Trademark Law and Franchising: Five of the Most Significant Developments

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Trademarks are at the very heart of franchising. Indeed, at the core of every franchising relationship is the license of a trademark. In addition to trademarks constituting a foundational element of the franchise relationship, trademark law has significantly shaped franchising, and continues to this day to shape franchising, including elements of the system that can be protected, how rights in those elements are enforced, and the remedies available if rights in those elements are found to be infringed. This article will explore five of the most significant trademark case law and legislative developments that have impacted, and will continue to impact, the protection and enforcement of trademark rights in the field of franchising since the enactment of the Lanham Act (Trademark Act of 1946).1

I. Protection of Interior and Exterior Trade Dress

Franchisors have long recognized the value in protecting their principal or house word and design marks, but more and more have also sought to extend trademark protection to other elements of their systems, including exterior and interior layout, one or both of which often incorporate a distinctive color scheme. Historically, courts resisted recognizing anything other than traditional word and design marks as being protectable and serving a trademark function. Before Congress passed the Lanham Act, color alone was not recognized as functioning as a trademark and was not eligible for federal registration. For example, in one pre-Lanham Act case, the United States Supreme Court openly questioned whether color alone could constitute a valid trademark:2


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Whether mere color can constitute a valid trademark may admit of doubt. Doubtless it may, if it impressed in a particular design, as a circle, square, triangle, a cross, or a star. But the authorities do not go farther than this.3

Other pre-Lanham Act Patent and Trademark Office and court decisions also shared skepticism in extending trademark protection to anything other than traditional word and design marks.4

However, the negative perception of color serving as a trademark began to change with the Lanham Act’s enactment. One of the Act’s express purposes was to modernize current trademark law and, accordingly, Section 45 of the Act has been widely construed by courts to include any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify its goods and distinguish them from those manufactured or sold by others. Despite expanding the definition of trademark, courts were slow to allow protection of color marks. Among the rationales courts advanced for denying protection were: (1) allowing protection of color marks would result in color depletion or monopolization;5 (2) infringement determinations would devolve into a debate over “shade confusion” between closely similar shades of that color;6 or (3) application of color to goods serves primarily a utilitarian purpose7 or is “aesthetically functional.”8

Despite these hurdles, recognition that color could serve as a designation of source began to take firm root once the Federal Circuit ruled in In re Owens-Corning Fiberglass Corporation.9 There, in a 2-to-1 decision, the Federal Circuit held that the Owens-Corning could register the color pink for its fiberglass residential insulation. In so holding, the court found that the color pink had no utilitarian purpose and did not deprive competitors of any reasonable right or competitive need and that Owens-Corning had

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3. Id. at 171.

4. See, e.g., In re Gen. Petroleum Corp. of Cal., 49 F.2d 966 (C.C.P.A. 1931) (rejecting application to register the color violet for gasoline); In re Sec. Eng’g Co., 113 F.2d 494 (C.C.P.A. 1940) (rejecting application to register blue and aluminum color for oil well reamers).

5. Courts adopting this rationale reasoned that because there were only a limited number of colors in the palette; it would not be wise policy to foster further limitation by permitting trademark registrants to deplete the reservoir by claiming rights to color marks. See, e.g., Campbell Soup Co. v. Armour & Co., 175 F.2d 795, 798 (3d Cir. 1949) (court refusing to protect the red and white colors of Campbell’s labels on the grounds that doing so would result in a monopolization of the color red and competition would be negatively affected), cert. denied, 338 U.S. 847 (1949).


7. See, e.g., Sylvania Elec. Prods., Inc. v. Dura Elec. Lamp Co., 247 F.2d 730 (3d Cir. 1957) (blue dot on flashbulb not a valid trademark because it was functional); In re Pollak Steel Co., 314 F.2d 566 (C.C.P.A. 1963) (registration of reflective fence post coating refused registration).

8. See Deere & Co. v. Farmhand, Inc., 560 F. Supp. 85, 96 (S.D. Iowa 1982) (refusing to enforce the color “John Deere Green” as a common law trademark on agricultural equipment on the grounds that the color green was “aesthetically functional in that purchasers wanted the farm equipment to match”), aff’d, 721 F.2d 253 (8th Cir. 1983) .

submitted ample evidence establishing that the color pink had achieved source significance with the relevant consuming public.

Unfortunately, even after the Federal Circuit’s *Owens-Corning* decision, courts continued to be split on whether color marks were protectable. The United States Supreme Court ultimately resolved that split in *Qualitex Co. v. Jacobson Products Co.* There, Qualitex had for many years colored the dry cleaning pads it manufactured with a special shade of green gold and ultimately obtained a federal registration for that color. After Jacobson adopted a similar color for its competitive product, Qualitex sued Jacobson for trademark infringement. Qualitex prevailed in the district court, but the Ninth Circuit reversed, holding that the Lanham Act did not permit registration of color alone.

The Supreme Court disagreed with the Ninth Circuit and reversed. At the outset, the Court noted that the basic underlying principles of trademark law and the language of the Lanham Act indicated that color was within the universe of designations that qualify for trademark protection. The Court added that like many other designations, color alone could distinguish a business’s goods or services and identify their source without serving any other significant function. Jacobson resorted to many of the same theories on which courts before *Owens-Corning* relied in refusing to protect color marks, namely, that allowing protection to Qualitex’s color mark would result in shade confusion and color depletion. The Court, however, found these concerns to be overblown and noted to the extent there were limited circumstances where color scarcity ever came into play, the utilitarian use or functionality doctrine would be available as a defense.

Although protection of color alone has historically proven to be a challenge, business entities have had an easier time in establishing protectable rights when color is not claimed alone but, instead, is one of several elements of a claimed trade dress configuration. Even before the Lanham Act’s passage, trade dress protection was recognized under a common-law unfair competition theory if a claimant established the trade dress was non-functional and had achieved secondary meaning as well as a likelihood of confusion. By the 1980s, more and more courts began instead relying on

10. See, e.g., First Brands Corp. v. Fred Meyer, Inc., 809 F.2d 1378 (9th Cir. 1987) (court affirmed the denial of injunctive relief against a competitor of the owner of the PRESTONE mark who sold antifreeze products utilizing an imitation of PRESTONE yellow color products); see also *NutraSweet Co.*, 917 F.2d at 1027; *AmBrit, Inc. v. Kraft, Inc.*, 805 F.2d 974 (11th Cir.) (noting “the general rule is that no seller can foreclose others absolutely from using any particular color”), opinion superseded by 812 F.2d 1531 (11th Cir. 1986), cert. denied, 481 U.S. 1041 (1987).
12. Id. at 162.
13. Id.
14. Id. at 168–69.
15. Id. (citing *Inwood Labs.*, Inc. v. *Ives Labs.*, Inc., 456 U.S. 844, 863 (1982) (capsule colors of a pharmaceutical product were found to be functional)).
16. See, e.g., *Maytag Co. v. Meadows Mfg. Co.*, 35 F.2d 403 (7th Cir. 1929) (a washing machine), cert. denied, 281 U.S. 737 (1930); *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299 (2d Cir. 1917) (a crescent wrench); *Yale & Towne Mfg. Co. v. Alder*, 154 F. 37 (2d Cir. 1907)
the broad language of Lanham Act Section 43(a) in offering protection to trade dress, although they disagreed about whether secondary meaning was a prerequisite to establishing protectable trade dress. Many courts, like the Fifth Circuit in *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, held that trade dress should be treated the same as other designations of origin as either inherently distinctive or non-inherently distinctive depending on the trade dress at issue.17 Only when trade dress was found to be non-inherently distinctive would proof of secondary meaning be required. Other courts, including the Second Circuit in *Murphy v. Provident Mutual Life Insurance Co.*, held that “nonverbal marks that are unregistered always require secondary meaning.”18

The U.S. Supreme Court in *Two Pesos, Inc. v. Taco Cabana, Inc.* resolved the disagreement over whether secondary meaning was required in establishing protectable trade dress.19 *Two Pesos* involved a dispute between competing Mexican restaurant chains. Taco Cabana had been operating its chain of restaurants in the state of Texas since 1978 and claimed protectable trade dress in the interior and exterior design of its restaurants, which was described as follows:

A festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.20

In 1985, Two Pesos opened its first restaurant in Houston and adopted a motif very similar to Taco Cabana’s claimed trade dress.21 Two Pesos then rapidly expanded its chain to other markets in Texas.22 Once Taco Cabana entered the Texas markets in which Two Pesos operated, Taco Cabana brought an action against Two Pesos in the United States District Court for the Southern District of Texas for trade dress infringement.23 The parties

(a padlock); Enter. Mfg. Co. v. Landers, Frary & Clark, 131 F. 240 (2d Cir. 1904) (a coffee mill). Secondary meaning is deemed to be established where the claimant can successfully demonstrate that a designation is recognized in the minds of consumers as the single source of goods or services.

17. Chevron Chemical Co. v. Voluntary Purchasing Grps., Inc., 659 F.2d 695, 702 (5th Cir. 1981). See also Fuddruckers, Inc. v. Doc’s B.R. Others, Inc., 826 F.2d 837, 843 (9th Cir. 1987); AmBrit, 805 F.2d at 979; Blau Plumbing, Inc. v. S.O.S. FixIt, Inc., 781 F.2d 604, 608 (7th Cir. 1986) (“[T]he “proposition that secondary meaning must be shown even if the trade dress is a distinctive, identifying mark, [is] wrong, for the reasons explained by Judge Ruben for the Fifth Circuit in *Chevron*.”).


20. Id. at 765.

21. Id. at 766.

22. Id.

23. Id.
tried the case to a jury, which was instructed to answer a series of questions the trial judge had prepared relating to Taco Cabana’s trade dress claim. The jury responded:

Taco Cabana has a trade dress; taken as a whole, the trade dress is nonfunctional; the trade dress is inherently distinctive; the trade dress has not acquired a secondary meaning in the Texas market; and the alleged infringement creates a likelihood of confusion on the part of ordinary consumers as to the source or association of the restaurant’s services.

As a result of these findings, the court found Two Pesos to have infringed Taco Cabana’s trade dress and awarded Taco Cabana $2,000,000 in damages. Two Pesos appealed to the Fifth Circuit, which affirmed the jury verdict below. In doing so, the Fifth Circuit followed its earlier decision in Chevron Chemical and determined that the jury instructions adequately stated the applicable law and that the evidence supported the jury’s findings. Among other things, the Fifth Circuit rejected Two Pesos’ contention that the jury’s finding of no secondary meaning contradicted a finding of inherent distinctiveness.

An appeal to the U.S. Supreme Court ensued. At the outset, the Court observed that its review was limited to resolving the issue of whether Taco Cabana’s inherently distinctive trade dress was entitled to protection despite the lack of proof of secondary meaning. The Court began its analysis by noting that protection of trade dress should be treated no differently from other designations. Two Pesos contended inherently distinctive trade dress should receive only limited protection if secondary meaning could not be established. Specifically, it argued that any such protection should be temporary and subject to defeasance if the trade dress had failed to acquire secondary meaning over time. The Court rejected Two Pesos’ analysis and held that there was no basis for treating inherently distinctive trade dress any differently from inherently distinctive verbal or symbolic trademarks, and that, because proof of secondary meaning was not required as a condition for protecting these trademarks, it should also not be required as a condition to protecting inherently distinctive trade dress.

The business community, and particularly those involved in franchising, widely publicized and warmly received the Two Pesos decision. Many of these businesses have since expended significant resources developing and protecting the interior and/or exterior design configurations of their premises.

24. Id.
25. Id. (footnotes omitted).
26. Id. at 767.
27. Id.
28. Id.
29. Id.
30. Id. at 770.
31. Id. at 771.
32. Id.
33. Id. at 773–74.
with varying levels of success. On the one hand, in some cases, franchisors have failed to demonstrate protectable rights in their claimed trade dress, either because it was deemed to be generic, or not inherently distinctive and secondary meaning had not been shown or a likelihood of confusion could not be shown.34 On the other hand, other franchisors have successfully demonstrated protectable trade dress in their exterior or interior configurations and that those rights have been infringed by a competitor.35 Still other franchisors have been successful obtaining Principal Register trademark registrations for their exterior trade dress configurations.36 For those franchisors who seek to create an indelible overall image of their franchised businesses in the minds of the consuming public, adopting protectable trade dress consisting of unique, yet memorable interior and exterior design elements including color schemes has gone a long way to reaching that goal.

II. Proving Trademark Infringement Against Remote Infringers

Franchisors have long recognized the value of obtaining Principal Register registrations in their house marks as well as other marks that are significant to the goods or services that the franchised business provides. In fact, marks registered on the Principal Register are often viewed as a key element of the value franchisors provide to franchisees, and the extent of franchisors’


36. See, e.g., Kentucky Fried Chicken exterior (Registration No. 5,590,676); Waffle House exterior (U.S. Registration No. 2,618,549); Merlin’s Muffler Shop exterior (Registration No. 2,578,539). Those franchisors that have developed uniform interior layouts for their locations may want to consider taking a page out of Apple’s playbook and pursue registration of that interior layout on the Principal Register. See Apple Inc. Registration No. 4,271,914, which covers the glass-fronted rectangular patterned design of the interior of an Apple store.
efforts to obtain Principal Register federal registrations is often detailed in item 13 disclosures in the Franchise Disclosure Documents provided to prospective franchisees.

One of the key benefits that arises from a Principal Register federal registration is nationwide priority vis-à-vis third parties who adopt subsequently confusingly similar marks for related goods and/or services. However, many owners of Principal Register registrations are under the mistaken impression that they can prevail in an infringement action simply by demonstrating a third party’s use of a confusingly similar mark for related goods or services. This, however, is not the case, because the owner of a Principal Register registration is also required to show that there is a likelihood of confusion; that is, consumers in the geographic area in which the alleged infringer is operating believe, mistakenly, that its operations are affiliated or associated with or licensed or endorsed by the owner of the Principal Register registration. If the respective parties are operating in the same or overlapping geographic areas, this showing is ordinarily not particularly difficult. The problem in demonstrating a likelihood of confusion typically arises when the Principal Register trademark owner and the alleged infringer operate in separate and distinct geographic territories.

The landmark case addressing this issue is *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, which involved a dispute between donut businesses. Dawn Donut owned federal registrations for the trademarks DAWN and DAWN DONUT and sought to enjoin Hart’s Food from using the DAWN mark on the packaging of its donuts. The court denied Dawn Donut’s request for injunctive relief, finding that at the time the action was brought Dawn Donut and Hart’s Food operated in distinct geographic markets, and, as a result, Dawn Donut could not establish a likelihood of confusion in the geographic area in which Hart’s Food operated. However, the court added that, although Dawn Donut was not presently entitled to injunctive relief, Hart’s Food should not be viewed as having acquired a permanent right to use the DAWN mark in its geographic area, and that should Dawn Donut expand its activities in the future into that geographic area, it would be entitled to injunctive relief.

The rule articulated in *Dawn Donut* has been adopted by all Circuits, except for the Sixth Circuit. Despite suggestions that some commentators have made that *Dawn Donut* may no longer be relevant as a result of the rise of the Internet, courts today still routinely take into account the *Dawn Donut* rule both in terms of assessing infringement as well as the scope of

38. *Id.* at 360.
39. *Id.*
40. See *Circuit City Stores, Inc. v. CarMax, Inc.*, 165 F.3d 1047, 1056 (6th Cir. 1999) (noting “no particular finding of likelihood of entry or irreparable harm is necessary for injunctive relief in trademark infringement or unfair competition cases”).
injunctive relief granted to the owner of the Principal Register registration. Yet recently some courts have adopted a more relaxed approach when considering *Dawn Donut* issues, particularly when considering equitable and monetary relief.

Application of the *Dawn Donut* rule has found its way into the franchise field as well, and the experience of a small Mexican restaurant franchisor in *Comidas Exquisitos, Inc. v. Carlos McGee’s Mexican Cafe, Inc.* serves a cautionary note to trademark owners of what can happen when trademark infringement litigation is instituted without taking into account the geographic scope of an alleged infringer’s operations. *Comidas Exquisitos* involved a trademark infringement action that the owner of the Atlanta-based Carlos McGee’s restaurant chain (Carlos McGee’s Atlanta) brought against a third party entity who had subsequently adopted the Carlos McGee’s name in connection with a restaurant located in Ames, Iowa (Carlos McGee’s Iowa).

At the outset, the court noted that the parties were essentially in agreement as to the following facts:

1. Carlos McGee’s Iowa had adopted its Carlos McGee’s restaurant name after the nationwide priority date of Carlos McGee’s Atlanta’s Principal Register registration for the Carlos McGee’s mark.

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43. *Guthrie Healthcare* and *Boldeface* are relatively recent examples of courts not applying a strict *Dawn Donut* analysis on the issue of the geographic scope of injunctive relief sought by a prevailing trademark plaintiff. In both cases, nationwide injunctions issued despite the fact that the plaintiff operated in only a limited geographic area. *BBQ 4 Life, LLC v. Dickey’s Barbecue Rest., Inc.*, BUS. FRANCHISE GUIDE (CCH) ¶ 16,414 (D. Idaho Apr. 23, 2019) applied a similar approach on the issue of the award of an accounting of profits. There, a successful plaintiff in a trademark infringement action, which operated a small restaurant chain primarily in Boise, Idaho, sought a profits awards from a defendant restaurant chain that operated hundreds of restaurants nationwide. Defendant argued that plaintiff was entitled only to a disgorgement of profits in the geographic areas in which the parties competed. Although the court noted plaintiff conceded at oral argument that it could not enjoin the defendant from using the plaintiff’s trademark in geographic areas where plaintiff currently had no presence, the court found this fact to be no impediment to a recovery of profits for the defendant’s nationwide operations. The court reasoned that to rule otherwise would allow a large entity with a nationwide presence to conclude it was economical to steal a small competitor’s trademark and use it nationwide when its exposure was limited to disgorging a relatively small amount of profits from locations in areas where the parties competed.


45. *Id.* at 194.
• Carlos McGee’s Iowa was aware of Carlos McGee’s Atlanta’s use of
Carlos McGee’s prior to Carlos McGee’s Iowa’s adoption of that name
in connection with its restaurant;\textsuperscript{46}
• Carlos McGee’s Atlanta had conducted a substantial amount of adver-
tising, much of which had been directed at travelers and some of which
had reached Iowa;\textsuperscript{47}
• A substantial number of travelers had been served by Carlos McGee’s
Atlanta restaurants including some from Iowa;\textsuperscript{48}
• Carlos McGee’s Atlanta had plans for national expansion including
states neighboring Iowa, namely, Missouri and Illinois;\textsuperscript{49}
• Carlos McGee’s Atlanta introduced testimony of a former manager that
on one occasion a group of customers from Iowa had told him that they
had eaten at “your” restaurant in Ames, Iowa; and\textsuperscript{50}
• Potential investors in Carlos McGee’s Atlanta franchises outside of
Iowa had backed out or demanded better terms when they found out
about the existence of Carlos McGee’s Iowa.\textsuperscript{51}

Despite Carlos McGee’s Atlanta’s efforts to demonstrate an Iowa con-
nection, the court, applying the \textit{Dawn Donut} rule, held that the foregoing
evidence at most demonstrated that the parties’ marks were confusingly sim-
ilar “in the abstract” or “could cause confusion under some circumstances.”\textsuperscript{52}
The court added that for there to be a real likelihood of confusion, the par-
ties’ marks, as actually used in the marketplace, must cause a “real, present
likelihood of confusion in the marketplace” and that plaintiff had failed to
demonstrate that Carlos McGee’s Iowa’s use of the Carlos McGee’s mark
met that standard.\textsuperscript{53} As a result, the court held that Carlos McGee’s Atlanta
could not prevail on its trademark infringement claim.

Sometimes trademark owners feel compelled to file a trademark infringe-
ment action immediately upon learning of the existence of a third party’s
use of a confusingly similar mark out of the concern that failing to take
prompt action will result in a finding of laches and prevent the recovery of
monetary and/or injunctive relief. This is one situation where \textit{Dawn Donut}
helps the trademark owner. During the period that the trademark owner
and the alleged infringer’s operations are geographically distinct, courts have

\begin{footnotes}
\footnotetext[46]{Id.}
\footnotetext[47]{Id.}
\footnotetext[48]{Id.}
\footnotetext[49]{Id.}
\footnotetext[50]{Id.}
\footnotetext[51]{Id.}
\footnotetext[52]{Id. at 198.}
\footnotetext[53]{Id. Carlos McGee’s Atlanta is by no means the only business involved in franchising that
has run afoul of a \textit{Dawn Donut} analysis in enforcing trademark rights. \textit{See, e.g.}, \textit{What-A-Burger
of Va., Inc. v. WhatAlBurger, Inc. of Corpus Christi Tex., 357 F.3d 441, 447 (4th Cir. 2004); Pizzeria
Uno Corp. v. Temple, 747 F.2d 1522, 1535–36 (4th Cir. 1984)}, (“Since the plaintiff has not ‘penetrated’ the area in which [the] defendant operates, it is not entitled to injunctive relief until it has so ‘penetrated.’”).}
\end{footnotes}
historically found that there is no trademark infringement and, accordingly, the laches clock has not begun running.54

Although delaying the institution of trademark litigation until the geographic areas in which the trademark owner and alleged infringer converge may cause the trademark owner discomfort, doing so greatly enhances the likelihood of a successful litigation effort later.55

III. Actions Seeking Injunctive Relief for Trademark Infringement

A common species of litigation between franchisors and franchisees involves “holdover” scenarios. These arise when the franchisee’s franchise agreement and license to use the franchisor’s trademarks has expired or has been terminated and the franchisee continues operating the franchised business, or one competitive to it, using the franchisor’s trademarks or trademarks that are confusingly similar.56 Because the franchisee is no longer licensed or otherwise authorized to use the franchisor’s trademarks, any use of such trademarks post-termination or expiration constitutes trademark infringement.57 The Lanham Act provides franchisors with a powerful weapon to address such infringement, which in many cases includes preliminary and ultimately permanent injunctive relief. In analyzing trademark infringement, actions seeking injunctive relief often give lip service to the traditional four-factor test—which requires one seeking injunctive relief to 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. However, courts have routinely concluded that the movant was entitled to injunctive relief merely upon demonstrating a likelihood of success on the merits. The reason for this is that in cases involving enforce-


55. See, e.g., Marco’s Franchising, LLC v. Marco’s Italian Express, Inc., 2007 WL 2671040 (M.D. Fla. Sept. 7, 2007) (plaintiff established concrete plans to expand into defendant’s territory and was entitled to injunctive relief); Synergistic Int’l, Inc., 66 U.S.P.Q.2d at 1942 (plaintiff had concrete plans to expand by opening a franchise in the Los Angeles area); see also Christopher P. Bussert, supra note 42 (“As perhaps best said by Judge Chamberlain Haller of My Cousin Vinny fame, the Dawn Donut Rule or Ripeness Doctrine at most operates as a ‘stay of execution’ for the alleged infringer.”).


57. 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.”); Tim Horton’s USA, Inc. v. Tim Donut U.S. Ltd., BUS. FRANCHISE GUIDE (CCH) ¶ 16,442 (S.D. Fla. June 17, 2019); New Horizons Educ. Corp. v. Krolak Tech. Mgmt. of Syracuse, LLC, BUS. FRANCHISE GUIDE (CCH) ¶ 16,291, 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, 2018 WL 2012875 (E.D.N.Y. Apr. 30, 2018); Peterbrooke Franchising of Am., LLC v. Miami Chocolates, LLC, 312 F. Supp. 3d 1325 (S.D. Fla. 2018).
ment of trademark rights under the Lanham Act, irreparable harm to the movant was “presumed” to occur as a result of the infringement. 58

This landscape changed with the U.S. Supreme Court’s 2006 decision in eBay, Inc. v. MercExchange, LLC. 59 On its face, one would not have anticipated that eBay would have such far-reaching implications, particularly given its subject matter. The eBay case was a patent infringement suit that MercExchange instituted against eBay. 60 Notably, MercExchange had never practiced the method claimed in the patent, resulting in MercExchange being characterized as a “patent troll.” Although the jury found MercExchange’s patent to be valid and infringed, the district court refused to grant a permanent injunction because of “plaintiff’s willingness to license its patents” and “its lack of commercial activity in practicing the patents” sufficiently established that the harm to MercExchange would not be irreparable and could be compensated through monetary relief. 61

The Federal Circuit reversed the district court, finding that, as a “general rule” in patent disputes, “a patent injunction will issue once infringement and validity have been adjudged” except in “exceptional circumstances” and where necessary “to protect the public interest.” 62

At the outset, the Supreme Court found fault with both of the lower courts’ approaches to injunctive relief. According to the Court, Section 283 of the U.S. Patent Act provided that injunctions “may” issue “in accordance with the principles of equity.” 63 These “principles of equity” require courts in patent cases to employ the traditional four-part test in assessing requests for injunctive relief, under which a plaintiff must demonstrate: (1) the existence of irreparable injury; (2) that remedies at law, including monetary relief, are inadequate; (3) that the balance of hardships tilts in favor of injunctive relief; and (4) that granting an injunction would not harm the public interest. 64 The Court added that nothing in the Patent Act affected the application of that test and found support for its analysis in its past treatment of requests for equitable relief under the U.S. Copyright Act of 1976. 65 The Court noted that it was appropriate to apply the same copyright principles in patent cases because both the Copyright and Patent Acts provided the “right to exclude others from using its property” in exchange “for benefits bestowed by the genius and mediations and skill of individuals” and provided “incentive to further efforts for the same important objects.” 66

60. Id. at 390.
61. Id. at 393 (citation omitted).
63. 547 U.S. at 391–92.
64. Id. at 392.
65. Id.
66. Id. (citation omitted).
Because in the Court’s view neither the district court nor the Federal Circuit fairly applied traditional equitable principles in assessing MercExchange’s request for a permanent injunction, the Court vacated both of the lower court decisions. According to the Court, the Federal Circuit had failed to apply the traditional four-factor test in assessing injunctive relief by improperly applying a categorical rule favoring injunctions. Similarly, although the district court had recited the traditional four-part test for injunctive relief, it also improperly applied a categorical rule prohibiting injunctions if the patent entity was a nonpracticing entity and a willing licensor. Although denial of an injunction may well be appropriate in some of these settings, applying a categorical rule for injunctive relief would fail, for example, to take into account university researchers or self-made inventors who might not have the resources to practice the invention themselves, but who might very well be entitled to injunctive relief.

Accordingly, the Court remanded the case to the district court with directions to reconsider its determination upon explicit application of the four-part test to the specific facts before it.

Since the Supreme Court’s *eBay* decision, there has been a growing debate as to whether its holding should be limited to patent cases or applied more broadly to other types of cases, including Lanham Act cases involving trademark infringement, unfair competition, or false advertising. Although many of the commentators that have addressed this issue have argued that *eBay* should not be applicable to Lanham Act cases, and that the presumption of irreparable harm should continue to apply, there have been some critics of that approach as well.

Court decisions have been decidedly mixed on the issue of the application of the presumption of irreparable harm in Lanham Act cases post *eBay*. Some have ignored *eBay* and found that the presumption continues to apply. Other courts have either hinted that the presumption of irreparable

67. Id. at 394.


69. 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) (which examined cases decided in the five years following eBay); Scott McIntosh & Jonathan Lahkus, *To Presume, Or Not to Presume, Irreparable Injury in Trademark Disputes Involving Franchisees Following eBay and Winter*, 36 Franchise L.J. 43 (2016) (which examined cases decided in the ten years following eBay).

70. See, e.g., Warner Bros. Ent’tmt, Inc. v. X One X Prods., 840 F.3d 971, 982 (8th Cir. 2016); Kraft Foods Grp. Brands, LLC v. Cracker Barrel Old Country Store, Inc., 735 F.3d 735, 740
harm no longer applies. Still other courts have held that, in light of eBay, the presumption of irreparable harm no longer applies in trademark cases and that the trademark plaintiff must provide affirmative evidence of irreparable harm to establish that factor.

As a result of eBay, franchisors who seek injunctive relief in trademark cases would do well to assess carefully the law of the jurisdiction in which they will be pursuing that relief, and to ascertain whether or not affirmative evidence of irreparable harm will be required as well as the types and quantity of evidence of irreparable harm courts in that jurisdiction have found will satisfy that burden. In most jurisdictions requiring affirmative evidence, franchisors/trademark owners have been found to meet that burden by providing some evidence of threatened loss of goodwill, loss of ability to control reputation, and/or a loss or confusion of customers. However, some courts have refused to find irreparable harm where the evidence submitted was deemed to be “conclusory” or otherwise insufficient.

To date, the U.S. Supreme Court has not yet examined the issue of the applicability of eBay to Lanham Act cases, despite the clear split in the Circuits. The intellectual property bar, and specifically the American Intellectual Property Law Association, do not appear to be anxious to leave that issue to chance with the Supreme Court and are instead seeking certainty.

71. The First Circuit raised the question whether eBay eliminates the presumption of irreparable injury but has declined actually to decide that question as a matter of law. Voice of the Arab World, Inc. v. MDTV Med. News Now, Inc., 645 F.3d 26 (1st Cir. 2011).

72. See, e.g., Commodores Entn't Corp. v. McClary, 648 F. App'x 771, 777 (11th Cir. 2016) (“In light of the Supreme Court's holding in eBay, a presumption of irreparable harm cannot survive.”); Ferring Pharm., Inc. v. Watson Pharm., Inc., 765 F.3d 205 (3d Cir. 2014); Herb Reed Enters., LLC v. Florida Ent'n't Mgmt., Inc., 736 F.3d 1239, 1250 (9th Cir. 2013); Salinger v. Colting, 607 F.2d 68, 80 (2d Cir. 2010). A leading commentator has criticized the Ninth Circuit's Herb Reed decision as being both "superficial and deeply flawed." 4 McCarthy, supra note 58, § 30.47.30; see also HomeVestors of Am., Inc. v. Fantinia, 2018 WL 4783969 (E.D.N.Y. Oct. 1, 2018); Dunkin' Donuts Franchising, LLC v. Claudia III, LLC, 2014 WL 3900569 (E.D. Pa. Aug. 11, 2014).

73. See, e.g., Jysk Bed’N Linen v. DuttaRoy, 810 F.3d 767, 780 (11th Cir. 2015) (“The loss of customers and goodwill is an irreparable injury.”) (citation omitted); New Horizons Educ. Corp. v. Krolak Tech. Mgmt. of Syracuse, LLC, BUS. FRANCHISE GUIDE (CCH) ¶ 16,291, 2018 WL 5253070 (N.D.N.Y. Oct. 22, 2018) (customer confusion and loss of ability to control reputation); Express Franchise Servs., LP v. Impact Outsourcing Sols., Inc., 244 F. Supp. 3d 1368 (N.D. Ga. 2017) (harm to reputation and goodwill demonstrating irreparable harm); Juicy Couture, Inc. v. Bella Int'l Ltd., 930 F. Supp. 2d 489 (S.D.N.Y. 2013) (“Irreparable harm exists in a trademark case where the party seeking the injunction shows that it will lose control over the reputation of its trademark.”) (citation omitted). The author was one of the counsel for Express Franchise Services, L.P. But see Active Sports Lifestyle USA, LLC v. Old Navy, LLC, 2014 WL 1246497 (C.D. Cal. Mar. 21, 2014) (intangible harm such as loss of goodwill not sufficient to establish irreparable harm).

74. See, e.g., Maaco Franchising, LLC v. Ghirimoldi, BUS. FRANCHISE GUIDE (CCH) ¶ 15,571 (W.D.N.C. July 28, 2015) (plaintiff failed to make a clear showing of irreparable harm beyond conclusory statements); 7-Eleven, Inc. v. Sodhi, BUS. FRANCHISE GUIDE (CCH) ¶ 15,697, 2016 WL 541115 (D.N.J. Feb. 9, 2016) (noting that although harm to reputation and harm to property are potential bases for showing irreparable harm, plaintiff's evidence thereof was insufficient).
through a legislative solution. In that regard, currently working its way through Congress is the Trademark Modernization Act of 2020 (TMA). Section 6 of the TMA would amend Section 34 of the Lanham Act to provide a plaintiff seeking an injunction with a rebuttable presumption of irreparable harm upon a finding of a likelihood of success on the merits. The TMA to date has received substantial bipartisan support and could be enacted later this year.

IV. Post-Lanham Act Legislative Developments

Although at the time of its enactment the Lanham Act represented a significant advancement in terms of modernizing trademark law and codifying judicial precedent, by the 1980s, it was sorely in need of an update. Two legislative developments that resulted in important changes to the Lanham Act are of particular note. The first was the passage of the Trademark Law Revision Act (TLRA), which was enacted November 16, 1988, with an effective date of November 16, 1989. The second was the passage of the Federal Trademark Dilution Act (FTDA), which became effective on January 16, 1996, and was later amended in 2006.

Two changes were made to trademark registration procedures under the TLRA that have had a significant impact on U.S. based businesses, including those involved in franchising. The first was the addition of a prospective use registration basis under Section 1(b). Prior to enactment of the TLRA, the only basis upon which a U.S.-based business could seek registration of a trademark was use of the trademark in commerce. Foreign-based businesses, however, had the option of pursuing registration either based on use in commerce (Section 1(a)) or ownership of a registration of their trademark for the same goods and services outside of the United States (Section 4(d)). When the application to register was pursued on the latter basis, foreign-based businesses were not required to demonstrate use in commerce in the United States as a prerequisite to obtaining a federal registration. One of the expressed rationales for enactment of the TLRA was to eliminate the advantage foreign companies enjoyed in applying for U.S.

77. Id. § 1051(a).
78. Id. § 1126(d).
trademark rights.\textsuperscript{80} The TLRA leveled the playing field with foreign-based businesses by providing that U.S. trademark owners could also seek to register their trademarks based on a \textit{bona fide} intent to use the trademark in commerce.\textsuperscript{81}

The TLRA also took steps to address another unfair advantage accorded to foreign entities relating specifically to priority of rights vis-à-vis U.S.-based businesses resulting from foreign entities’ seeking registration of their trademarks outside of the United States. Before the TLRA’s enactment, at least one court had held that foreign nationals establish constructive nationwide use for purposes of registration of their trademarks in the United States upon filing of an application for registration in their home countries.\textsuperscript{82} This constructive nationwide use gave the foreign applicant a right of priority for six months in seeking registration in the United States pursuant to Section 44(d).\textsuperscript{83} Before the TLRA’s enactment, U.S.-based businesses were hampered by the fact that constructive nationwide use did not arise until the issuance of a federal registration for the subject trademark. This proved to be a particularly inequitable result when prosecution of the U.S. entity’s trademark application took an extended period of time. The TLRA addressed this imbalance by conferring constructive use rights effective from the filing date of an application upon issuance of a federal registration based on the subject application.\textsuperscript{84}

Dilution is an additional layer of protection available to owners of famous trademarks. Two different types of dilution are recognized under the law: blurring and tarnishment. Dilution by blurring occurs when consumers encounter use of the famous mark by a third party in a nonconfusing way to identify goods or services different from those offered by the trademark owner (think KODAK bicycles or ROLLS ROYCE restaurants). Dilution by tarnishment occurs when a third party’s use of a famous mark tarnishes or degrades the positive association enjoyed by the mark in the mind of consumers (think STARBUCKS adult cartoons or BURGER KING X-rated

\begin{footnotesize}

Foreign countries, such as Japan, which do not require actual use of marks in commerce prior to registration, can apply for registration of popular U.S. marks, such as Coca-Cola, in their home country. This effectively precludes U.S. companies from using their marks on an international basis without obtaining licenses for use of their own name abroad. By joining the countries which allow prospective use trademark filings, U.S. companies not only have a means by which they can assure that a mark is not used abroad prior to their own entry into the marketplace, but also have a retaliatory tool against foreign companies.


\textsuperscript{82} SCM Corp. v. Langis Foods Ltd., 539 F.2d 196, 201 (D.C. Cir. 1976).

\textsuperscript{83} Id.

\textsuperscript{84} 15 U.S.C. § 1057(c).
\end{footnotesize}
movies). Dilution nearly became incorporated in the federal trademark law as part of the TLRA, because dilution protection was included in early versions of the bill that the Senate passed. The House of Representatives, however, did not agree, resulting in the final version of the TLRA omitting any reference to dilution.

Notwithstanding the federal reluctance to enact comprehensive dilution legislation, states were more receptive to enacting such legislation. Massachusetts became the first state to adopt an antidilution statute in 1947.85 After the United States (now International) Trademark Association created a model antidilution statute in 1964, fifteen states adopted that statute into their laws.86 The United States Trademark Association amended the language of the model antidilution statute in 1992 to clarify that such protection is only available for famous marks.87

Finally, in 1996, Congress adopted a federal dilution statute with the passage of the Federal Trademark Dilution Act (FTDA), which was enacted effective January 16, 1996.88 That statute was later amended in 2006 by legislation referred to as the Trademark Dilution Revision Act (TDRA).89 The federal antidilution law did not replace or preempt state antidilution laws; it only extended an additional layer of protection to famous marks.

The 2006 amendment to federal antidilution law was prompted in great part by the U.S. Supreme Court’s decision in Moseley v. V Secret Catalogue, Inc.90 There, the owner of the VICTORIA’S SECRET trademark brought a trademark infringement and dilution action against an adult novelty store named “Victor’s Little Secret.” The district court granted summary judgment to the trademark owner on its dilution claim, which was affirmed by the Sixth Circuit. The Supreme Court, however, reversed holding that the FTDA unambiguously required the plaintiff to demonstrate actual dilution, rather than a likelihood of dilution, by objective evidence, which the plaintiff had failed to do.91

Trademark owners and the trademark bar were understandably quite upset with the holding in Moseley and, with the International Trademark Association serving as a driving force, the TDRA was passed in 2006. The TDRA made a number of significant amendments to federal antidilution law including:

• The actual dilution requirement was replaced with a less stringent requirement that only a “likelihood of dilution” be established to prevail;

85. 4 McCarthy, supra note 58, § 24.77.
86. Id.
87. Id.
91. Id. at 422–43.
• A famous mark could be diluted without establishing first a likelihood of confusion;
• The definition of marks qualifying as “famous” was amended;
• Both dilution by blurring and dilution by tarnishment were expressly defined; and
• Federal registration was not a prerequisite to invoking the FTDA. 92

Since the passage of the FDTA and TDRA, some franchisors whose marks have been found to qualify as famous have been successful in establishing dilution claims under federal law. 93

V. Recovery of Profits for Trademark Infringement

Possibly leaving the best (but certainly the most recent) legal development for last, is the issue of whether proving willful infringement is a prerequisite to a trademark owner’s recovering an accounting of profits from the defendant in a trademark infringement action. In that regard, 15 U.S.C. § 1117(a) currently provides:

When a violation of any right of the registrant of a mark registered in the Patent and Trademark Office, that violation of Section 43(a) or (d), or a willful violation under Section 43(c), have been established in a civil action arising under this Act, the plaintiff shall be entitled, subject to the provisions of Sections 29 and 32 and subject to the principals of equity, to recover (1) defendant’s profits . . . .

Significantly, Congress added the italicized language to that section in a 1999 amendment. Although some courts have read that amendment as clarifying only that willfulness was required to recover an accounting for claims of dilution under Section 43(c) of the Lanham Act, and not for claims of trademark infringement or unfair competition under Section 43(a),94 others held that amendment had no effect on their existing precedent requiring willful infringement as a prerequisite for a recovery of profits under

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93. See, e.g., Doctor’s Assocs., Inc. v. Patel, Bus. Franchise Guide (CCH) ¶ 16,259 (S.D.N.Y. Sept. 26, 2018) (finding SUBWAY® mark was entitled to protection under federal antidilution law); Crossfit, Inc. v. Quinnie, 232 F. Supp. 3d 1295 (N.D. Ga. 2017) (plaintiff’s CROSSFIT® mark found to be famous under federal antidilution law and entitled to protection from defendant’s “blurring” use of “Krossfit”); McDonald’s Corp. v. McSweet LLC, 112 U.S.P.Q.2d 1268, 1282 (T.T.A.B. 2014) (McDonald’s family of “MC” marks found to be famous under the federal antidilution law and an adequate basis to oppose registration of applicant’s MCSWEET mark for “pickled gourmet vegetables, namely, pickled cocktail onions, pickled garlic, and pickled, marinated olive medley and pickled asparagus” on the grounds of dilution by blurring); Marblelife, Inc. v. Stone Res., Inc., 759 F. Supp. 2d 552 (E.D. Pa. 2010) (plaintiff’s MARBLELIFF® mark held to be famous and entitled under the federal antidilution statute). But see Starbucks Corp. v. Wolfe’s Borough Coffee, Inc., 736 F.3d 198 (2d Cir. 2013) (STARBUCK’S® mark is famous within the meaning of the federal antidilution law but no blurring or tarnishment was found as a result of third-party use of MR. CHARBUCK’S or CHARBUCK’S BLEND).
Section 1125(a).\textsuperscript{95} With respect to recovering an accounting of profits for traditional trademark infringement under Section 1125(a), there has traditionally been a split in the circuits as to whether there was a requirement that the trademark owner prove a defendant's infringement was willful or intentional. For example, the First, Second, Eighth, and Ninth Circuits have stated that proof of willful infringement was a prerequisite to recover an infringer's profits.\textsuperscript{96} The Federal Circuit, relying on Second Circuit law, similarly held, although, as discussed below, its holding did not withstand the Supreme Court's scrutiny.\textsuperscript{97} The Sixth Circuit had not, as yet, expressly ruled on this issue.\textsuperscript{98} Other courts have held that, although willful infringement is not required, it is either one of several alternative bases or justifications for an award of profits\textsuperscript{99} or is a factor to be considered, along with others, in assessing the "principles of equity" as to whether the infringer's profits can be recovered.\textsuperscript{100} As to the latter approach, the Third, Fourth, and Fifth Circuits have adopted lists of nonexclusive factors (including willfulness) that courts should consider in determining whether an accounting of profits is warranted. As the Fifth Circuit recently explained in Retractable Technologies, Inc. v. Becton Dickinson & Co.,

A court considers six non-exclusive factors in determining whether an award of profits as appropriate: "(1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the advocacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public...

\textsuperscript{95} See, \textit{e.g.}, Stone Creek, Inc. v. Omnia Italian Design, Inc., 875 F.3d 426, 441 (9th Cir. 2017), \textit{cert. denied}, 138 S. Ct. 1984 (2018).

\textsuperscript{96} Merck Eprova A.G. v. Gnosis S.p.A., 760 F.3d 247, 262 (2d Cir. 2014) ("Under any theory, a finding of defendant's willful deceptiveness is a prerequisite for awarding profits."); Fishman Transducers, Inc. v. Paul, 684 F.3d 187, 191 (1st Cir. 2012) ([O]ur cases usually require willfulness . . . to allow . . . a recovery of the defendant's profits."); Spin Master, Ltd. v. Zubmondo Ent'mt, LLC, 944 F. Supp. 2d 830, 846 (C.D. Cal. 2012) ([I]n the Ninth Circuit, willfulness is required to disgorge an infringer of its ill-gotten profits); see also Masters v. UHS of Del., Inc., 631 F.3d 464, 471 (8th Cir. 2011) ([W]e assume, without deciding, that willful infringement is a prerequisite of monetary relief.").


\textsuperscript{99} PlayNation Play Sys., Inc. v. Velex Corp., 924 F.3d 1159, 1170 (11th Cir. 2019) ("An accounting of the defendant's profits is appropriate where: (1) the defendant's conduct was willful and deliberate, (2) the defendant was unjustly enriched, or (3) it is necessary to deter future conduct."); Klein-Boslker, USA, LLC v. Englert, 711 F.3d 1153, 1161 (10th Cir. 2013) ([U]nder the Lanham Act, plaintiffs must show either actual damages or willful action on the part of the defendant as a prerequisite to recover disgorgement of profits.").

\textsuperscript{100} Retractable Techs, Inc. v. Becton Dickinson & Co., 919 F.3d 869, 883 (5th Cir. 2019) (willful infringement being an important factor which must be considered when determining whether an accounting of profits is appropriate); Synergistic Int'l, LLC v. Korman, 470 F.3d 162, 175 n.13 (4th Cir. 2006) ("We agree that willfulness is not an essential prerequisite for a [sic] damages award, but that it remains a highly pertinent factor."); Banjo Buddies, Inc., 399 F.3d at 177–78 (willfulness is only a factor, not an indispensable prerequisite, to a recovery of profits); Roulo v. Russ Berrie & Co., 886 F.2d 931, 941 (7th Cir. 1989) (noting "no express requirement [in the Lanham Act] that the infringer ... willfully infringe ... to justify an award of profits"). The author was one of the counsel for Synergistic International, LLC.
interest in making the misconduct unprofitable, and (6) whether it is a case of palming off.”

Although over the years there have been several attempts to secure Supreme Court review of this issue, the Supreme Court only recently agreed to address the matter in *Romag Fasteners, Inc. v. Fossil, Inc.* There, Romag and Fossil were previously parties to an agreement under which Fossil was allowed to use Romag’s fasteners in connection with Fossil’s leather goods. Romag later discovered that factories in China were making Fossil products bearing imitations of Romag’s fasteners. As a result, Romag sued Fossil for trademark infringement under Section 43(a) of the Lanham Act. Although a jury found in favor of Romag on its trademark infringement claim and that Fossil had acted in “callous disregard” of Romag’s rights, it rejected Romag’s contention that Fossil had acted willfully as the trial court had defined that term. The Federal Circuit affirmed, holding that a prevailing plaintiff’s failure to prove willful infringement was fatal to its claim for profits.

In an opinion that Justice Neil Gorsuch authored, the Supreme Court vacated and remanded the case to the trial court, holding that Section 43(a) does not impose a “willfulness” prerequisite for awarding profits in trademark infringement actions. At the outset, the Court examined the language of 15 U.S.C. § 1117(c) and ruled that it expressly provided a showing of willfulness was only a precondition to a profits award in actions brought for trademark dilution under Section 43(c). As to actions such as Romag’s that were brought under Section 43(a), the Court observed that the statutory language “had never required a showing of willfulness to win a defendants’ profits” and that the Court was not inclined to “read into statutes words that aren’t there,” particularly where the term “willfulness” was used elsewhere in the same statutory provision.

The Court next addressed Fossil’s argument that the willfulness requirement for profits had its origin in the “principles of equity” qualification under Section 1117(a). The Court rejected Fossil’s reliance on the “principles of equity” language for two reasons. First, it determined 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

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103. *See* Romag Fasteners, Inc. v. Fossil, Inc., 29 F. Supp. 3d 85, 107 (D. Conn. 2014) (“[U]nder existing Second Circuit precedent, a plaintiff must establish willful infringement in order to recover an award of the defendant’s profits in a trademark action.”).


106. *Id.* at 1495.

107. *Id.*
“willful.” According to the Court, Fossil’s interpretation was not “an obvious construction of the statute.” Second, contrary to Fossil’s contention, the Court found that it was “far from clear” whether past precedent had consistently required a showing of willfulness before allowing a profits remedy. Although some courts under the Lanham Act and its predecessor had treated willfulness as a prerequisite for a profits award, other cases had expressly rejected this rule. To make things even more confusing, several commentators had articulated different views about the relationship between mens rea and profits awards in trademark cases. At the end of the day, the Court was willing to conclude no more than the defendant’s mental state was a highly important consideration in determining whether an award of profits is appropriate. Yet it rejected willfulness being the inflexible precondition to recovery of profits.

So what impact will Romag have in pursuing an accounting of profits remedy in Lanham Act cases? The answer will likely depend on the jurisdiction. For actions brought in the Third, Fourth, and Fifth Circuits, which have adopted multi-factor tests including the consideration of a defendant’s mental state, nothing will likely change as the Supreme Court in Romag seemingly endorsed that approach. As to those Circuits such as the First, Second, Eighth, Ninth, and Federal, which required proof of a willful infringement as a prerequisite to recover an infringer’s profits, the precedent from those Circuits is no longer good law and these Circuits will likely end up formulating their own multifactor tests for assessing the accounting of profits remedy that includes the defendant’s mental state as one factor. Finally, as to those Circuits like the Tenth and Eleventh that have either identified willfulness as an alternative basis or separate justification for an award of an accounting of profits, any basis or justification that is not arguably predicated on a finding of willfulness on the behalf of the defendant is probably still good law.

Romag’s importance to franchising will be felt in actions franchisors may bring that assert Lanham Act claims either against franchisees or against unrelated third parties. In such actions seeking monetary relief, trademark owners often opt to pursue an accounting of profits, rather than an award of actual damages, because proving the amount of profits is, in most actions, far easier as trademark owners are required only to establish an alleged infringer’s gross revenues; the alleged infringer is then required to establish all elements of cost or deduction from that gross revenues amount. However, proof of actual damages is often a more complicated exercise that may

108. Id. (citing 15 U.S.C. §§ 1117(b), 1117(c), 1118 & 1125(d)(1)(A)(i)–1125(d)(1)(B)(i)).
109. Id. at 1496.
110. Id.
111. Id.
112. Id. at 1496–97.
113. Id.
114. Id.
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require expert testimony to establish. Whether Romag will result in a significant increase in trademark litigation and/or the award of profits remains to be seen.116

Conclusion

Trademark law’s impact on franchising is undeniable. The passage of the Lanham Act, and additional legislation designed to update and modernize it and important case law developments, have resulted in franchise systems being able to develop, protect, and enforce far more robust rights in the designations that they adopt to distinguish themselves from their competition. This trend will surely continue for the foreseeable future.

116. See Bill Donahue, Will High Court’s Trademark Ruling Spark Litigation Wave? Law360 (Apr. 24, 2020, 4:45 PM EDT), https://www.law360.com/articles/1267186 (noting that although Fossil and its supporters warn that the lack of a willfulness requirement could lead to more baseless lawsuits or complicate efforts to settle even routine trademark cases, many practitioners believe empowering district courts to use plenty of discretion in awarding profits including consideration of the defendant’s mental state will avoid the “sky is falling” problems warned of by Fossil). The author is in accord with those who share the latter view.