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**TRADEMARKS IN FRANCHISING: THE BASICS**

**W. Michael Garner<sup>†</sup>**

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<sup>†</sup> A.B. Columbia University, 1971; J.D., New York University School of Law, 1975. Founder, W. Michael Garner, P.A.

## I. INTRODUCTION

It has been said that a trademark is the cornerstone of a franchise system.<sup>1</sup> The product or service that is franchised, the advertising of the “brand,” and the license that binds the franchisee and franchisor together all have at their heart the franchisor’s trademarks or other identifying names or symbols.<sup>2</sup>

The law of trademarks and unfair competition provides the legal basis for creating and maintaining a franchise system.<sup>3</sup> These laws enable the franchisor to license its trademarks, commercial symbols, and marketing operations to franchisees; to defend the franchise system from unlawful imitation and competition; and to protect the franchise system’s trade secrets and business image.<sup>4</sup> Trademark law gives cohesion to the franchise system; it binds individually owned and operated units into a functioning whole, with a uniform image and uniform product or service.<sup>5</sup>

This article will describe the basic principles of trademark and unfair competition law and how they are applied in franchising.

## II. THE NATURE OF TRADEMARKS

Trademarks, trade names, and service marks and names (“marks”) are names or marks that identify a product or service with the provider of the product or service.<sup>6</sup> Ownership of a valid mark gives the right to license its use,<sup>7</sup> prevent others from using it,<sup>8</sup> and to obtain injunctive relief or damages for unauthorized use.<sup>9</sup>

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<sup>1</sup> *Susser v. Carvel Corp.*, 206 F. Supp. 636, 640 (S.D.N.Y. 1962), *aff’d*, 332 F.2d 505 (2d Cir. 1964).

<sup>2</sup> *See id.* (noting that “[i]t is [the trademark’s] uniformity of product and control of its quality and distribution which causes the public to turn to franchise stores for the product.”); *see also*, WORLD INTELLECTUAL PROP. ORG., FRANCHISE OR TRADEMARK LICENSE AGREEMENTS, *available at* [http://www.wipo.int/sme/en/ip\\_business/licensing/franchise\\_license.htm](http://www.wipo.int/sme/en/ip_business/licensing/franchise_license.htm) (last visited May 24, 2014).

<sup>3</sup> *See generally* INT’L TRADEMARK ASS’N, AVOIDING AN ‘ACCIDENTAL’ FRANCHISE IN U.S. TRADEMARK LICENSING, *available at* <http://www.inta.org/INTABulletin/Pages/Avoidingan“Accidental”FranchiseinUSTrademarkLicensing.aspx> (last visited May 24, 2014).

<sup>4</sup> *See Trademark Legal Basics*, IOWA STATE UNIV., <http://www.trademark.iastate.edu/basics/> (last visited May 25, 2014).

<sup>5</sup> *See generally* WORLD INTELLECTUAL PROP. ORG., *supra* note 2.

<sup>6</sup> *See Trademark*, LEGAL INFO. INST., <http://www.law.cornell.edu/wex/trademark> (last accessed May 24, 2014).

<sup>7</sup> *See infra* text accompanying notes 74 through 82.

Marks may include “trade names,” which are names that identify a business, vocation, or occupation.<sup>10</sup> They may include individual names, surnames, firm names, or names of associations, corporations, unions, and entities “engaged in trade or commerce and capable of suing and being sued in a court of law.”<sup>11</sup> Logos or logotypes, slogans and mottoes,<sup>12</sup> characters,<sup>13</sup> color schemes,<sup>14</sup> and musical themes<sup>15</sup> may also be protected as trademarks, although some are also subject to copyright protection.

“Trade dress” is a broad term that includes some of the most visible identifying characteristics of a business, such as decor, color schemes, furnishings, uniforms, distinctive vehicles, and possibly certain distinctive operating characteristics.<sup>16</sup> Trade dress is especially important to some franchised industries, such as restaurant franchises, because it is one of the most visible characteristics of the system.<sup>17</sup> Trade dress may be protected to the same degree as a trademark if it is non-functional and either inherently distinctive or has achieved secondary meaning.<sup>18</sup>

Trademark law is part of the broader law of unfair competition and is rooted in common law. Unlike copyrights and patents, trademarks do not have a constitutional basis but are created and exist at common law by virtue of their use in identifying a product or service; there is no property right in a trademark except to the extent that it is used in business or commerce.<sup>19</sup> Federal registration of trademarks provides certain procedural rights and presumptions.

Two principal limitations on whether a symbol is a trademark are whether it is descriptive and whether it is functional.<sup>20</sup> A descriptive or generic word, for example, does not identify the source; rather, it

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<sup>8</sup> See *infra* text accompanying notes 84 through 97.

<sup>9</sup> 15 U.S.C. § 1125 (2012).

<sup>10</sup> See LEGAL INFO. INST., *supra* note 6.

<sup>11</sup> 15 U.S.C. § 1127 (2012).

<sup>12</sup> See *generally*, LEGAL INFO. INSTITUTE, *supra* note 6.

<sup>13</sup> See *Wyatt Earp Enters., Inc. v. Sackman, Inc.*, 157 F. Supp. 621, 625 (S.D.N.Y. 1958).

<sup>14</sup> See *In re Olin Corp.*, 181 U.S.P.Q. (BNA) 182, 1973 WL 19761 (T.T.A.B. 1973).

<sup>15</sup> See 17 U.S.C. § 106 (2012).

<sup>16</sup> See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 787 n.1 (1992).

<sup>17</sup> See *generally id.*

<sup>18</sup> *Id.* at 773.

<sup>19</sup> *Am. Footwear Corp. v. Gen. Footwear Co. Ltd.*, 609 F.2d 655, 663-64 (2d Cir. 1979), *disapproved of on other grounds by*, *Prudential Ins. Co. of America v. Gibraltar Fin. Corp. of California*, 694 F.2d 1150 (9th Cir. 1982).

<sup>20</sup> *E.g., Am. Footwear Corp.*, 609 F.2d at 661.

describes the service or product.<sup>21</sup> Similarly, a mark, name, or object may not be a trademark if its primary purpose is functional, since it performs a function instead of identifying the source of the products.<sup>22</sup>

Determining which aspects of a franchised business are subject to trademark protection and which are not is of primary importance in setting up a franchise system. On the one hand, while a franchisor has “no protectable interest in the mere method and style of doing business,” it should take all reasonable steps to protect those aspects of the business that are subject to protection.<sup>23</sup>

### III. ACQUISITION OF TRADEMARK RIGHTS

Rights in a trademark at common law are acquired by appropriation and exclusive use by the user or owner.<sup>24</sup> Reflecting fundamental notions of proprietary rights rooted in possession, the common law gives the right to own the mark to the first user; priority in time is usually priority in right.<sup>25</sup> Thus, the owner of a mark acquires rights in it by actually using it in connection with the goods or services sold or offered for sale in commerce.<sup>26</sup> Actual use occurs by placing the mark on the product and offering it for sale or selling it to the public.<sup>27</sup> It does not occur by merely creating a name or design or by using it indiscriminately on a variety of different products or services.<sup>28</sup> A corollary of this principle is that the extent of the rights acquired at common law is consistent with the extent of exclusive use.<sup>29</sup>

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<sup>21</sup> See *Sylvania Elec. Prods., Inc. v. Dura Elec. Lamp Co.*, 247 F.2d 730, 733 (3d Cir. 1957).

<sup>22</sup> See *Norwich Pharmacal Co. v. Sterling Drug, Inc.*, 271 F.2d 569 (2d Cir. 1959) (holding that the color of Pepto-Bismol is functional); *Sylvania Elec. Prods., Inc. v. Dura Elec. Lamp Co.*, 247 F.2d 730 (3d Cir. 1957) (holding that a flashbulb’s blue dot is functional); *Marvel Co. v. Pearl*, 133 F. 160 (2d Cir. 1904).

<sup>23</sup> *Denton v. Mr. Swiss of Missouri, Inc.*, 564 F.2d 236, 243 (8th Cir. 1977).

<sup>24</sup> See *Golden Door, Inc. v. Odisho*, 437 F. Supp. 956, 965 n.3 (N.D. Cal. 1977) *aff’d*, 646 F.2d 347 (9th Cir. 1980), *abrogated by* *Japan Telecom, Inc. v. Japan Telecom Am. Inc.*, 287 F.3d 866 (9th Cir. 2002).

<sup>25</sup> See *Neva-Wet Corp. v. Never Wet Processing Corp.*, 277 N.Y. 163 (1938) (applying the doctrine by examining who was the first user of the trademark).

<sup>26</sup> 15 U.S.C. § 1127 (2012); *Reservoir, Inc. v. Truesdell*, No. 4:12-2756, 2014 WL 808026, at \*4 (S.D. Tex. Feb. 28, 2014).

<sup>27</sup> See *Kelly-Brown v. Winfrey*, 717 F.3d 295, 305 (2d Cir. 2013); *Rearden LLC v. Rearden Commerce, Inc.*, 683 F.3d 1190, 1203 (9th Cir. 2012).

<sup>28</sup> See *Koffler Stores, Ltd. v. Shoppers Drug Mart, Inc.*, 434 F. Supp. 697, 701-02 (E.D. Mich. 1976), *aff’d*, 559 F.2d 1219 (6th Cir. 1977).

<sup>29</sup> *Id.* (providing that while the low level of exclusive use in advertisements is not enough to constitute a trademark right, the higher level of use on goods can constitute a trademark right).

There are notable exceptions to the rule of priority. The owner's rights extend geographically only so far as its actual use and reputation; a junior user in a remote area would be unlikely to be found infringing.<sup>30</sup> Priority is not acquired by use outside the United States.<sup>31</sup> In addition, the owner must maintain the use or risk abandonment,<sup>32</sup> and the owner must police infringers, lest they encroach upon and eventually take over the owner's rights.<sup>33</sup>

Trademarks differ in their strength. Some, such as "McDonald's" are strong and instantly recognizable as reflecting the source of particular goods, while others, for example "National Supplies," are descriptive and do not, without more, connote a particular source. The strength of a mark determines the amount and extent of protection that it will receive under trademark and unfair competition law.<sup>34</sup> Strong marks receive greater protection in infringement suits and are more likely to be accepted for federal registration.<sup>35</sup> Thus, in selecting a mark, the user should consider the factors that determine whether a mark is strong or weak.

The strength of a mark refers to its distinctiveness or its ability to identify the goods as emanating from a particular, though anonymous, source.<sup>36</sup> A strong mark is usually a mark that is rarely used by others; a weak mark may be used often by other parties.<sup>37</sup> Courts typically classify marks into four types or categories in measuring their strength: generic, descriptive, suggestive, and arbitrary or fanciful.<sup>38</sup>

In order to be distinctive, and therefore strong, a mark must have three characteristics: it must be different from other marks to a degree sufficient to be distinguishable from them; it must not be descriptive or signify characteristics that the products or services share with those from other sources; and it must be recognizable as an indication of source rather than as a decorative symbol or pattern.<sup>39</sup>

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<sup>30</sup> See *Junior Food Stores of West Florida, Inc. v. Junior Food Stores, Inc.*, 226 So.2d 393, 396 (Fla. 1969).

<sup>31</sup> *ITC Ltd. v. Punchgini, Inc.*, 482 F.3d 135, (2d Cir. 2007), *cert'd question accepted*, 8 N.Y.3d 994 (2007), and *cert'd question answered*, 9 N.Y.3d 467 (2007).

<sup>32</sup> See *id.*

<sup>33</sup> See generally *Junior Food Stores of West Florida, Inc.*, 226 So.2d at 393-99.

<sup>34</sup> Pliam Law Group, PA, *Legal Strength of Trademarks*, MARKLAW.COM, <http://marklaw.com/trademark-FAQ/strength.htm> (last visited May 24, 2014).

<sup>35</sup> See *id.*

<sup>36</sup> *Dorpan, S.L. v. Hotel Melia, Inc.*, 728 F.3d 55, 68 (1st Cir. 2013).

<sup>37</sup> See *Water Pik, Inc. v. Med-Sys, Inc.*, 726 F.3d 1136 (10th Cir. 2013); *John H. Harland Co. v. Clarke Checks, Inc.*, 711 F.2d 966, 973-74 (11th Cir. 1983); and *Amstar Corp. v. Domino's Pizza, Inc.*, 615 F.2d 252 (5th Cir. 1980).

<sup>38</sup> *Hornady Mfg. Co., Inc. v. Doubletap, Inc.*, 746 F.3d 995 (10th Cir. 2014); *Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522 (4th Cir. 1984).

<sup>39</sup> *Team Cent. Inc. v. Xerox Corp.*, 606 F. Supp. 1408 (D. Minn. 1985).

Arbitrary and fanciful marks are stronger than descriptive or generic marks because they do not suggest anything about the product or service, and therefore are easily identified with a particular product or service.<sup>40</sup> Arbitrary or fanciful marks are given wide protection not only against infringing marks used on identical products but also over related products; similarly, they are widely protected against variations in the appearance or sound of the mark, while weaker marks are not.<sup>41</sup>

Arbitrary or fanciful marks include coined names such as “KODAK,” “XEROX,” and “PEPSI.” Arbitrary or fanciful marks also include marks in which a common word is applied to a product or service that is unrelated to its meaning, such as “POLO” when applied to a men’s fragrance.<sup>42</sup>

A suggestive mark suggests some characteristic of the product but requires the consumer to use his imagination to determine the nature of the product or service.<sup>43</sup> The distinction between descriptive and suggestive marks is difficult to draw; as one court said, “if the mark imparts information directly, it is descriptive. If it stands for an idea which requires some operation of the imagination to connect it with the goods, it is suggestive.”<sup>44</sup> A suggestive mark, even if it is comparatively weak, can be protected without evidence that it has acquired secondary meaning.<sup>45</sup> The mark “pet silk” was a suggestive mark for use with dog groomer products.<sup>46</sup>

The mark “It’s a 10” was suggestive when used for hair care products, inasmuch as it suggested high quality or beauty.<sup>47</sup>

A descriptive mark identifies the characteristics or qualities of the product or service, including color, design, dimensions, ingredients, and appearance.<sup>48</sup> A mark that is descriptive is considered to be weak and is not accorded trademark protection without proof of secondary

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<sup>40</sup> Peoples Fed. Sav. Bank. v. People’s United Bank, 672 F.3d 1 (1st Cir. 2012); Bridgestone Ams. Tire Operations, LLC v. Fed. Corp., 673 F.3d 1330 (Fed. Cir. 2011).

<sup>41</sup> John H. Harland Co. v. Clarke Checks, Inc., 711 F.2d 966, 974 (11th Cir. 1983).

<sup>42</sup> U.S. Polo Ass’n, Inc. v. PRL Holdings, Inc., 800 F. Supp. 2d 515 (S.D.N.Y. 2011).

<sup>43</sup> C & N Corp. v. Kane, 953 F. Supp. 2d 903 (E.D. Wis. 2013); It’s a 10, Inc. v. Beauty Elite Grp., Inc., 932 F. Supp. 2d 1325 (S.D. Fla. 2013).

<sup>44</sup> Union Carbide Corp. v. Ever-Ready Inc., 531 F.2d 366, 379 (7th Cir. 1976).

<sup>45</sup> John H. Harland Co., 711 F.2d at 974.

<sup>46</sup> See Pet Silk, Inc. v. Jackson, 481 F. Supp. 2d 824 (S.D. Tex. 2007).

<sup>47</sup> It’s a 10, Inc., 932 F. Supp. 2d at 1325.

<sup>48</sup> DuoProSS Meditech Corp. v. Inviro Med. Devices, Ltd., 695 F.3d 1247 (Fed. Cir. 2012); Steak Umm Co., LLC v. Steak ‘em Up, Inc., 868 F. Supp. 2d 415 (E.D. Pa. 2012).

meaning.<sup>49</sup> Thus, a descriptive mark may not be registered on the Principal Register, nor will it be accorded protection in an infringement suit.<sup>50</sup> Similarly, a generic term refers to a genus or class of article or service and suggests its basic nature.<sup>51</sup> Like a descriptive mark, a generic mark is not accorded trademark protection in the absence of secondary meaning.<sup>52</sup>

Descriptive and generic terms are typically words in common usage that describe the product or service offered.<sup>53</sup> Geographic terms such as “national” are typically descriptive.<sup>54</sup> A common source of evidence that a term is generic is the dictionary.<sup>55</sup> For example, the name “BEEF & BREW” was descriptive because it was a “name that tells the diner what his dinner will be.”<sup>56</sup> The mark “MASTERCLEAN” was a descriptive mark for a carpet cleaning service and therefore was intrinsically weak, particularly when there were dozens of companies that used the name and the owner knew it.<sup>57</sup> The term “for a gym on wheels” was suggestive rather than merely descriptive.<sup>58</sup>

Foreign words, when used in a descriptive sense, are also descriptive; for example, “uno” as used in “PIZZERIA UNO” was descriptive, and in the absence of secondary meaning did not preclude the defendant from using the mark “TACO UNO.”<sup>59</sup> In some cases, the courts have held that marks that might have been fanciful or at least suggestive have been weakened through extensive use—or the extent of their exclusive use has been narrowed—so as to limit the owner’s power to preclude others from using them on different products or services. For example, when the word “Mustang” had been used on aircraft, automobile mufflers, automobile springs,

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<sup>49</sup> Coach Serv., Inc. v. Triumph Learning LLC, 668 F.3d 1356, 1377-78 (Fed. Cir. 2012).

<sup>50</sup> However, the mark will be presumed to have acquired secondary meaning if it has actually been used for at least five years and will qualify for registration on that basis. Lanham Act, 15 U.S.C. § 1052(f) (2012).

<sup>51</sup> Tiffany and Co. v. Costco Wholesale Corp., No. 13 Civ. 1041(LTS)(DCF), 2014 WL 199603, at \*4 (S.D.N.Y. Jan. 17, 2014).

<sup>52</sup> Coach Serv., 668 F.3d at 1378-79.

<sup>53</sup> *Id.* at 1377-78.

<sup>54</sup> Nat’l Auto. Club v. Nat’l Auto. Club, Inc., 365 F. Supp. 879, 883 (S.D.N.Y. 1973), *aff’d*, 502 F.2d 1162 (2d Cir. 1974).

<sup>55</sup> Team Cent. Inc. v. Xerox Corp., 606 F. Supp. 1408, 1413 (D. Minn. 1985).

<sup>56</sup> Beef & Brew, Inc. v. Beef & Brew, Inc., 389 F. Supp. 179, 184 (D. Or. 1974).

<sup>57</sup> D & J Master Clean, Inc. v. Servicemaster Co., 181 F. Supp.2d 821, 826 (S.D. Ohio 2002).

<sup>58</sup> Tumblebus Inc. v. Cranmer, 399 F.3d 754, 763 (6th Cir. 2005).

<sup>59</sup> Pizzeria Uno Corp. v. Temple, 566 F. Supp. 385, 395-96, *aff’d*, 747 F.2d 1522 (4th Cir. 1984).

automobile and truck brake linings, farm tractors, motorcycles, and rebuilt automobile engines, among other things, a manufacturer of “MUSTANG” recreational vehicles could not prevent its use on an automobile by an automobile manufacturer.<sup>60</sup> The extent of third-party use is probative evidence that the public considers a mark to be descriptive and weak.<sup>61</sup>

Combining two generic or descriptive terms does not necessarily strengthen the character of the mark. For example, the combination of “computer” and “land” into “COMPUTERLAND” did not make the name suggestive or fanciful. To the contrary, the combined name was simply descriptive and not entitled to protection.<sup>62</sup>

Secondary meaning is the distinct association with a source that a mark acquires over lengthy exposure to the public.<sup>63</sup> For example, “National Car Rental” is associated in the public mind with a particular car rental company even though it is a descriptive name; it is the association in the public mind of the name with a particular source that constitutes secondary meaning.<sup>64</sup>

Ironically, in order to have secondary meaning, the primary significance of the mark in the mind of the consuming public must be the particular source, not the description of the product.<sup>65</sup> Thus, particularly where the mark is descriptive or generic, proof of secondary meaning requires that the public think of the source, rather than what it describes, when it sees or hears the mark: “National Car Rental” must mean a particular car rental company, not any car rental company that does business nationally.<sup>66</sup> Issues of secondary meaning most frequently arise with respect to generic or descriptive marks.<sup>67</sup> If such marks have not acquired secondary meaning, they cannot be

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<sup>60</sup> See, e.g., *Westward Coach Mfg. Co. v. Ford Motor Co.*, 388 F.2d 627, 634–35 (7th Cir. 1968); see also *Field Enter. Educ. Corp. v. Cove Indus., Inc.*, 297 F. Supp. 989, 994 (E.D.N.Y. 1969) (“world” in the names of numerous encyclopedias indicative of weakness).

<sup>61</sup> *D & J Master Clean, Inc. v. Servicemaster Co.*, 181 F. Supp.2d 821, 827 (S.D. Ohio 2002).

<sup>62</sup> *Computerland Corp. v. Microland Computer Corp.*, 586 F. Supp. 22 (N.D. Cal. 1984).

<sup>63</sup> *Christian Louboutin S.A. v. Yves Saint Laurent America Holdings, Inc.*, 696 F.3d 206 (2d Cir. 2012).

<sup>64</sup> *Nat’l Car Rental Sys., Inc. v. Nat’l Car Sales, Inc.*, 1990 WL 293401 (M.D. Fl. 1990).

<sup>65</sup> *Fair Isaac Corp. v. Experian Info. Solutions, Inc.*, 650 F.3d 1139 (8th Cir. 2011); *Caliber Auto. Liquidators, Inc. v. Premier Chrysler, Jeep, Dodge, LLC*, 605 F.3d 931 (11th Cir. 2010).

<sup>66</sup> *Id.*

<sup>67</sup> *Frequently Asked Questions About Trademarks*, USPTO, <http://www.uspto.gov/faq/trademarks.jsp> (last visited May 25, 2014).

registered with the Patent and Trademark Office and will not receive protection in an infringement suit.<sup>68</sup> Where marks have achieved secondary meaning, they may be registered, and secondary meaning will be considered in assessing their strength in an infringement action.<sup>69</sup>

Whether a mark has acquired secondary meaning usually is an issue of fact, determined on the basis of a number of different factors including the duration of the plaintiff's exclusive use of its mark, the nature and extent of the plaintiff's advertising and promotion of the mark, the extent to which the plaintiff's business has come to the attention of the consuming public, the patronage of the plaintiff, and the defendant's conscious copying of the plaintiff's mark.<sup>70</sup> Where a franchisor did not produce a consumer study linking its mark to itself, it failed to show an existence of secondary meaning sufficient to raise a triable issue of fact as to whether it had a famous name for purposes of the Lanham Act.<sup>71</sup>

#### IV. FEDERAL REGISTRATION OF TRADEMARKS

Federal registration of trademarks upon the Principal Register is the most important single step in securing protection of trademarks for a franchise system.<sup>72</sup> A trademark owner may register a mark prior to its actual use by filing an affidavit of intent to use the mark in commerce.<sup>73</sup> Within six months of receipt of a notice of allowance from the trademark office (or such longer period as is allowed), the owner must file a verified statement of actual use, at which time the trademark may be registered.<sup>74</sup> Once registered, the owner enjoys a presumption of the mark's validity and of his rightful ownership.<sup>75</sup> For the first five years of registration, these presumptions are rebuttable in an infringement action, and the registration may be challenged and

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<sup>68</sup> However, a descriptive mark may be registered if it has been used in commerce for a period of no less than five years, in which case the mark will be presumed to have secondary meaning. 15 U.S.C. § 1052(f) (2012).

<sup>69</sup> See, e.g., *Innovative Manpower Solutions, LLC v. Ironman Staffing, LLC*, 929 F. Supp.2d 597 (W.D. La. 2013).

<sup>70</sup> *Water Pik, Inc. v. Med-Systems, Inc.*, 726 F.3d 1136 (10th Cir. 2013); *George & Co. v. Imagination Entm't Ltd.*, 575 F.3d 383 (4th Cir. 2009).

<sup>71</sup> *ITC Ltd. v. Punchgini, Inc.*, 373 F. Supp.2d 275 (S.D.N.Y. 2005), *aff'd in part*, 482 F.3d 135 (2d Cir. 2007), *certified question accepted*, 8 N.Y.3d 994, 838 N.Y.S.2d 833, 870 N.E.2d 151 (2007), *certified question answered*, 9 N.Y.3d 467, 850 N.Y.S.2d 366, 880 N.E.2d 852 (2007) and *decision aff'd in part*, 518 F.3d 159 (2d Cir. 2008).

<sup>72</sup> USPTO, *supra* note 67.

<sup>73</sup> 15 U.S.C. § 1051(b) (2012).

<sup>74</sup> 15 U.S.C. § 1051(d) (2012).

<sup>75</sup> 15 U.S.C. § 1057(b) (2012).

cancelled.<sup>76</sup> After five years, if the owner files an affidavit that he has used the mark continuously in commerce, the presumptions become incontestable,<sup>77</sup> and the defenses available to a defendant in an infringement action will be limited to seven enumerated defenses.<sup>78</sup> The registration procedure is also designed to alert other trademark owners of new and possibly conflicting applications so as to resolve disputes over use at an early stage.<sup>79</sup> Marks used in a franchise system should be registered as soon as they are conceived and the franchisor can safely assume that they will be used in commerce promptly; this way, they can be registered in order to invoke the statutory presumptions, to start the period for incontestability running, and to put the world on notice of the use and existence of the mark.

In order to be registered on the Principal Register, a mark must be distinctive; it must be actually used in commerce to identify the source of goods, and it must be owned by the registrant.<sup>80</sup>

In order to be distinctive, a mark must distinguish the goods of the trademark owner from those of others.<sup>81</sup> The mark may not be merely descriptive, geographically descriptive, or deceptively misdescriptive.<sup>82</sup> However, an owner may register a merely descriptive mark that has acquired secondary meaning, that is, one that has become “distinctive of the applicant’s goods in commerce.”<sup>83</sup> Proof of use during the five-year period preceding the registration application is *prima facie* evidence of such distinctiveness.<sup>84</sup> Registration may be refused if the mark falls into one of several categories enumerated in United States Code Section 1052,<sup>85</sup> which

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<sup>76</sup> 15 U.S.C. §§ 1064, 1065 (2012).

<sup>77</sup> 15 U.S.C. § 1065 (2012).

<sup>78</sup> 15 U.S.C. § 1115(b) (2012).

<sup>79</sup> *See* 15 U.S.C. §§ 1063, 1064 (2012) (providing for how a person who has a conflict with a newly registered trademark can oppose the trademark and can file a petition to cancel the registration of the trademark).

<sup>80</sup> 15 U.S.C. §§ 1051(a), 1052 (2012).

<sup>81</sup> 15 U.S.C. § 1051(d) (2012).

<sup>82</sup> 15 U.S.C. § 1052(e) (2012).

<sup>83</sup> 15 U.S.C. § 1052(f) (2012).

<sup>84</sup> *Id.*

<sup>85</sup> The mark cannot consist of or comprise immoral, deceptive, scandalous, or disparaging matter; it cannot consist of or comprise the United States or a foreign flag, coat of arms or that of a state, municipality, or foreign nation. 15 U.S.C. § 1052(a)-(b) (2012). Nor can the mark be the name or portrait of a living individual except by his written consent, or the portrait of a deceased president without the consent of his widow. 15 U.S.C. § 1052(c) (2012). The mark cannot resemble one previously used if it will cause confusion, mistake, or deception. 15 U.S.C. § 1052(d) (2012). And, the mark cannot be “merely descriptive” or “deceptively misdescriptive” when applied to the applicant’s goods. 15 U.S.C. § 1052(e)(1) (2012). Finally, the statute proscribes the registration of a mark that is primarily

*continued . . .*

include marks that may be confusingly similar to marks already registered.<sup>86</sup>

### V. TRADEMARK OBLIGATIONS IN FRANCHISING

The Federal Trade Commission requires that franchisors provide prospective franchisees with a “Franchise Disclosure Document” (“FDD”) prior to the sale of a franchise.<sup>87</sup> The FDD contains 22 “items” of information that the franchisor must disclose, and it is intended to provide the prospective franchisee with comprehensive information about the franchise, the franchisor, and the franchise system so that the franchisee may make an informed purchase.<sup>88</sup> Fifteen states have legislation that parallels the FTC Rule,<sup>89</sup> thirteen of which require registration of the franchise offering with the state.<sup>90</sup>

Trademarks are relevant to franchise regulations and laws because the FTC Rule and most state franchise disclosure statutes define a franchise in terms of three requirements, one of which is the grant of a right to the franchisee to use a trademark or commercial symbol in connection with the sale or offer of sale of a product or service.<sup>91</sup> The FTC Rule and state statutes do not require a formal trademark license; if a putative franchisor merely allows the use of its name or mark, the requirement will be satisfied.<sup>92</sup>

Once it is determined that the arrangement is a franchise, the FTC Rule and state statutes require that the franchisor provide an FDD to a prospective franchise buyer.<sup>93</sup> One of the items of information

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“geographically descriptive or deceptively misdescriptive” or that is “primarily merely a surname.” 15 U.S.C.A. § 1052(e)(2) (2012).

<sup>86</sup> 15 U.S.C. § 1052(d) (2012).

<sup>87</sup> 16 C.F.R. § 436.2 (2007).

<sup>88</sup> 16 C.F.R. § 436.5 (2007).

<sup>89</sup> CAL. CORP. CODE § 31005 (West 1989); HAW. REV. STAT. § 482E-2 (2004); 815 ILL. COMP. STAT. §705/3(1) (1991); IND. CODE §23-2-2.5-1 (2008); MD. CODE ANN., BUS. REG. §14-201(e) (2014); MINN. STAT. § 19.854(2), subd. (3); MICH. COMP. LAWS § 445.1502 (1974); MINN. STAT. § 80C.01; N.Y. GEN. BUS. L §681(3); N.D. CENT. CODE §51-19-02.5a; OR. REV. STAT. §650.005(4); R.I. GEN. LAWS §19-28.1-3(7); S.D. CODIFIED LAWS ANN. §37-5A-1; VA. CODE ANN. §13.1-559(A); WASH. REV. CODE §19.100.010(4); WIS. STAT. §553.03(4).

<sup>90</sup> Michigan and Oregon permit the franchisor to file a simple notice that it is selling franchises in the state, but disclosure is required under the state statute. See MICH. COMP. LAWS § 445.1502 (1974); OR. REV. STAT. §650.005(4).

<sup>91</sup> 16 C.F.R. § 436.1 (2007).

<sup>92</sup> *Permagraphics Int'l, Inc.*, 2 Bus. Franchise Guide (CCH) ¶6433, Sept. 21, 1982 (if mark is prominently displayed so as to give impression that the putative franchisee is part of the franchisor’s chain, then this element is satisfied, even if the formal agreement between the parties prohibits use of the mark).

<sup>93</sup> 16 C.F.R. § 436.2 (2007).

required in the FDD is information concerning franchisor's trademarks.

Under Item 13 of the FTC Rule,<sup>94</sup> the franchisor must describe the principal trademarks, service marks, and other commercial symbols that are licensed to the franchisee, including a statement of whether the marks are registered with the Patent and Trademark Office and, if so, whether the registration is on the Principal or Supplemental Register; whether the marks have become incontestable; and whether all required affidavits have been filed.<sup>95</sup>

If any principal mark has not been registered, Item 13 requires disclosure of whether the franchisor has filed any trademark application, and to identify it.<sup>96</sup> Significantly, if the mark is not federally registered, the franchisor must include this language in the FDD: "We do not have a federal registration for our principal trademark. Therefore, our trademark does not have as 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."<sup>97</sup>

The FDD also requires detailed disclosure of any defects in the rights in trademarks and commercial symbols, such as decisions of the Patent and Trademark Office rejecting a mark for registration, the existence of pending oppositions to the mark, claims or lawsuits challenging the validity of the mark, and agreements that may limit the rights of the franchisor.<sup>98</sup>

The franchisor must also disclose and describe whether it must protect the franchisee's right to use the marks, whether the franchisee must report any infringements, and other details concerning the rights between the parties.<sup>99</sup> Finally, the franchisor must disclose whether it is aware of any superior prior rights or infringing uses that could affect the franchisee's use of the marks.<sup>100</sup>

The items called for by the FTC Rule highlight the importance to the franchisor of establishing its rights to a mark in the first instance, and of documenting potentially infringing uses. It is not unusual, for example, for franchisors to have defects or weaknesses in their trademark rights. For example, a franchised moving business called

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<sup>94</sup> 16 C.F.R. § 436.5(m) (2007).

<sup>95</sup> 16 C.F.R. § 436.5(m)(1)(2) (2007).

<sup>96</sup> 16 C.F.R. § 436.5(m)(3) (2007).

<sup>97</sup> 16 C.F.R. § 436.5(m)(4) (2007).

<sup>98</sup> 16 C.F.R. § 436.5(m)(5)–(7) (2007).

<sup>99</sup> 16 C.F.R. § 436.5(m)(8) (2007).

<sup>100</sup> 16 C.F.R. § 436.5(m)(9) (2007).

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“Two Men and a Truck” had conflicting rights with a system called “Two Guys and Two Trucks” and “Truck and Two Guys Moving.”<sup>101</sup>

Disclosure statutes raise the questions whether defects in trademark rights are material and the extent of the franchisor’s duty, if any, to investigate or discover other users with identical or similar marks.<sup>102</sup> Since a trademark is of primary importance to the system, defects or potential defects in trademark rights may well be material facts that should be disclosed.<sup>103</sup> A closer question is whether the franchisor has a duty to discover all infringing or potentially infringing uses and what it should do if it discovers any. If, for example, the franchisor has given a naked license to an early franchisee or founder, the ultimate result might be abandonment of the trademark rights; a fact like this should usually be disclosed. On the other hand, an innocent infringement in a geographic area in which the franchisor is not selling franchises might not be truly material, particularly if the infringer is not expanding.

## VI. LICENSING OF TRADEMARKS

Trademarks used in a franchise system may be licensed in many ways. Franchisees are licensed to use the franchisor’s trademarks during the term of the franchise agreement.<sup>104</sup> Suppliers may be licensed to place the mark on supplies, equipment, or inventory delivered to the franchisor or franchisees. In addition, area developers or subfranchisors may be licensed to sublicense the trademarks.<sup>105</sup>

The statutory foundation for licensing federally-registered trademarks is Section 5 of the Lanham Act.<sup>106</sup> That section permits a trademark owner to license the use of a trademark by related companies.<sup>107</sup> A related company is one that is controlled by the trademark owner with respect to the nature and quality of the goods or services used in connection with the mark.<sup>108</sup> The courts generally take the position that actual control, not merely the right to control, must be demonstrated for the license to be valid.<sup>109</sup> Failure to exercise

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<sup>101</sup> *Two Men and a Truck, Int’l, Inc. v. Thomas*, 908 F.Supp.2d 1029 (D. Neb. 2012); *see also Two Men and a Truck, Int’l, Inc. v. Clete, Inc.*, No. 1:07CV394, 2009 WL899698 (W.D.N.C. Mar. 26, 2009).

<sup>102</sup> 16 C.F.R. § 436.5(m)(8) (2007).

<sup>103</sup> 16 C.F.R. § 436.5(m) (2007).

<sup>104</sup> David Gurnick, *Intellectual Property in Franchising: A Survey of Today’s Domestic Issues*, 20 OKLA. CITY U. L. REV. 347 (1995).

<sup>105</sup> *Id.*

<sup>106</sup> 15 U.S.C. § 1055 (2012).

<sup>107</sup> *Id.*

<sup>108</sup> 15 U.S.C. § 1127 (2012).

<sup>109</sup> *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 368 (2d Cir. *continued . . .*

quality control may result in abandonment of the mark.<sup>110</sup> This statutory duty to enforce quality control underlies the existence and enforcement of quality and uniformity standards in a franchise system.<sup>111</sup> A corollary of this duty is that the trademark owner has a legal obligation to prevent the sale of unauthorized products under the trademark.<sup>112</sup>

A license to use a trademark is coextensive with its terms; the mark may be used only in the manner, location, and for the duration permitted by the license.<sup>113</sup> Usually, licenses to franchisees are nonexclusive; distribution licenses for the sale of products in large geographic areas are more frequently exclusive.<sup>114</sup> A license that does not specify whether it is exclusive or nonexclusive will usually be construed as nonexclusive.<sup>115</sup>

While a failure to exercise actual control may amount to abandonment, sublicensing itself does not constitute such a surrender where the trademark owner retains control over the nature and quality of goods and services.<sup>116</sup> Thus, arrangements by which a trademark owner licenses the trademark to a company that franchises a product or a service, or arrangements through which a franchisor develops territories through area development arrangements, subfranchising, and other multitiered systems, do not necessarily reflect a loss of control. Provisions of agreements in such arrangements, however, should be drafted so as to ensure continuing oversight by the trademark owner.<sup>117</sup> Although it is not necessary that there be formal

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1959) (stating that “[t]he question then ... is whether the plaintiff in fact exercised sufficient control”); *Alligator Co. v. Robert Bruce, Inc.*, 176 F. Supp. 377, 379 (E.D. Pa. 1959). *But see* *Robinson Co. v. Plastics Research & Dev. Corp.*, 264 F. Supp. 852, 864 (W.D. Ark. 1967) (stating that the right to control determines whether license is valid).

<sup>110</sup> *Moore Bus. Forms, Inc. v. Ryu*, 960 F.2d 486, 489 (5th Cir. 1992).

<sup>111</sup> *See* *Mini Maid Services Co. v. Maid Brigade Sys., Inc.*, 967 F.2d 1516 (11th Cir. 1992); *Dawn Donut Co.*, 267 F.2d at 364.

<sup>112</sup> *Dawn Donut Co.*, 267 F.2d at 364.

<sup>113</sup> ALAN N. RESNICK & HENRY J. SOMMER, *COLLIER GUIDE TO CHAPTER 11: KEY TOPICS AND SELECTED INDUSTRIES* (2013).

<sup>114</sup> MICHAEL W. RAFTER, LAUREN SULLINS RALLS & SAMANTHA L. HAYES, *AVOIDING AN “ACCIDENTAL” FRANCHISE IN US TRADEMARK LICENSING*, *INTABulletin* (2013), *available at* <http://www.inta.org/INTABulletin/Pages/Avoidingan%E2%80%9CAccidental%E2%80%9DFranchiseinUSTrademarkLicensing.aspx>.

<sup>115</sup> *See* *Pacific Supply Co-op. v. Farmers Union Cent. Exch. Inc.*, 318 F.2d 894, 909 (9th Cir. 1963).

<sup>116</sup> *See* *Turner v. HMH Pub. Co.*, 380 F.2d 224, 227 (5th Cir. 1967).

<sup>117</sup> CHARLES N. INTERNICOLA, *LICENSING v. FRANCHISING*, [http://www.franchiselawsolutions.com/library/LICENCING\\_v\\_FRANCHISING.pdf](http://www.franchiselawsolutions.com/library/LICENCING_v_FRANCHISING.pdf) (last visited May, 22, 2014).

quality control provisions for a trademark owner to retain rights to the trademark, where there is absolutely no control, formal or informal, it is a naked license.<sup>118</sup>

It is of great importance that the license agreement defines clearly the rights being licensed. For example, a license agreement was found to be ambiguous when it granted the licensee a nonexclusive, nontransferable license to use a particular trademark, “together with all the rights and privileges of the licensees under programs developed for licensees” of the licensor.<sup>119</sup> The “rights and privileges” clause may have expanded the scope of the license so as to provide the licensee with the right to an exclusive three-mile radius, as promised by the licensor in certain policy and promotional materials.<sup>120</sup>

## VII. INFRINGEMENT ACTIONS

Section 16 of the Lanham Act<sup>121</sup> provides that the owner of a registered mark may sue a person who, without consent of the owner, uses in commerce a reproduction or “colorable imitation” of a registered mark in connection with the sale, offer for sale, distribution, or advertising of goods or services, when the use of such imitation is likely to cause confusion.<sup>122</sup> Damages and injunctive relief are available for infringement.<sup>123</sup>

A plaintiff pursuing an infringement action must demonstrate that its mark is protectable; that the defendant’s use is without the owner’s permission, and that defendant’s use of the mark is likely to cause confusion among consumers.<sup>124</sup> In determining whether there is a likelihood of confusion or deception, the courts look to several factors: the type of the trademark, the similarity of design, the similarity of the product, the identity of retail outlets and purchasers, the similarity of advertising media used, the defendant's intent, and actual confusion.<sup>125</sup> Where a franchisee materially defaults under a franchise agreement

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<sup>118</sup> *Barcamerica Intern. USA Trust v. Tyfield Importers, Inc.*, 289 F.3d 589, 596 (9th Cir. 2002).

<sup>119</sup> *May v. Roundy's Inc.*, No. 92-3182, 188 Wis. 2d 78, at \*2 (Wis. Sept. 13, 1994).

<sup>120</sup> *Id.* at \*3.

<sup>121</sup> 15 U.S.C. § 1114 (2012).

<sup>122</sup> 15 U.S.C. § 1114(1)(a) (2012).

<sup>123</sup> 15 U.S.C. § 1116; 15 U.S.C. § 1117 (2012).

<sup>124</sup> *Virgin Enters. Ltd. v. Nawab*, 335 F.3d 141, 142 (2d Cir. 2003); *Packman v. Chicago Tribune Co.*, 267 F.3d 628, 638 (7th Cir. 2001).

<sup>125</sup> 15 U.S.C. § 1114(1) (2012); *Swatch AG v. Beehive Wholesale, LLC*, 739 F.3d 150, 158 (4th Cir. 2014); *Hokto Kinoko Co. v. Concord Farms, Inc.*, 738 F.3d 1085, 1095-96 (9th Cir. 2013); *Synergistic Intern. Inc. v. Windshield Doctor, Inc.*, 66 U.S.P.Q.2d 1936, 2003 WL 21468568 (C.D. Cal. Apr. 28, 2003).

and the agreement is validly terminated, but the franchisee continues to use the franchisor's marks without the franchisor's consent, the continued use is unlawful under the Lanham Act and constitutes likelihood of confusion as a matter of law.<sup>126</sup> A franchisor is usually entitled to obtain a preliminary injunction against a terminated franchisee's continued use of the franchisor's marks.<sup>127</sup>

The limits of confusion as to sponsorship or affiliation were explored in one franchise case.<sup>128</sup> There, the plaintiff and the defendant were sublicensees in adjacent geographic territories of the trademark and other properties associated with "Big Boy" hamburgers.<sup>129</sup> The defendant had done business as "Shoney's Big Boy" in a territory adjacent to plaintiffs, then sought to open restaurants in the plaintiff's territory as "Shoney's Towne and Country."<sup>130</sup> Plaintiff Frisch's contended that the public associated the name "Shoney's" with the "Big Boy" trademark such that use of the Shoney name in its territory would confuse prospective purchasers.<sup>131</sup> The court denied an injunction upon the grounds that proof of confusion "by association" was inadequate.<sup>132</sup>

The franchisor may, in the franchise agreement, provide for protection in addition to its common law and statutory rights, particularly if the marks have not been registered or become incontestable or if they may be subject to attack as lacking validity.<sup>133</sup> A clause in the franchise agreement in which the franchisee agrees that the marks are valid and are the property of the franchisor will usually estop the franchisee from claiming otherwise.<sup>134</sup> Interestingly, where a

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<sup>126</sup> Burger King Corp. v. Majeed, 805 F. Supp. 994, 1003 (S.D. Fla. 1992); S & R Corp. v. Jiffy Lube Intern., Inc., 968 F.2d 371, 377, 23 U.S.P.Q.2d 1201 (3d Cir. 1992); Burger King Corp. v. Agad, 911 F. Supp. 1499, 1506 (S.D. Fla. 1995); U.S. Structures, Inc. v. J.P. Structures, Inc., 130 F.3d 1185, 45 U.S.P.Q.2d 1027, 1997 FED App. 0354P (6th Cir. 1997); Dunkin' Donuts Inc. v. Donuts, Inc., 2000 WL 1808517 (N.D. Ill. Dec. 6, 2000); Allegra Network, LLC v. AM Marketing Inc., Bus Franchise Guide (CCH) ¶ 12,136 (E.D. Mich. 2001).

<sup>127</sup> S & R Corp., 968 F.2d 371, 379 (3d Cir. 1992); Century 21 Real Estate LLC v. All Prof'l Realty, Inc., 2011 WL 221651 (E.D. Ca. Jan 24, 2011).

<sup>128</sup> See Frisch's Rest., Inc. v. Shoney's Inc., 759 F.2d 1261, 225 U.S.P.Q. 1169 (6th Cir. 1985).

<sup>129</sup> *Id.* at 1262.

<sup>130</sup> *Id.*

<sup>131</sup> *Id.*

<sup>132</sup> *Id.* at 1271.

<sup>133</sup> See Foremost Corp. of America v. Burdge, 638 F. Supp. 496 (D.N.M. 1986).

<sup>134</sup> Two Men & a Truck/Int'l Inc. v. Two Men & a Truck/Kalamazoo, Inc., 949 F. Supp. 500, 508 (W.D. Mich. 1996); Lums Rest. Corp. v. Bloomington Rest. Invs., Inc., 416 N.E.2d 751, 753 (Ill. App. Ct. 1981) (disregarding evidence that franchisor was not the rightful owner of the trademarks where franchisee acknowledged franchisor as owner in agreement).

distribution agreement stated that the distributor could not carry any product that was imitative of, or that could be passed off in unfair competition with the manufacturer's products, as determined by the manufacturer, the contract's unambiguous language provided that the manufacturer could make the determination of unfair competition.<sup>135</sup> The language of the contract did not require the manufacturer to compare the two products in their containers; they could be otherwise compared by the manufacturer.<sup>136</sup> Indeed, a franchisor may have to prove that the goodwill associated with a product or service in a particular location is its goodwill, not that of the franchisee, unless there is such a clause.<sup>137</sup>

The franchise agreement, moreover, may provide for protection of intellectual property that cannot be protected under trademark or unfair competition laws.<sup>138</sup> For example, in one case, the court found that a prohibition upon a distributor's sales of corn chips in a brown bag similar to that of the manufacturer could be enforced since the brown bag was similar to, but perhaps not confusingly similar to, the bag marketed by the licensor.<sup>139</sup> In another case, a contract provision prohibiting use of the "days of the week" was construed in light of another contract provision prohibiting use of five named days of the week; one of the excepted days was Saturday.<sup>140</sup> Thus, a restaurant chain called "Friday's" could not enjoin the use of "Saturday's" for a similar establishment on the basis of that contract.<sup>141</sup>

### VIII. PRACTICAL STEPS FOR PROTECTING TRADEMARKS

A franchise system should have an employee or officer whose responsibilities include maintaining and enforcing trademark rights. This person should be responsible for monitoring possible infringements and complaints from the public of imitations and for seeing that affidavits of use are timely filed with the Patent and Trademark Office.<sup>142</sup> A franchise system also should have a thorough, ongoing training program on the proper use of trademarks and the

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<sup>135</sup> Swire Pac. Holdings, Inc. v. Dr. Pepper/Seven-Up Corp., 1997 WL 153794, at \*1 (Tex. App. Apr. 3, 1997).

<sup>136</sup> *Id.* at \*3.

<sup>137</sup> See Heaton Distrib. Co. v. Union Tank Car Co., 387 F.2d 477, 484 (8th Cir. 1967).

<sup>138</sup> See Frito Lay, Inc. v. So Good Potato Chip Co., 540 F.2d 927, 929 (8th Cir. 1976).

<sup>139</sup> *Id.* at 931.

<sup>140</sup> T.G.I.Friday's, Inc. v. Int'l Rest. Group, 405 F. Supp. 698, 710 (M.D. La. 1975), *aff'd*, 569 F.2d 895 (5th Cir. 1978).

<sup>141</sup> *Id.*

<sup>142</sup> See 15 U.S.C. §§ 1058(a), 1059 (2012).

preservation of trade secrets. Significant points that should be included are:

(1) Trademarks should always be used as adjectives, not nouns or verbs, lest they become descriptive or generic; this is particularly true with respect to internal use of the marks within a company.<sup>143</sup>

(2) The use of descriptive words in close proximity to a mark (e.g., “Contac” brand decorative adhesive paper) distinguishes the mark as a trademark.<sup>144</sup>

(3) Trademarks should always be identified as such, either by the symbol “R” for registered marks or “TM” or “SM” for unregistered trademarks or service marks.<sup>145</sup>

(4) Trademarks should not be corrupted or varied unless the owner intends to use the variants as trademarks themselves.<sup>146</sup> Thus, if the mark “SMITH’S” is applied to restaurants, “SMITTY’S” should not be used as a diminutive form of the name unless it is done deliberately, in which case it should be treated as a separate mark.

Employees and franchisees should be instructed to be alert to the use of marks similar to those of the franchise system and to report them to the person charged with enforcing trademark rights.

Upon discovery of a potential infringement, the franchisor should usually send the infringer a letter, informing the infringer that the franchisor is the owner of the mark and that proceedings to enforce its rights might follow if the infringer does not cease the infringing use.<sup>147</sup>

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<sup>143</sup> See Donald F. Duncan, Inc. v. Royal Tops Mfg. Co., 343 F.2d 655, 660-61 (7th Cir. 1965) (describing how “yo-yo” became generic through improper use by owner of the mark for a toy); Dixi-Cola Laboratories v. Coca-Cola Co., 117 F.2d 352, 357-58 (4th Cir. 1941) (finding the term “cola” had become generic); Dry Ice Corp. of America v. Louisiana Dry Ice Cor., 54 F.2d 882 (5th Cir. 1932) (addressing the protectability of the term “dry-ice”).

<sup>144</sup> Stix Prods., Inc. v. United Merchs. & Mfrs., Inc., 295 F. Supp. 479, 483, 160 U.S.P.Q. 777 (S.D.N.Y. 1968).

<sup>145</sup> INTERNATIONAL TRADEMARK ASSOCIATION, A GUIDE TO PROPER TRADEMARK USE (2012), available at [http://www.inta.org/Media/Documents/2012\\_TMUseMediaInternetPublishing.pdf](http://www.inta.org/Media/Documents/2012_TMUseMediaInternetPublishing.pdf).

<sup>146</sup> Bob H. Sotiriadis & Leger Robic Richard, *Abandonment of a Registered Trademark with Respect to a Design Variant*, 7 BUS. & THE LAW 46, 46 (1990) available at <http://www.robic.com/admin/pdf/289/116-02.pdf>.

<sup>147</sup> SARA YEVICS BECCIA, ESQ. ET AL., INTELLECTUAL PROPERTY PRACTICE  
*continued . . .*

Such a cease-and-desist letter will, at the least, put the infringer on notice of the owner's rights so that further infringing uses will be at the infringer's own risk;<sup>148</sup> the letter also may negate a finding of laches, abandonment of the mark, or acquiescence in the infringing use.<sup>149</sup> If the infringer persists, litigation should be considered to enjoin the infringement.<sup>150</sup>

Whether to litigate will depend upon the type of infringement, the impact of the infringement upon the rights of the plaintiff, and whether the infringer has some claim of right or defense to the action.<sup>151</sup> In some franchise cases, for example, infringement litigation has produced the unanticipated result that the infringing use would be permitted to continue in some circumstances.<sup>152</sup>

A complete record of each potential infringement should be kept, together with a record of the action taken.

As between franchisors and franchisees, the most important step that the franchisor must take with respect to maintaining the value of its marks is enforcement of standards concerning the quality and nature of the products or services offered under the marks.<sup>153</sup> "[C]lose supervision over distribution outlets is essential to guard against an inferior product" and consequent dilution of the value of the mark.<sup>154</sup> The measures appropriate for any given franchise system will differ according to the nature of the industry; in any event, the control should be actively exercised.

In addition, the franchise agreement should contain covenants by the franchisee that it will use and preserve rights in trademarks in accordance with the franchise agreement and the franchisor's instructions. Those instructions, which should parallel instructions to employees on the proper use of marks, should be set forth in detail in the operations manual or similar permanent document and should be the subject of training of franchisee principals and franchisee employees. Franchisees also should undertake in the franchise

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§ 6.7.3(a) (2nd ed. 2011).

<sup>148</sup> See Cf. *Conan Props., Inc. v. Conans Pizza, Inc.*, 752 F.2d 145,151–52 (5th Cir. 1985).

<sup>149</sup> *Id.*

<sup>150</sup> BECCIA, *supra* note 147, at § 6.7.3(c).

<sup>151</sup> See *generally id.* at § 6.7.3 Practice Note.

<sup>152</sup> See *generally* *Holiday Inns of America, Inc. v. B & B Corp.*, 7 V.I. 45, 409 F.2d 614, 616-17 (3d Cir. 1969).

<sup>153</sup> David Spratley, *Brand Enforcement for Franchisors: Legal and Strategic Implications*, FRANCHISE AND DISTRIBUTION J. Sep. 28, 2012, at 2.

<sup>154</sup> *Gastown, Inc. of Del. v. Gastown, Inc.*, 331 F. Supp. 626, 634, (D. Conn. 1971).

agreement to report to the franchisor any misuse of the franchisor's marks and any apparent infringement.

Another important aspect to preserving rights in a mark is the avoidance of inadvertent abandonment when use of a trademark is discontinued or suspended. Abandonment of a mark may be inferred from nonuse for a continuous period of three years.<sup>155</sup> Hence, a franchise system should be careful to keep marks in use, at least every two years, if it wishes to avoid the claim that the mark was abandoned. This issue also may arise unexpectedly as the result of discontinuance or suspension of a product line; obviously, the person responsible for trademark usage should take steps to avoid inadvertent loss of a trademark as the result of deliberate discontinuance of a product line.

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<sup>155</sup> 15 U.S.C. § 1127 (2012).