiry, namely, whether the defendants' conduct relevant to the Lanham Act's focus had occurred in the United States. Although the Court remanded the action for a resolution of that question in the first instance, it offered the lower courts some guidance while doing so. As a threshold matter, it held, "the *conduct* relevant to any focus the parties have proffered is infringing use in commerce, as the Act defines it."[182] Then, referencing the definition of use in commerce set forth in Section 45 of the Act, it further observed that "the 'term "use in commerce" means the bona fide use of a mark in the ordinary course of trade,' where the mark serves to 'identify and distinguish [the mark user's] goods . . . and to indicate the source of the goods.'"[183] It therefore is apparent that plaintiffs challenging alleged violations of the Lanham Act by defendants outside the United States should plan to establish that the locus of those violations lies within the United States, instead of merely relying on their alleged domestic effects.

What is less apparent, however, is the significance of the opinion to the split in the lower courts on the question of whether Section 45 applies to evaluations of whether *defendants* have engaged in actionable uses in commerce or whether its terms are limited to the inquiry into whether *plaintiffs* have engaged in sufficient use in commerce to qualify their marks for protection in the first instance. For example, the Sixth Circuit holds that only trademark uses by defendants are actionable under Sections 32 and 43(a),[184] and that rule enjoys at least some support in academic circles.[185] In contrast, most courts to address the issue have rejected that approach.[186] Moreover, it has been the subject of criticism by Professor McCarthy.[187] It also is inconsistent with the legislative history of the current definition of use in commerce found in Section 45, which clearly indicates a congressional intent to limit the significance of that definition to the context of determinations of plaintiffs' rights:

> [T]he revised definition is intended to apply to all aspects *of the trademark registration process*, from applications to register, whether they are based on use

[182] *Id.* at 422.
[183] *Id.* at 428 (quoting 15 U.S.C. § 1127).
[184] *See, e.g.*, *Sazerac Brands, LLC v. Peristyle, LLC*, 892 F.3d 853, 859 (6th Cir. 2018) ("In our circuit, plaintiffs carry a threshold burden to show that the defendant is using a mark 'in a "[ ] trademark" way' that 'identifies the source of their goods.'" (alteration in original) (quoting *Interactive Prods. Corp. v. a2z Mobile Office Sols., Inc.*, 326 F.3d 687, 695 (6th Cir. 2003)),
[185] *See* Stacey L. Dogan & Mark A. Lemley, *Trademark and Consumer Search Costs on the Internet,* 41 HOUS. L. REV. 777, 798 (2004) ("Limiting trademark rights to a right to prevent confusing uses of the mark as a brand helps to ensure that trademark rights remain tied to their search costs rationale—only those individuals or companies who are using the mark to advertise their own products or services have the motive and opportunity to interfere with the clarity of the mark's meaning in conveying product information to consumers, and so only those uses ought to be of concern to trademark law."); Uli Widmaier, *Use, Liability, and the Structure of Trademark Law*, 33 HOFSTRA L. REV. 603, 707 (2004) (referencing the "indispensability of trademark use for imposing Lanham Act liability").
[186] *See, e.g.*, *Rescuecom Corp. v. Google Inc.*, 562 F.3d 123, 133 (2d Cir. 2009) ("When one considers the entire definition of 'use in commerce' set forth in [Section 45], it becomes plainly apparent that this definition was intended to apply to the Act's use of that term in defining favored conduct, which qualifies to receive the protection of the Act."); *Playboy Enters. v. Netscape Commc'ns Corp.*, 354 F.3d 1020, 1024 n.11 (9th Cir. 2004) (holding that Section 45's definition "applies to the required use a plaintiff must make in order to have rights in a mark"); *BTG Patent Holdings, LLC v. Bag2Go, GmbH*, 193 F. Supp. 3d 1310, 1322 (S.D. Fla. 2016) ("[Section 45's] definition of 'use in commerce' applies only in the trademark qualification context and not in the trademark infringement context.").
[187] *See* 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 23:11.50 (5th ed.), and others. Graeme B. Dinwoodie & Mark D. Janis, *Confusion over Use: Contextualism in Trademark Law*, 92 IOWA L. REV. 1597, 1625 (2007).

> or on intent-to-use, and statements of use filed under Section 13 of the Act, to affidavits of use filed under Section 8, renewals and issues of abandonment. Clearly, however, *use of any type will continue to be considered in an infringement action.*[188]

Whether the Court's reference to Section 45 when discussing when a defendant's use is actionable under Sections 32 and 43(a) is intended to trump that legislative intent and the majority rule found in the case law remains to be seen.

2. A Summary of Other Recent Decisions Worth Note

Can building exteriors qualify as inherently distinctive trade dress?

- Yes. *See In re Seminole Tribe of Fla.*, 2023 U.S.P.Q.2d 631 (T.T.A.B. 2023).
- Yes, but not all building exteriors so qualify. *See In re Palacio Del Rio, Inc.*, 2023 U.S.P.Q.2d 630 (T.T.A.B. 2023).

Is the availability of alternative designs evidence of nonfunctionality?

- Yes. *See DayCab Co. v. Prairie Tech., LLC*, 67 F.4th 837 (6th Cir. 2023).
- Yes. *See Whirlpool Corp. v. Shenzhen Sanlida Elec. Tech. Co.*, 80 F.4th 536 (5th Cir. 2023).

Can a defendant escape liability based only on differences between its mark and that of the plaintiff?

- Yes. *See Monster Energy Co. v. Critical Role LLC*, 2023 U.S.P.Q.2d 1382 (T.T.A.B. 2023).
- Yes. *See Jackson Family Farms, LLC v. Grands Domaines du Littoral*, No. 2023-1675, 2023 WL 8429827 (Fed. Cir. Dec. 5, 2023) (nonprecedential).
- Yes. *Trek Bicycle Corp. v. Isaacs*, No. 2022-1434, 2023 WL 7649542 (Fed. Cir. Nov. 15, 2023) (nonprecedential).

Can the licensor of a federally registered mark assert a cause of action for counterfeiting?

- Not unless consumers are likely to be confused over the actual origin of the goods to which the defendant affixes a copy of the mark. *See Pennsylvania State Univ. v. Vintage Brand, LLC*, No. 4:21-CV-01091, 2024 WL 456139 (M.D. Pa. Feb. 6, 2024).

Can marks or images that are no longer used still be indicators of source?

- Yes. *See The Pennsylvania State University v. Vintage Brand LLC et al.,* 2024 WL 4839372 (M.D. Pa. Nov. 19, 2024).

[188] *See* S. Rep. 100-515, 45, *reprinted in* 1988 U.S.C.C.A.N. 5577, 5607–08 (emphasis added).

Can a defendant escape liability for infringement by adding a disclaimer that it is not affiliated with or endorsed by the trademark owner?

- No. *See The Pennsylvania State University v. Vintage Brand LLC et al.,* 2024 WL 4839372 (M.D. Pa. Nov. 19, 2024).

Can the reregistration of a domain name trigger potential liability under the Anticybersquatting Consumer Protection Act?

- Yes. *See Prudential Ins. Co. of Am. v. Shenzhen Stone Network Info. Ltd.*, 58 F.4th 785 (4th Cir. 2023).

Is an averment of current nonuse standing alone sufficient to state a cause of action for the cancellation of a registration for abandonment?

- No, because the statutory definition of abandonment also requires a showing of an intent to resume use. *See Alfwear, Inc. v. IBKUL Corp.*, No. 221CV00698DBBJCB, 2023 WL 3283458 (D. Utah May 5, 2023).

Does a defendant's use of a plaintiff's logo weigh against a finding of nominative fair use?

- Yes, because such a use is more than that necessary to identify the plaintiff or its goods. *See Axon Enters. v. Luxury Home Buyers, LLC*, No. 220CV01344JADVCF, 2023 WL 4636917 (D. Nev. July 19, 2023).

Is the USPTO continuing to expand the frontiers of the failure-to-function ground for refusal?

- Yes. *See In re Stallard*, 2023 U.S.P.Q.2d 1009 (T.T.A.B. 2023) ("woman video game character named Maria, with a tilted head, dark messy hair, dark eyes, thin rimmed glasses and a large toothy smile, with her eyes looking to the side and strands of her hair in front of her eyes" unregistrable for videogames and software).

H. International Trademark Protection

Like other intellectual property rights, trademark rights are, as a whole, considered to be distinct in each country or jurisdiction in which they are obtained. Each jurisdiction is entitled to recognize and protect trademark rights in a manner that fulfills its policy goals. Although the term "international trademark rights" refers to a set of trademark rights across a number of jurisdictions, the existence and enforceability of these rights are unique to each jurisdiction and, generally, not interdependent. Each of the over 200 countries or jurisdictions throughout the world has its own laws, regulations, and registration system. There are no blanket or automatic global trademark rights arising from use or registration in a home country. Therefore, rights must be acquired and protected on a piecemeal basis to cover expansion of a franchise system to other countries, with some important exceptions.

One should never assume that a successful U.S. trademark will be commercially, linguistically, or culturally suitable for use in other countries. The meaning of a trademark may change if used in or translated into a foreign language. For example, "Pizza Hut" literally means "Pizza Hat" in German. It is, therefore, important to choose, from the beginning, a trademark that will be suitable for use in all target countries.

Standards of registrability, and thus protectability, can vary greatly; a trademark registrable in one's home country may not necessarily be registrable in other countries. For example, many trademarks first created in a franchised business in the U.S. use surnames, geographic names, and other descriptive material, and although these are not optimal trademark choices, they can be protected in the U.S. once sufficient use and reputation are established. In many countries, however, such types of trademarks will not be protected nor will proof of acquired distinctiveness—*i.e.*, secondary meaning—be accepted to support registration.

Proper trademark clearance searches should be conducted in each country in which a trademark owner is considering franchising or otherwise licensing its marks. This is necessary to avoid the possibility of inadvertent trademark infringement of another's prior right, to discover possible trademark piracy of one's own trademark, and to ensure that the trademark is available for licensing as part of a franchising relationship. Even in a multi-country arrangement such as the European Union[189], the grant of its unitary registration can be blocked by the prior rights of another party in merely one of the other member countries.

In virtually every jurisdiction throughout the world, the first to file an application for trademark registration usually places itself in a very advantageous position to obtain trademark rights. Often, by the time a franchisor decides to embark upon an international trademark registration filing program it discovers that others, either coincidentally or intentionally, have established a presumptively valid claim to their trademark rights in certain jurisdictions. The speed and scope of the information flow on the internet, clearly accelerate the risk.

In most countries outside of the U.S., trademark protection is predicated on registration and not use. Registration will provide significant benefits such as the exclusive right to use a trademark. Use of a mark is not a prerequisite for filing an application in most jurisdictions; however, some do have use requirements. Unregistered trademarks may be protected in some countries under a theory of unfair competition but with far less predictable results. Registrations must be maintained by periodic renewal, and in most countries, registrations are vulnerable to cancellation if the mark is not used for a certain period of time, often three to five years.

Most developed countries have adopted a system of classification of goods and services that they generally tend to apply in a more rigid manner than the U.S. For example, in many countries the registration for an entire class of goods or services gives protection for all goods falling within that class regardless of actual use. Conversely, protection is construed very narrowly with regard to goods or services that do not strictly fall within the registered class. Therefore, it is best for the franchisor to register the key trademarks in all classes that may directly or indirectly come within the scope of the franchise business. This is especially pertinent in those countries where service mark protection is still not available. For instance, to protect a mark used for

[189] It is possible for trademark owners to obtain registrations covering the entire European Community.

restaurant services, registration could be obtained for the food and beverage classes as well as the classes covering containers, paper goods, and printed matter.

In addition to the trademark actually used, the trademark owner should also consider registering the trademark's translations and transliterations (sound-alikes) as well as the trade dress (because the latter will rarely be protected without registration outside of the U.S.).

Unlike laws in the U.S., the laws of many jurisdictions require recordation of a trademark license with a government entity to validate the license and to legitimize the franchisee's use as inuring to the franchisor's benefit. Failure to record could result in the loss of a trademark or preclude enforcement of trademark rights.

All countries provide civil remedies such as injunctive relief for trademark infringement. It can be difficult, however, in some jurisdictions to obtain preliminary relief on an expedited basis. Monetary remedies are generally available but are not always as generously applied as in the U.S. In some jurisdictions, infringement is treated as a criminal offense. In other countries, there is no opportunity to oppose third-party trademark applications; the only recourse is filing a cancellation action after a registration is issued. Developing a system of global surveillance of the marketplace beginning with a global trademark and domain name search is essential.

Ultimately, international trademark practice presents many challenges to U.S. trademark owners as different legal systems, languages, and cultural values must all be considered. To minimize risk, expense and possible legal exposure, the following is recommended:

1. Trademark owners should select trademarks that are acceptable and protectable in possible future international target markets. Otherwise, they may be forced to operate under different trademarks in different countries.
2. Key trademarks should be searched and registered promptly in all relevant classes of goods and services in all countries of probable future international expansion. Even if there are no immediate plans and a limited budget, preemptive trademark and domain name filings for key trademarks may be in order.
3. Legal counsel with experience in international trademark practice should be consulted to coordinate the searching and registration of marks with the assistance of local counsel in each jurisdiction in which registration is sought.

II. <u>OTHER INTELLECTUAL PROPERTY AFFECTING FRANCHISING[190]</u>

A. Trade Secrets

Much of the value inherent in a franchise system is its trade secret portfolio, the importance of which may approach that of the licensed trademarks. From secret recipes and customer lists to business methods and product development plans, trade secrets form an integral part of the

[190] Portions of the following sections have been adapted from an earlier version of this program. *See* Jess Dance, Marisa Faunce, Susan Meyer & Kathryn S. Thomas, *Basic Track: Trademark and Intellectual Property*, IFA 53rd Annual Legal Symposium (2021).

effective business practices and revenue-generating products and services that attract franchisees and propel franchise systems.

Trade secrets have become an increasingly prominent focal point for businesses and policymakers worldwide, and their ubiquity in franchise systems makes basic knowledge of trade secret protections essential for franchise attorneys.

1. Basic Concepts

Elements of a Trade Secret

Trade secrets have been defined to encompass "all forms and types of...information,...whether tangible or intangible, and whether or how stored, compiled, or memorialized..." so long as: (1) its owner has taken reasonable measures of secrecy; and (2) it derives actual or potential independent economic value from being kept secret.[191] In the franchise context, courts have recognized myriad types of trade secrets, including:

- Business methods[192]
- Development strategies[193]
- Recipes[194]
- Formulas[195]
- Customer lists[196]
- Supply chain information[197]
- New product plans[198]
- Software and technology[199]
- Marketing plans[200]
- Prospective franchisee lists[201]

Unlike patents and copyrights, which have a fixed length, trade secrets are potentially entitled to perpetual protection, so long as they are kept secret.

[191] 18 U.S.C. § 1839(3).
[192] *Tan-Line Studios, Inc. v. Bradley*, No. 84–5925, 1986 WL 3764, at *7 (E.D. Pa. March 25, 1986) (holding that the franchisor's "entire methodology for conducting a tanning studio" constituted a trade secret).
[193] *Motor City Bagels, LLC v. The American Bagel Co.*, 50 F. Supp. 2d 460, 479 (D. Md. 1999).
[194] *KFC Corp. v. Marion-Kay Co.*, 620 F. Supp. 1160, 1172 (S.D. Ind. 1985) (holding that KFC's secret spice blend constituted a trade secret upon which the "desirability of the franchise itself" depended); *but see Buffets, Inc. v. Klinke*, 73 F. 3d 965, 968-69 (9th Cir. 1996) (finding that Buffets, Inc.'s recipes lacked "the requisite novelty and economic value for trade secret protection").
[195] *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 294 (D. Del. 1985).
[196] *Am. Express Fin. Advisors, Inc. v. Yantis*, 358 F. Supp. 2d 818 (N.D. Iowa 2005).
[197] *Proimos v. Fair Auto. Repair, Inc.*, 808 F.2d 1273, 1276 (7th Cir. 1987) (holding that even where supplier identities *were* publicly available, information on the reliability and dealing terms of those suppliers made supplier lists trade secrets).
[198] See Static Control Components, Inc. v. Darkprint Imaging, Inc., 135 F. Supp. 2d. 722, 727–28 (M.D.N.C. 2001).
[199] See NaturaLawn *of America, Inc. v. West Group, LLC, 484 F. Supp. 2d 392, 399 (D. Md. 2007).*
[200] *See H&R Block Eastern Tax Services, Inc. v. Enchura, 122 F. Supp. 2d 1067, 1074 (W.D. Mo. 2000).*
[201] *See Re/Max of Am. v. Viehweg*, 619 F.Supp. 621, 626 (E.D. Mo. 1985).

Misappropriation of Trade Secrets

Trade secret misappropriation occurs when trade secrets are acquired, disclosed, or used by persons who knew or had reason to know that such acquisition, disclosure, or use involved "improper means."[202] The scope of "improper means" exceeds that of mere illegality and encompasses:

- Theft;
- Bribery;
- Misrepresentation;
- Breach or inducement of a breach to maintain secrecy; and
- Espionage.[203]

Trade secret designation does not, however, preclude competitors from obtaining secret information through competitive practices that fall outside the bounds of what constitutes misappropriation, including:

- Independent investigation;
- Reverse-engineering (provided acquisition for such purpose is lawful);
- Discovery under license;
- Public observation; and
- Review of published literature.[204]

Misappropriation of trade secrets can be pursued in several forums, including as a private civil cause of action, a target for public civil enforcement, and a criminal offense under state, federal, and international law.

2. Trade Secret Protection in the United States

Federal

Prior to the passage of the federal Defend Trade Secrets Act ("DTSA") in 2016,[205] trade secret protection was primarily a matter of state law. The DTSA amended the existing Economic Espionage Act of 1996 ("EEA"), which provided only for criminal penalties.[206] Prosecutions under the EEA were infrequent and the statute was broadly regarded as ineffective.[207] The DTSA, which became effective in May 2016, serves as an important additional tool for trade secret owners to protect their trade secrets. The DTSA provides a federal private cause of action for trade secret misappropriation.[208] It also expressly provides federal subject matter jurisdiction, which permits trade secret claims to be brought in federal court.[209] A franchisor's confidential information that

[202] 18 U.S.C.S. § 1839 (5)–(6).
[203] *Id.*
[204] Uniform Trade Secrets Act § 1(1) cmt., Nat'l Conference of Comms. on Uniform State Laws (1985).
[205] 18 U.S.C. §§ 1831-1839, 1961.
[206] 104th Congress, P.L. 104-294 (Oct. 11, 1996).
[207] *See* John R. Thomas, Cong. Research Serv., R41391, The Role Of Trade Secrets In Innovation Policy (2014).
[208] 18 U.S.C. § 1836(b)(1).
[209] 18 U.S.C. § 1836(c).

rises to the level of a trade secret can be subject to heightened protection, regardless of the presence of a contractual non-disclosure provision. The key threshold issue is often a determination of whether the information at issue qualifies as a trade secret.

The DTSA defines "trade secret" as follows:

> All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, programs, devices, formulas, designs, prototypes, methods, techniques, processes, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if – (A) the owner thereof has taken reasonable measures to keep such information secret and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.[210] There are three key components under the DTSA's trade secret definition. First, it must be kept secret. Second, the information must derive independent economic value from not being generally known. Third, the information must not be readily ascertainable through proper means.

Misappropriation is defined as "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means" or "disclosure or use of a trade secret of another person" obtained through improper means."[211] Under the DTSA, improper means is defined as "includ[ing] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means" and to expressly "not include reverse engineering, independent derivation, or any other lawful means of acquisition."[212] The DTSA expressly authorizes injunctive relief "to prevent any actual or threatened misappropriation."[213] It also authorizes monetary damages for the trade secret owner's actual losses and, depending upon the circumstances, unjust enrichment and/or a reasonable royalty. Treble damages and attorneys' fees are available under the DTSA based upon the defendant's willful or bad faith conduct. In limited circumstances, the DTSA authorizes *ex parte* seizure to prevent improper disclosure of trade secrets. The DTSA also provides for civil enforcement by the United States Attorney General, and includes an anti-retaliation provision to protect whistleblowers.

Franchisors seeking to enforce trade secret rights in litigation, whether under the federal DTSA or the state statutes discussed below, need to consider several issues. First, franchisors should consider whether the information in question, even if confidential and proprietary, rises to the level of a trade secret. The existence of a trade secret is generally a question of fact. Including contractual acknowledgements in the franchise agreement as to the existence and identification of the franchisor's trade secrets and limiting the franchisee's access to those trade secrets can be

[210] 18 U.S.C. § 1839(3).
[211] 18 U.S.C. § 1839(5).
[212] 18 U.S.C. § 1839(6)(A), (B).
[213] 18 U.S.C. § 1836(b)(3)(A)(i).

helpful, but generally will not be dispositive of the finding of a trade secret. Information generally loses trade secret protection if it enters the public domain through lawful means.

In order to establish the existence of a trade secret, a franchisor also needs to be prepared to establish, among other things, that it has taken reasonable efforts to maintain the secrecy of the information and that the information derives independent value from its secrecy. For this reason, franchisors seeking to preserve the trade secret status of certain information about their franchise system or business methods, such as operational materials, training manuals, or recipes, should take proactive steps to protect the confidentiality of those materials. These steps should include requiring anyone with access to trade secrets to sign a non-disclosure agreement, and may include pre-packing ingredients and other elements of recipes to limit access. Franchisors should also be diligent in requiring franchisees and their employees to return proprietary materials upon the end of the franchise relationship.

Another important issue trade secret litigants need to consider is how to balance the need to specifically identify the trade secret and misappropriation at issue in order to satisfy initial pleading standards and ultimately prove misappropriation, with the need to maintain the secrecy of the trade secret itself. This issue has been the subject of judicial debate and a failure (or refusal) to do so may result in dismissal of the action.[214] Finally, franchisors should consider whether they have direct evidence of misappropriation or merely circumstantial evidence, and whether that impacts their ability to sustain a valid claim under the applicable law.[215]

State Trade Secret Laws

State trade secret protection statutes are primarily modeled on the Uniform Trade Secrets Act ("UTSA"), a collaborative model statute created by the National Conference of Commissioners on Uniform State Laws and recommended for enactment by states in 1985.[216] Forty-eight of the fifty states have adopted the UTSA in some form, whereby New York follows the state's common law and North Carolina has its own statute, the North Carolina Trade Secrets Protection Act The UTSA defines trade secret and misappropriation, and provides for civil remedies for misappropriation, including injunctive relief for any actual or threatened misappropriation of trade secrets, compensatory damages in the amount of the actual loss caused by misappropriation and the unjust enrichment of the misappropriating party, double damages in cases of willful and malicious misappropriation, and potential attorneys' fees.[217] If a court determines that the misappropriating party has obtained an economic windfall based upon

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[214] *See, e.g., Derubeis v. Witten Techs, Inc.,* 244 F.R.D. 676 (N.D. Ga. 2007) (surveying different approaches); *TE Connectivity Networks Inc. v. All Sys. Broadband Inc.,* Civil No. 13-1356 ADM/FLN, 2013 WL 6827348 (D. Minn. Dec. 26, 2013).

[215] *See, e.g.*, Contract *Furniture Refinishing & Maintenance Corp. v. Remanufacturing & Design Group, LLC,* 730 S.E.2d 708 (Ga. Ct. App. 2012) (circumstantial evidence from which a finding of trade secret misappropriation could be inferred was insufficient to survive summary judgment against defendant's denial of misappropriation).

[216] Uniform Trade Secrets Act with 1985 Amendments ("UTSA"), Nat'l Conference of Comms. on Uniform State Laws (1985).

[217] UTSA §§ 1–3.

misappropriated trade secrets, that party may be required by the court to disgorge its profits.[218] Finally, about half of the states have criminal penalties for misappropriation of trade secrets, generally equating the act with theft and conspiracy.[219]

As written, the UTSA displaces conflicting tort law and certain other state civil law related to the protection of trade secrets, but does not impact civil contract law, civil remedies unrelated to trade secrets, or any criminal law.[220] Despite its goal to standardize state trade secrets law, the UTSA is only a guideline for adopting states, which are free to amend the statute.[221] Common law and the Restatements of Torts and Unfair Competition also have significant role in courts across the nation. The Restatement of Torts sets forth a particularly widely cited six-factor test to aid in the definition of a trade secret: "(1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the] business; (3) the extent of measures taken by [the owner] to guard the secrecy of the information; (4) the value of the information to [the business] and to [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others."[222] Under state statutes that follow the UTSA, trade secret owners can file an action against anyone who misappropriates their trade secrets, which includes not only the party who originally took the trade secret, but also any other party who acquires the trade secret with knowledge that it was obtained by improper means. Trade secret protection can apply to both tangible and intangible information, although some states limit protection of certain information, such as customer information.

As noted above, both injunctive relief and monetary damages are available as remedies for trade secret misappropriation. Under the UTSA, both actual and threatened misappropriation may be enjoined. Courts are authorized to enjoin parties that have misappropriated trade secrets so long as the information remains a trade secret, and for an additional reasonable period of time if necessary to eliminate any commercial advantage from the misappropriation that would have occurred, but for the enjoinment. Courts also have authority in exceptional circumstances to condition future use of the trade secret information upon payment of a reasonable royalty.

The damages recoverable for misappropriation of trade secrets include both the actual loss the aggrieved party can demonstrate was caused by the misappropriation and any unjust enrichment accrued by the misappropriating party that is not taken into account in computing the

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[218] See id. § 3(a).
[219] See, e.g., Ala. Code. § 13A-8-10.4 (Supp. 1984); Ark. Stat. Ann. §§ 41-2201, 41-2207 (1977); CAL. PENAL CODE § 499c (Deering 1983 & Supp. 1984); COL. REV. STAT. § 18-4-408 (1973); FLA. STAT. ANN. § 812.081 (West 1981); GA. CODE. ANN. § 26-1809 (1983); ME. REV. STAT. ANN. tit. 17A, §§ 351, 352 (1982) (under theft statute); MASS. ANN. LAWS. ch. 226, § 30 (Michie/Law. Co-op. 1980) (under larceny statute); MINN. STAT. ANN. § 609.52 (West 1963); N.H. REV. STAT. ANN. §§ 637:1, 637:2 (1974); N.M. STAT. ANN. § 30-16-24 (1984); OHIO REV. CODE. ANN. § 1333.51 (Baldwin 1978); OKLA. STAT. ANN. tit. 21, § 1732 (West 1983); TENN. CODE ANN. § 39-3-1126 (1982); TEX. PENAL CODE ANN. § 31.05 (Vernon 1974); WIS. STAT. ANN. § 943.205 (West 1982 & Supp. 1984-1985).
[220] *See* UTSA § 7.
[221] *See generally* Sid Leach, *Anything but Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act*, Snell & Wilmer (2015).
[222] RESTATEMENT (FIRST) OF TORTS § 757 cmt b (1939).

actual loss. Most states' laws also permit courts to award enhanced damages (under the UTSA, up to twice the damages award) if the misappropriation is deemed by the court to be willful and malicious. Trade secret owners may also be entitled to recover their reasonable attorneys' fees upon a showing of willful and malicious misappropriation, while a trade secret defendant can seek to recover its attorneys' fees if it can establish a claim of misappropriation was made in bad faith.

B. COPYRIGHTS

Copyrights protect creative and original expression of ideas. In most franchise systems, copyrights play a smaller role than trademarks and trade secrets. This section will provide an overview of basic copyright principles relevant to franchise systems.

1. Basic Concepts

A copyright is a form of protection provided by laws in the United States to authors of "original works of authorship," and automatically begins from the time the works are created in a fixed form. These works of authorship can include, among other things:

- Written content (for example, books, articles, promotional literature, and operations manuals)
- Musical compositions
- Web pages
- Photographs
- Sound recordings
- Artwork/graphic designs
- Computer software/code

Copyrighting provides the owner of the copyright with, among other things, the exclusive right to:

- reproduce the work in copies
- prepare derivative works based upon the work
- distribute copies of the work to the public by sale or other transfer of ownership
- display the work publicly
- perform the work publicly
- authorize others to exercise those exclusive rights

From an international standpoint, while copyright principles vary slightly from jurisdiction to jurisdiction, the foregoing concepts are generally recognized in the countries belonging to the Berne Convention, discussed in greater detail below.

Although registering a work is not mandatory in the U.S. or elsewhere, registration with the U.S. Copyright Office is necessary to enforce the exclusive rights of copyright through litigation in federal court. As noted in Section 5 below, registration is generally not required internationally. Early U.S. registration of works also can help preserve access to important remedies in litigation, such as attorney fee recovery and statutory damages; generally speaking, if a work is infringed before it is registered, attorney fees and statutory damages are unavailable, unless the work is registered within three months of its first publication.

2. Special Considerations for Independent Contractors

Some works may be made by independent contractors, or alternatively, may be a "work made for hire."

In the case of "works made for hire," the employer is considered the author of the work. There are generally two situations in which a work may be made for hire:

- The work is created by an employee as part of the employee's regular duties, or
- An individual and the hiring party enter into an express written agreement that the work is to be considered a "work made for hire" and the work is specially ordered or commissioned for use as: (a) a compilation, (b) a contribution to a collective work, (c) a part of a motion picture or other audiovisual work, (d) a translation, (e) a supplementary work, (f) an instructional text, (g) a test, (h) answer material for a test, or (i) an atlas.

Alternatively, if an independent contractor, as opposed to an employee, has created the work, the work may be considered a work made for hire *only if* it falls into one of the nine categories listed above, and there is a written agreement between the parties specifying that the work is a work made for hire. Otherwise, the independent contractor owns the copyright in the work. A written agreement in the form of an assignment should be used to transfer ownership rights to the party hiring the independent contractor.

It is important to keep in mind that, absent an employer/employee relationship, a written agreement is required to transfer copyright ownership.

3. Duration of Copyright

In general, for works created on or after January 1, 1978, the duration of a copyright's protection is:

- the life of the author plus 70 years after the author's death or;
- for works made for hire (such as anonymous or pseudonymous works), 95 years from publication or 120 years from creation, whichever is shorter.

4. Copyright Notice

A copyright notice is a statement placed on copies of a work to inform the public that a copyright owner is claiming ownership of the work. The notice is *not* a replacement for registration. The use of a copyright notice does not require permission from, or registration with, the U.S. Copyright Office. A notice should be affixed to copies of a work in a way that gives reasonable notice of the claim of copyright. A typical format is either the word "Copyright" or the "©" symbol, followed by the year of publication and the name of the copyright owner.

Example of copyright notice for a presentation:

Copyright notices put others on notice that copyright is claimed in the work, identify the copyright owner at the time of first publication, and identify the year of first publication.

5. Copyright Internationally

- The Berne Convention

Most countries around the globe participate in the Berne Convention, an agreement that essentially provides for the same copyright framework as in the laws of the United States, although some countries differ in their specifics. Under the Berne Convention, participating countries must afford foreign works the same degree of protection as that available under applicable laws governing domestic works.

Most countries do not have a copyright registration system, and registration plays a less important role than in the United States. One potential exception to this is China, where copyright owners often register works, and which has more relaxed registration requirements than the U.S.

- Moral Rights

The idea of moral rights is that authors enjoy certain inherent rights in their works – such as rights of attribution and preservation of the "integrity" of their works – even if they no longer own the copyrights in them. Many civil law countries recognize this concept (for example, France is a leader in promoting moral rights).

When contracting for rights to works created *outside* of the United States, one should make sure to secure a waiver of moral rights from the authors with whom they are contracting.

C. PATENTS

Patents provide temporary but comprehensive monopoly over inventions for a limited time period in exchange for public disclosure. In that sense, patents are the polar opposite of trade secrets, the protection of which can be perpetual but cannot prevent competitors from “reverse-engineering” and then using protected information through proper means. Franchisors faced with the choice between seeking formal patent protection and informally maintaining trade secrets often opt for the latter in part because enforcing rights in trade secrets is viewed by many as less burdensome than enforcing patent rights.[223] Nevertheless, patents can be an important feature of franchisor intellectual property portfolios in certain industries.[224] Patent law is complex and may involve issues that reach beyond legal expertise into highly technical and scientific areas. As such, seeking specialized counsel is essential when evaluating patent issues because a failure to identify and promptly seek protection may result in a loss of patent rights.

1. Basic Concepts

The patent process can be complicated and convoluted, and patent laws are confusing and complex. Even the most sophisticated companies, inventors, and researchers have questions on subjects such as what is patentable, what is required to obtain a patent, how does the patent system work, and what rights does a patent confer to a patent owner.

A patent gives its owner a temporary monopoly-- the right to exclude others from making, using, offering for sale, selling, or importing the claimed invention for a limited time period.[225]

Almost any product, process, or ornamental design that is new, useful, and nonobvious is patentable. What we normally think of as a patent is known as a "utility" patent, because it covers the usefulness of a product-the way it operates, what it produces, what it does, etc. A utility patent protects the useful or functional aspects of a product, process, or method. A few examples of products and processes that may be protectable by utility patents include medical devices, tools, machines, furniture parts, automobile or machine parts, software, electrical circuits, microprocessors, computers, toys, pharmaceuticals, chemical compounds, methods of treatment, manufacturing processes, and certain types of methods of doing business.

There are two other types of patents. Design patents protect the ornamental design or appearance of an article (i.e., they do not protect aspects of a product that are functional).[226] A few examples of designs that may be protected by design patents include the ornamental aspects of furniture, packaging, shoes, game boards, and fonts. USPTO also provides for protection of some types of plants under the plant patent statute.[227] Examples of inventions that are not patentable

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[223] See Ivan Moreno, *Trade Secret Cases Are Up As Clients Eye Patent Alternatives*, Law360 (Mar. 15, 2024, 2:36 PM EDT).
[224] *See, e.g., Automated Beverage System*, U.S. Patent No. 6,053,359A (filed Dec. 22, 1997 by McDonalds Corp.).
[225] 35 U.S.C. § 154. Subject to limited exceptions, the term for a patent begins on the date of issue and ends 20 years from the date the application was filed. *See id*.
[226] 35 U.S.C. §§ 171-73 (2000).
[227] The plant patent statute states that:

include: (1) printed matter;[228] (2) naturally occurring articles;[229] (3) scientific principles;[230] (4) mental steps; and (5) aggregations of elements where the aggregation does not produce a synergistic or cooperative result, for example, a washing machine with a telephone mounted to it, where there is no interaction between the phone and the washing machine other than their physical connection.

The invention must be (1) new and (2) not obvious. The invention must also be considered "useful."[231] Examples of a non-useful invention would be a chemical compound that does not have a known function or a perpetual motion machine or other invention that violates the laws of mechanics or physics and therefore cannot function.

2. Patent Protection in the United States

Prior to March 2013, the U.S. was unique in issuing patents to the "first-to-invent." The U.S. has since joined the rest of the world in following a "first inventor to file" policy pursuant to the 2011 America Invents Act.[232] In order to obtain patent protection, an inventor must submit a patent application to the USPTO before the claimed invention is described in any patent or patent application in the U.S. or abroad. The utility patent application consists of (1) a written specification with claims; (2) supplemental drawings as necessary; (3) an oath or declaration of inventorship; and (4) an application fee to cover the cost of filing, prior art search, and

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> [w]hoever invents or discovers and asexually reproduces any distinct and new variety of a plant, including cultivated sports, mutants, hybrids, and newly found seedlings, other than a tuber propagated plant or a plant found in an uncultivated state, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 161 (2000).

228 Printed matter is unpatentable where the invention relates merely to the arrangement of the printed matter, or to the printed matter per se. However, where there is cooperation between the printed matter and a structure, as for example, in the case of a slide rule, the invention may be patentable. *See, e.g.*, *In re Gulack*, 703 F.2d 1381 (Fed. Cir. 1983); *In re Miller*, 418 F.2d 1392 (C.C.P.A. 1969).

229 An article or composition that occurs naturally in nature is not patentable unless it is given a new form, quality, property, or combination. However, a DNA sequence may be patentable if it is claimed as an "isolated" nucleotide having a specific sequence. *See, e.g.*, *Diamond v. Chakrabarty*, 447 U.S. 303 (1980) (holding that microorganisms produced by genetic engineering are not excluded from patent protection under 35 U.S.C. § 101).

230 For example, Einstein could not have patented his discovery that $E=mc^2$. One can, however, patent the application of a law of nature or a scientific principle to a practical purpose producing a new and useful result, as for example, making rubber. *See, e.g.*, *Diamond v. Diehr*, 450 U.S. 175 (1981); *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (holding that a business method or process claim is patentable subject matter if it (1) is tied to a particular machine or apparatus or (2) transforms a particular article into a different state or thing). One cannot, however, patent process claims at directed to "laws of nature, natural phenomena, and abstract ideas." *Mayo Collaborative Servs. v. Prometheus Labs., Inc.*, 566 U.S. ___, slip op. at 2 (2012). Similarly, the Supreme Court ruled (1) that isolated genomic DNA (gDNA) is not patentable, but (2) cDNA is. *Association for Molecular Pathology v. Myriad Genetics*, 569 U.S. __ (2013).

231 This requirement stems from 35 U.S.C. § 101, which states that to be patentable, a process, machine, manufacture, or composition of matter must be "useful." This requirement may pose a problem for inventions claiming a new composition of matter of unknown function. For example, chemical compounds for which the mechanism of action is the subject of ongoing research may not be patentable under § 101. Also, a nucleotide sequence that is homologous to a gene may be found to be unpatentable under § 101 if the function of the gene is unknown. The lack of patentability of such sequences has significantly hindered efforts to patent small sequences of DNA known as expressed sequence tags ("ESTs"), which are short DNA sequences isolated from the human genome.

232 Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284 (2011) (codified throughout 35 U.S.C.).

examination.[233] The effective filing date, highly significant in the "first-to-file" determination, is the date the USPTO receives the specification.[234] The USPTO examines the over 500,000 applications it receives each year in sequential order, few of which are accepted as filed. The patent examiners issue Office Actions detailing reasons for rejection, and applicants may amend their submissions and/or submit explanations in response.[235] Aggrieved applicants may appeal to the Patent Trial and Appeal Board and subsequently to federal court.[236] Once the application has been approved and relevant fees paid, the USPTO will issue the patent. To retain patent protection for its full term, a patent holder must pay additional maintenance fees at 3.5, 7.5, and 11.5 years from the date of issue.[237]

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[233] 35 U.S.C. § 111.
[234] *Id.*
[235] *See* 35 U.S.C. § 132.
[236] *See* 35 U.S.C. §§ 134, 141, 145.
[237] 35 U.S.C. § 41.