INTELLECTUAL PROPERTY: PROTECTING THE BRAND

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I. **Brand Protection: What Is It? Why Is It Important?**

A. Introduction

Trademarks[1] are the life blood of every franchise. Increasingly, the most important asset a franchisor can bring to the market is the right to rely upon the quality and good will associated with the franchisor's brand and trademarks.[2] These brands and marks are recognized as the number one asset in driving the success of the franchise and as one of the key factors in drawing new franchisees to the franchise system.

B. What is a Trademark?

A trademark is anything—symbols, words, numerals, pictures, slogans, colors, configurations, sounds, scents, the appearance of three-dimensional objects, or virtually any other indicia or any combination of them—that identifies a company's particular goods and services and distinguishes them from the goods and services of others.

The term "brand" is not a legal term. It is used colloquially in business to refer to a corporate or product name, a business image, or a trademark.

Trademark law seeks to protect the good will a company builds in its products and services and to ensure that customers will be able to trust that the goods and services sponsored by the mark's owners will live up to the customer's expectation. One of the chief purposes of the trademark laws is to prevent the consumer from being confused or deceived in to buying a competitor's product or services by mistake.

C. How Strong is Your Trademark?

Not all trademarks are of equal strength. There is a definite pecking order that exists for the strength of trademarks. All things being equal, choosing a mark higher in the pecking order will allow you to more easily use the enforcement mechanisms discussed below to keep your competition from taking advantage of your goodwill:

[1]For simplicity, the broader terminology "trademark" will frequently be used to describe both trademarks and service marks. A trademark identifies products, while either "trademark" or "service mark" can be used to identify services. See 15 U.S.C. § 1127. Frequently the same mark is used as both a trademark (e.g., "Taco Bell" for burritos) and a service mark (e.g., "Taco Bell" for restaurant services).

[2]DAVID A. AAKER & ERICH JOACHIMSTHALER, BRAND LEADERSHIP 19 (2000) (value of Coca-Cola and Microsoft brands were estimated to be $83.8 billion and $56.7 billion, respectively).

1. The strongest marks are fanciful marks, which are coined or made-up words (for example, EXXON for gasoline).[3]

2. The next strongest marks are arbitrary marks, which are words that have nothing to do with the product or service (for example, AMAZON for book selling, APPLE for computers, TIDE for detergent).

3. The next strongest marks are suggestive marks – words that suggest but don't describe the goods or services (for example, COPPERTONE for suntan oil, CORK 'N CLEAVER for restaurant services).[4]

4. Next in the order of strength are descriptive marks – words that describe the goods or services. Descriptive terms can be used as marks. Yet, because all competitors must be free to use terms that describe their products or services, a longstanding rule of trademark law is that descriptive marks cannot be claimed *exclusively* or registered in the Principal Register at the U.S. Patent and Trademark Office (USPTO), at least not until the user can show its mark has "acquired distinctiveness" through continuous and substantially exclusive use with the relevant products or services over a long period (five years being the presumptive benchmark). Showing "acquired distinctiveness is generally a difficult and expensive proposition, and if others adopt the same or a similar mark during the first years of use it is an impossibility, resulting in forced co-existence. Marks based on person's names or geographic locations are normally treated as "descriptive" marks. Examples of marks that have been held to be descriptive are: "Giant Hamburgers" for hamburgers and restaurant services,[5] "Pestaway" for pest control services,[6] "Beef & Brew" for restaurant services,[7] "Vision Center" for optical clinic services,[8] "First Bank" for a banking services,[9] "Platinum" for home loan mortgage services,[10]

[3]Exxon Corp. v. Xoil Energy Res., Inc., 552 F. Supp. 1008, 216 U.S.P.Q. (BNA) 634 (S.D.N.Y. 1981).
[4]Cork'N Cleaver of Colo., Inc. v. Keg'N Cleaver of Utica, Inc., 192 U.S.P.Q. (BNA) 148 (N.D.N.Y. 1975).
[5]Giant Food, Inc. v. Nation's Foodservice, Inc., 710 F.2d 1565, 218 U.S.P.Q. (BNA) 390 (Fed. Cir. 1983).
[6]Couhig's Pestaway Co. v. Pestaway, Inc., 278 So. 2d 519, 179 U.S.P.Q. (BNA) 112 (La. Ct. App. 1973).
[7]beef & brew, inc., v. Beef & Brew, Inc., 389 F. Supp. 179, 185 U.S.P.Q. (BNA) 531 (D. Or. 1974).
[8]Vision Ctr. v. Opticks, Inc., 596 F.2d 111, 202 U.S.P.Q. (BNA) 333 (5th Cir. 1979).
[9]First Sav. Bank, F.S.B. v. First Bank Sys., Inc., 101 F.3d 645, 40 U.S.P.Q.2d (BNA) 1865 (10th Cir. 1996).
[10]Platinum Home Mortgage Corp. v. Platinum Fin. Group, Inc., 149 F.3d 722, 47 U.S.P.Q.2d (BNA) 1587 (7th Cir. 1998).

"Washington Speakers Bureau" for a lecture agency,[11] and "Fast-Fix Jewelry Repairs" and "Jewelry Repair Center" for jewelry repair.[12]

5. Next come generic terms – words that state what the goods or services are (for example, CAR for an automobile). You cannot ever register a generic term, no matter the duration of use, and using it gives you no rights to stop others from using it too.

In addition to a marks "distinctiveness" on the spectrum described above, another measure of "strength" or "weakness" is the number of somewhat similar marks already in use. Where multiple similar marks exist, each mark necessarily is weak, and thus its owner will have more difficulty preventing the next somewhat similar use.

II. <u>Initial Steps to Protect the Brand</u>

A. <u>Searching Trademark Availability—United States</u>

Before incurring the expense of adopting a trademark, preparing packaging and promotional material, and filing a trademark application, a commercial search should be conducted to determine the availability of the trademark. Commercial searches of marks consisting of words, letters, or numbers often encompass trademarks registered and pending in the PTO, state trademark registrations, trademarks that are in use but not registered (common law trademarks), trade names, and domain names, and are available through a number of searching services. Commercial searches of trademarks consisting solely of a design or logo are presently limited to marks registered and pending in the PTO.

Even a commercial search is no guarantee that all pertinent common law users will be revealed because some users do not show up in the databases normally searched. For example, Chi-Chi's national restaurant chain was unable to franchise or otherwise open restaurants in Pittsburgh, Pennsylvania, as a result of not uncovering a prior local user.[13] The determination of the legal availability of trademarks is a process fraught with uncertainties and imperfections. Accordingly, the advice of counsel with specific expertise in trademark matters is strongly recommended.

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[11] Washington Speakers Bureau, Inc. v. Leading Auths., Inc., 33 F. Supp. 2d 488, 49 U.S.P.Q.2d (BNA) 1893 (E.D. Va. 1999), *aff'd*, 217 F.3d 843 (4th Cir. 2000).
[12] Jewelry Repair Enters., Inc. v. E&S Assocs., Inc., Bus. Franchise Guide (CCH) ¶ 10,844 (E.D. Pa. 1996).
[13] ChiChi's, Inc. v. Chi-Mex, Inc., 568 F. Supp. 731, 221 U.S.P.Q. (BNA) 906 (W.D. Pa. 1983).

B. Searching Trademark Availability—Internationally

Availability of a trademark should be reviewed in all countries where use is being considered. Commercial searches can be conducted outside of the United States but usually are limited to registrations and applications. United States search vendors also offer international identical screening searches. One can also obtain availability opinions from attorneys in target countries.

C. Acquiring Rights in a Trademark

In the United States, trademark rights accrue both from common law use and from registration. Although there are distinct advantages to registering your trademark at both the federal and state levels, registration is not a prerequisite to enforcing basic trademark rights, which derive from your use of the mark. At common law, the first to use a trademark acquires exclusive protectable rights in the geographic area in which the first user's trademark is well-known, as well as possibly in areas of natural or probable expansion.[14] Significantly, even a federal registration cannot defeat the common law rights accrued to a user of an unregistered trademark before the filing date of the federal application.

Trademarks have a separate legal existence in each country. Trademark rights in the United States do not establish rights to use the mark in any other country. Other parties may have acquired prior trademark rights in other countries.

D. Benefits of Obtaining a Trademark Registration

There are several benefits and advantages of prompt federal registration of a mark in the United States. The filing of an application for federal registration is constructive notice of the applicant's claim, and deemed constructive use of the mark nationwide. A mere application thus acts as a deterrent to subsequent use of the mark by others, and a registrant has presumptive exclusive rights to the mark nationwide for the goods or services listed in the registration, rather than rights limited to the territory of use. This benefit is especially important to expanding franchisors. Registered marks are presumed to be valid, and owned by the named registrant, an enormous procedural benefit in litigation. The owner of a registered mark may display the "®" with the mark; this provides clear notice of a registration in the mark. Additionally, after a period of five years, the registration becomes "incontestable," and registration provides the owner with the right to make certain requests to U.S. Customs to stop the importation of infringing articles into the United States.

[14] Weiner King, Inc. v. Wiener King Corp., 615 F.2d 512, 204 U.S.P.Q. (BNA) 820 (C.C.P.A. 1980); Parrot Jungle, Inc., Corp. of Fla. v. Parrot Jungle, Inc., Corp. of N.Y., 512 F. Supp. 266, 213 U.S.P.Q. (BNA) 49 (S.D.N.Y. 1981).

Internationally, United States registrations can serve as the basis for foreign registrations in some countries. Registrations in different countries may afford different benefits and are subject to different requirements and procedures. In some countries, registrations are mere formalities. In the U.S., registration requires a substantive examination. Trademark attorneys can advise as to the proper filing system: national filings, International Registrations, multi-national systems.

E. Registering Domain Names

The Internet Corporation for Assigned Names and Numbers ("ICANN') is in charge of the administration of the domain name system. ICANN's stated purpose is "for managing and coordinating the Domain Name System (DNS) to ensure that every address is unique and that all users of the Internet can find all valid addresses. It does this by overseeing the distribution of unique IP addresses and domain names. It also ensures that each domain name maps to the correct IP address…."[15] Through a large number of approved registrars, ICANN allows the registration of domain names on any of the **.aero, .biz, .com, .coop, .info, .museum, .name, .net, .org, .pro** top level domains. Registering a domain name is quite simple, relatively inexpensive and is done on a first come basis. There is, no effort is made to determine the trademark ownership of any particular domain name registered.

Although use only as a domain name is not trademark use, domain names can be used as trademarks and acquire trademark protection

F. Trademark Licensing

Trademark owners may license the use of their trademarks to others provided that the owner maintains control over the quality of the goods and services provided by the licensee under the trademark. Trademark licensing is, in almost all cases, the cornerstone of a franchise system.[16] A trademark license agreement is a legally sanctioned business agreement between the owner of a trademark and another party that desires to use the trademark, including its associated goodwill, as the central element in its business to identify its product and/or service to the public while guaranteeing a uniform level of quality.

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[15] www.icann.org. "The Domain Name System (DNS) helps users to find their way around the Internet. Every computer on the Internet has a unique address - just like a telephone number - which is a rather complicated string of numbers. It is called its 'IP address' (IP stands for "Internet Protocol"). IP Addresses are hard to remember. The DNS makes using the Internet easier by allowing a familiar string of letters (the "domain name") to be used instead of the arcane IP address. So instead of typing 207.151.159.3, you can type www.internic.net. It is a 'mnemonic' device that makes addresses easier to remember." *Id.*

[16] Susser v. Carvel Corp., 206 F. Supp. 636 (S.D.N.Y. 1962), *aff'd*, 332 F.2d 505, 141 U.S.P.Q. (BNA) 609 (2d Cir. 1964).

An indispensable element of a trademark license is quality control.[17] The Lanham Act allows the use of a trademark by someone other than the owner only when the owner exercises sufficient control over the nature and quality of the goods or services sold under the trademark by the other. Under the Lanham Act, the use of a registered trademark by another inures to the benefit of the registrant if the parties are "related companies."[18] A related company is one that is controlled by the owner with respect to the quality of the goods or services.[19] It can be an entity controlled through equity ownership or by an arms-length agreement between two parties.

The significance of quality control is twofold:

1. From a practical perspective, it is clear that the success of the business usually depends on a consistent and uniform level of quality throughout the franchise system.
2. Legally, the franchisor may lose its right in the trademark if it fails to control the nature and quality of the goods or services sold by its franchisees. Quality control is mandatory so that franchisor and franchisees can qualify as "related companies" in order to:
    (i) establish trademark rights;[20]
    (ii) enforce trademark rights against others;[21] and
    (iii) avoid a legal determination of abandonment of the trademark.[22]

It is not sufficient merely to recite a right to control in the franchise agreement to qualify for "related company" status under the Lanham Act. The franchisor should actually exercise this right in practice, or else the license might be held invalid as having been "naked", resulting in an abandonment of protectable rights in the trademark at issue.[23] Because the Lanham Act does not define quality control, it is a factual question as to whether the means of control or the degree of control is sufficiently exercised under the particular circumstances.[24]

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[17] Ky. Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368, 193 U.S.P.Q. (BNA) 649 (5th Cir. 1977).
[18] 15 U.S.C. § 1055.
[19] 15 U.S.C. § 1127.
[20] 15 U.S.C. § 1055, *codifying* Turner v. HMH Pub. Co., 380 F.2d 224, 154 U.S.P.Q. (BNA) 330 (5th Cir. 1967).
[21] Yocum v. Covington, 216 U.S.P.Q. (BNA) 210 (T.T.A.B. 1982).
[22] Heaton Enters. of Nev., Inc. v. Lang, 7 U.S.P.Q.2d (BNA) 1842 (T.T.A.B. 1988).
[23] First Interstate Bancorp v. Stenquist, 16 U.S.P.Q.2d (BNA) 1704 (N.D. Cal. 1990) (uncontrolled license for a mark used for real estate broker services resulting in a finding of a naked license and that the mark was unprotectable).
[24] Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358, 121 U.S.P.Q. (BNA) 430 (2d Cir. 1959); Weight Watchers of Quebec, Ltd. v. Weight Watchers Int'l, Inc., 398 F. Supp. 1047, 188 U.S.P.Q. (BNA) 16, Bus. Franchise Guide (CCH) ¶ 7709 (E.D.N.Y. 1981).

Courts have generally placed an affirmative duty upon franchisors to take reasonable measures to detect and prevent misleading uses of the trademark by licensees (franchisees) who use the franchisor's trademark on products of inferior quality or on unauthorized products.[25]

While in theory there is no legal requirement that a trademark license be in writing,[26] it is clearly a sound business practice to spell out the specific terms of a trademark license as part of a comprehensive, written document which addresses the entire franchise relationship (e.g., the franchise agreement). Doing so protects the franchisor vis-à-vis the franchisee as well as the trademark itself.

The granting clause is the key provision in which the franchisor licenses the franchisee the right to use the trademarks of the system. It should specify whether the right to use the trademarks on particular goods or services in a particular geographic area is exclusive or nonexclusive. If the agreement gives an "exclusive" grant but is otherwise silent as to the rights of the franchisor, it may preclude uses such as those listed in the second clause above unless the circumstances and intent of the parties clearly prove otherwise (e.g., the restaurant franchisor already sold grocery store items). Carefully defining the geographic area of exclusivity and what constitutes encroachment is essential.[27] It is crucial for the franchisor to specifically define and limit any exclusivity granted and/or to reserve specific rights for it or other franchisees. For example, can a franchisor offer the previously franchised products or services on a web site which by its very nature will reach customers within an exclusive territory?[28]

The particular goods and services with respect to which the franchisee is permitted to use the franchisor's trademark should be set forth in specific, clear, and unambiguous language to prevent future misunderstandings. The franchisee should be allowed to use the trademarks only on licensed products or services and, depending on the nature of the business, should be prohibited from selling products or services with other trademarks in conjunction with the franchised business.

The agreement should provide that the franchisee shall only display the trademark in such manner and form as are prescribed by the franchisor's guidelines and standards or as instructed by the franchisor. The franchisor

[25] Jordan K. Rand, Ltd. v. Lazoff Bros., Inc., 537 F. Supp. 587, 217 U.S.P.Q. (BNA) 795 (D.P.R. 1982).

[26] Nestle Co. v. Nash-Finch Co., 4 U.S.P.Q.2d (BNA) 1085 (T.T.A.B. 1987).

[27] *See In re* Vylene Enters., Inc., 90 F.3d 1472 (9th Cir. 1996).

[28] *Compare* Emporium Drug Mart, Inc. v. Drug Emporium, Inc., No. 71 1140012600, Bus. Franchise Guide (CCH) ¶ 11966 (AAA Sept. 2, 2000) (enjoining franchisor's Internet sales to customers located in complaining franchisees' territories) *with* Hales v. Conroy's, Inc., Dispute Resolution No. 1220022498, Bus. Franchise Guide (CCH) ¶ 12,177 (JAM June 14, 2001) (franchisor allowed to continue to conduct toll-free telephone and Internet sales in franchisee's territory).

should reserve for the franchisor the right to approve all advertising and other materials that display the trademark.

G. Trademark Usage Guidelines

Trademarks should be used consistently. They should be used as adjectives (not as nouns or verbs), followed by the generic names for the products or services (e.g., "WHOPPER® sandwiches"). Plural and singular forms should not be interchanged (e.g. WHOPPER®, not WHOPPERS) Appropriate trademark symbols should be used to put others on notice that one is claiming trademark rights, namely, "®" with registered marks and "™" or "SM" with unregistered marks. Use of "®" with unregistered trademark may result in claims of fraud.

III. Brand Issues in the Geographical Expansion of Franchises: "Whether and When to Kick the Sleeping Dog"

The goal of most franchised businesses is to achieve household name recognition on a nationwide basis. Achieving that goal through nationwide expansion, however, is easier said than done. Expansion raises a number of significant issues, not the least of which is whether the name of the franchised concept is identical or confusingly similar to the name of a similar business in the geographic areas under consideration and/or in other remote areas where the franchisor is not currently operating, but may be so doing in the future. Indeed, at the time new geographic areas are being preliminarily assessed for expansion, or even before, a franchisor or its agents may be surprised to discover one or more similar businesses in remote geographic areas operating under the same or a closely similar name. This newly found discovery is often the cause of much consternation for the franchisor. Can the franchisor challenge that third party's use of a confusingly similar name in the remote geographic area? If so, when can or should such a challenge be brought? If the challenge is not brought immediately, does the franchisor risk forfeiting the right to ever challenge that use as a result of "sleeping on its rights"?

A. Priority Considerations

If no federal registration is involved, trademark rights are territorial in nature. In other words, the right of a franchisor to use the franchisor's name will generally extend throughout the geographic areas in which its system does business. As a practical matter, this means that a third party's adoption and use of a confusingly similar name for a similar business in a geographic area remote from the franchisor's system will result in the third party's acquiring rights superior to the franchisor in the third party's geographic area..[29] *See, e.g.*, Commerce Bancorp., Inc. v. Bankatlantic. This is true even where the third party's adoption and use of its name occurs after that of the franchisor so long as

[29] Commerce Bancorp., Inc. v. Bankatlantic, 285 F. Supp. 2d 475 (D.N.J. 2003).

the third party's adoption was both in a geographically remote area and in good faith (e.g., was not done with knowledge of the franchisor's operations). Thus, where the franchisor attempts to expand its operations into the remote area in which a third party has established a similar business under a similar name in good faith, the franchisor may find itself subjected to a lawsuit by that third party and ultimately be enjoined from expanding into that area. At the same time, the third party cannot expand its operations into the geographic area in which the franchisor's system operates.

These territorial rules change to some extent where the franchisor owns a federal trademark registration. Under the federal trademark statute, federal registrants currently enjoy "nationwide constructive priority" dating from the filing dates of their trademark applications. This means that a franchisor who owns a federal trademark registration will, under certain circumstances, be able to enjoin a third party's subsequent adoption and use of a name confusingly similar to the franchisor's name for a similar business even where the third party (1) adopted its name without knowledge of the franchisor's operations and (2) used that name in a geographic area in which the franchisor does not currently do business. However, where the third party's adoption of its name in a remote geographic area is prior to the franchisor's nationwide constructive priority date, the third party's rights in its name will be superior to those of the franchisor in the geographic area in which the third party has operated continuously.[30] Under those circumstances, the third party will in most cases be able to enjoin the franchisor from expanding its operations under its name into that area.

Moreover, a franchisor's ill-conceived challenge to a third party's rights to use its name in a remote geographic area can have an even more devastating result than a failed expansion effort. The third party may be sufficiently riled by the franchisor's activities to institute a challenge to the franchisor's right to maintain its federal trademark registration for its name. In the event that the third party's adoption and use of its name predates the franchisor's nationwide constructive priority date and the franchisor's federal registration is less than five years old that challenge will likely succeed, a result that could throw the franchisor's expansion plans and existing system into disarray.

A franchisor's careful and thorough assessment of the issue of priority, therefore, is a key factor in the decision of whether or not to challenge a third party's use of a similar name for a similar business in a remote geographic area.

B. Timing Considerations

The fact that a franchisor has a federal registration with a constructive nationwide priority date prior to a third party's adoption and use of a confusingly similar name for a similar business in a remote geographic area does not end the

[30] Bob's Disc. Furniture, Inc. v. Bob's Disc. Off-Price Superstores, Inc., 353 F. Supp. 2d 188 (D. Me. 2005).

inquiry. In order to successfully challenge a third party's remote use of a confusingly similar name for a similar business, the franchisor must establish that confusion in the marketplace is likely.[31] This ordinarily requires the franchisor to show that it has entered or is about to enter into the geographic area in which the third party user is operating. This principle is called the "Dawn Donut" rule, named after the Court's decision in Dawn Donut Co. v. Hart's Food Stores, Inc.[32] While franchisors often attempt to satisfy the "about to enter" requirement of Dawn Donut by pointing to nonspecific, general plans to expand in the future, courts following Dawn Donut uniformly require the franchisor to go further and provide "concrete" evidence that it has imminent plans to expand into the third party's geographic area. A sufficient level of concreteness can be established in a number of ways including evidence of the following: (1) a recently signed franchise agreement for the new geographic area; (2) a bona fide franchise prospect for the new area that is balking at signing a franchise agreement because of the third party's conflicting use; (3) a planned opening date for the new franchise location in the new geographic area; and/or (4) the new area franchisee's attendance at franchisor sponsored pre-opening training.

Because a franchisor cannot successfully challenge a remote third party user of a confusingly similar name until it has entered or is imminently about to enter the third party's geographic area, a franchisor's failure to challenge the third party's use until expansion is imminent will not be viewed as "sleeping on one's rights," i.e., the equitable defense of laches. Thus, the fact that the franchisor may have knowledge of a third party's remote operations under a confusingly similar name for many years prior to the franchisor's expansion will **not** preclude a franchisor having nationwide constructive priority from later expanding into that third party's geographic area. [33]

C. Recent Application

The question of laches becomes much closer in cases where the franchisor attempts to expand into a third party's geographic area where the franchisor's system operated immediately adjacent to the third party's geographic area for some time prior to that expansion. This issue was recently considered by the Court in Synergistic International, Inc. v. Windshield Doctor Inc.[34] In that case Synergistic, the owner of the GLASS DOCTOR franchise system, sought to expand its operations into previously unserved areas of Los Angeles County in late 2002. Defendants, operators of a closely similar business under the name WINDSHIELD DOCTOR, asserted that Synergistic had unreasonably delayed in taking any action against them because another of Synergistic's GLASS DOCTOR franchisees in Los Angeles County (namely Pasadena) as well as a franchisee in Orange County, located immediately adjacent to Los Angeles

[31] Brennan's, Inc. v. Brennan's Rest., L.L.C., 360 F.3d 125 (2d Cir. 2004).
[32] Dawn Donut Co. v. Hart's Food Stores, Inc., 267 F.2d 358 (2d Cir. 1959).
[33] What-A-Burger of Va., Inc. v. Whataburger, Inc., 357 F.3d 441 (4th Cir. 2004).
[34] Synergistic Int'l, Inc. v. Windshield Doctor Inc., 66 U.S.P.Q.2d 1936 (C.D. Cal. 2003).

County, had coexisted with defendants' WINDSHIELD DOCTOR business since March of 1999. Defendants further argued that, if they were precluded from doing business under the WINDSHIELD DOCTOR name at this time, they would be prejudiced and their $1.3 million investment in their business would be wiped out.

The Court held that Synergistic was entitled to expand into the areas of Los Angeles County in question and to enjoin defendants' further use of WINDSHIELD DOCTOR. In doing so, the Court found that Synergistic's existing Los Angeles and Orange County franchisees, while operating in close proximity to defendants' business, were not in direct competition with defendants. Rather, the Court observed that defendants and Synergistic's existing franchises were operating in separate and discrete areas of the same metropolitan area. The Court based its observations in part on Synergistic's evidence that the existing telephone directories in the geographic areas serviced by defendants and by Synergistic's Anaheim and Pasadena franchises failed to show any common listings. On the other hand, the Court found that the territory of Synergistic's new Los Angeles County franchisee would directly overlap with defendants' territory and that Defendants and the new franchisee would be advertising in at least five of the same telephone directories. The Court held that Synergistic had not inexcusably delayed in taking action against the Defendants because Synergistic had initiated the action promptly only after first meeting Dawn Donut's requirements -- creation of concrete plans for its imminent expansion into areas of Los Angeles County occupied by Defendants and in which Synergistic's franchise system had not previously operated.

The message to be taken from Dawn Donut and its progeny is that timing is an equally important consideration in the successful pursuit of name disputes in remote geographic areas and that delaying the institution of a legal action until the franchisor's plans to expand into that area are imminent can result in a greatly increased likelihood of success for the franchisor. Situations involving large metropolitan areas (capable of supporting multiple franchisees) should be evaluated with particular care so that the timing of a particular legal challenge is properly explained in light of the geographic realities of the marketplace and any prior presence in the region. Thus, while addressing name disputes as part of a franchise system's expansion plans can be perplexing, such disputes are capable of being analyzed and handled in a manner in which success can be predicted with a relatively high level of certainty.

IV. **<u>Use of Preliminary Injunctions, Equitable Relief and Other Measures to Enforce Rights in a Brand</u>**

A. <u>Preliminary Injunctions – Procedural Issues</u>

Stopping infringement is almost always a key objective in trademark litigation. The question of whether to move for a preliminary injunction depends on the assessment of a number of factors including:

- the scope and nature of the defendant's activities,
- the extent those activities are hurting the plaintiff,
- how long the plaintiff has waited in instituting the action,
- whether plaintiff can put together an evidentiary showing meeting the required elements of a preliminary injunction and,
- whether the plaintiff can afford the bond which defendant may be entitled to have posted if the injunction is granted.

One of the most attractive features of a preliminary injunction is that, as practical matter, securing such relief often results in a prompt disposition of the case. If the plaintiff prevails at the preliminary injunction stage, the defendant may alter its activities to avoid infringement in a manner which makes no business sense to reverse later. If the plaintiff loses, defendant's usage may become too well entrenched to reverse later.

1. Applicable Rules Regarding Injunctive Relief.

Rule 65 of the Federal Rules of Civil Procedure provides the legal authority for seeking preliminary injunctive relief.

Section 43 of the Lanham Act, 15 U.S.C. § 1116 (2000), provides that courts may issue injunctions to prevent "the violation of any right of the registrant of a [trademark] registered in the Patent and Trademark Office or to prevent a violation under [Section 43] (a). . . ."

2. Prefiling Considerations.

A key consideration in the pursuit of preliminary injunctive relief is the standard for such relief utilized by a particular forum. More often than not courts rely on the following factors:

- Whether the plaintiff has demonstrated a likelihood of success of the merits;
- whether the plaintiff will suffer irreparable harm if the injunction is not granted;
- whether the harm to the plaintiff outweighs any harm which granting the injunction will impose on the defendant; and

- whether the public interest will be adversely affected by the granting of the injunction.

Significantly, however, the standard is not static and varies from circuit to circuit. For example, certain circuits seem to place greater emphasis on the presence or absence of irreparable harm.[35] Other circuits require that the movant demonstrate a **substantial** likelihood of success on the merits.[36]

3. Assessment of Applicable Local Rules and Procedures.

(a) Local Rules

Counsel would do well to review carefully the local rules of the forum in which the motion for preliminary injunction is to be filed to determine that particular court's procedures and requirements for seeking injunctive relief. Failure to comply with the unique procedures of the court may result in the denial of plaintiff's motion on procedural, as opposed to substantive, grounds.[37]

(b) Identity of Judge and Judicial Preferences

Once the identity of the judge who will hear plaintiff's motion for preliminary injunction is ascertained, it is also advisable and extremely helpful to (i) contact the judge's staff to determine how that particular judge is most comfortable in handling injunction matters (e.g. presentation of live evidence versus ruling on the pleadings, additional pleading requirements, scheduling); (ii) do a search on judge's injunction practices and experience in the field of intellectual property; and (iii) review available biographical information.

(c) Assessment of Issues Relating to Personal Jurisdiction and Venue

It is not unusual for plaintiffs to take relatively aggressive positions in choosing a forum when moving for preliminary injunction relief. However, consideration must be given to a defendant's likely response on the issue of personal jurisdiction and venue. Where these issues are substantially in question, a plaintiff's motion for a preliminary injunction may be derailed or

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35 Fed. Express Corp. v. Fed. Expresso, Inc., 201 F.3d 168 (2d Cir. 2000); Schulz v. United States Boxing Ass'n, 105 F.3d 127 (3d Cir. 1997); Microstrategy Inc. v. Motorola, Inc., 245 F.3d 335 (4th Cir. 2001).

36 Sunbeam Prods., Inc. v. West Bend Co., 123 F.3d 246 (5th Cir. 1997), overruled in part, Devices v. Traffix Marketing Displays, Inc.532 U.S. 23 (2001); Rock & Roll Hall of Fame & Museum, Inc. v. Gentile Prods., 134 F.3d 749 (6th Cir. 1998).

37 Slip Track Sys., Inc. v. Metal Lite, Inc., 159 F.3d 1337 (Fed. Cir. 1998) (affirming the denial of plaintiff's motion for preliminary injunction was affirmed by the Federal Circuit in part because of plaintiff's failure to comply with the local rules for the Central District of California).

significantly delayed pending consideration of a defendant's motion to dismiss and/or transfer venue, sometimes with disastrous results.[38]

B. Preliminary Injunctions – Timing

1. Impact of Delay on Preliminary Injunction Motions.

A common strategy employed by the defendant to defeat a motion for preliminary injunction in a trademark infringement case is to demonstrate a lack of irreparable injury to the plaintiff. While the affirmative defense of laches on the merits of the case requires the defendant to establish that the plaintiff unreasonably and inexcusably delayed in seeking relief and that the defendant was prejudiced, a mere demonstration of delay at the preliminary injunction stage will often severely uncut the plaintiff's claim of immediate and irreparable injury from continuing infringement.[39]

The general rule in evaluating the issue of delay is that time should run from the date the plaintiff **knew** or **should have known** of defendant's infringement to the date the plaintiff filed its preliminary injunction motion.[40]

One factor courts have consistently cited in holding that a plaintiff "should have known" of defendant's adoption and use of an infringing mark is where plaintiff had a trademark monitoring program in place that should have discovered the infringement.[41]

2. Factors Affecting the Decision of Whether Delay is Excusable Or Inexcusable.

It is well established that the requirement that a plaintiff must seek injunctive relief timely is flexible and that courts look to the facts of each case to

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[38] Origins Natural Res., Inc. v. Kotler, No. 01 Civ. 1881, 2001 WL 492429 (S.D.N.Y. May 8, 2001) (defendant successfully stayed consideration of plaintiff's motion for a preliminary injunction by filing a motion to dismiss for lack of personal jurisdiction); *See also* Alpha Tau Omega Fraternity v. Pure Country, Inc., 185 F. Supp. 2d 951 (S.D. Ind. 2002); (staying determination of plaintiffs' preliminary injunction motion in order to resolve defendants' motion to dismiss, or to transfer).

[39] Christopher Norman Chocolates, Ltd. v. Schokinag Chocolates N. Am., Inc., 270 F. Supp. 2d 432 (S.D.N.Y. 2003).

[40]Kraft Foods Holdings, Inc. v. Helm, 205 F. Supp. 2d 942 (N.D. Ill. 2002). Foods Holdings, Inc. v. Helm(laches affirmative defense to motion for a preliminary injunction rejected even though defendant had used "King Velveeta" name for 17 years prior to commencement of suit because there was no evidence plaintiff was aware of such use). But see GoTo.com, Inc. v. Walt Disney Co.[40] (court instead focused on the delay between the time the plaintiff first filed the action and the time plaintiff moved for a preliminary injunction).

[41] Reedco, Inc. v. Hoffmann-La Roche, Inc., 667 F. Supp. 1072 (D.N.J. 1987) (relief denied; applying constructive knowledge standard based on plaintiff's trademark monitoring activities); Warner Lambert Co. v. McCrory's Corp., 718 F. Supp. 389 (D.N.J. 1989) (relief denied; plaintiff's claim that it had no actual knowledge rejected given its practice of monitoring the marketplace).

determine the consequences of a plaintiff's delay. Among the factors that courts have found significant to the analysis of delay are the following:

(a) Delay caused by Good Faith Investigation

A delay caused by a plaintiff's good faith efforts to investigate an infringement does not rebut the presumption of irreparable harm.[42] On the other hand, a plaintiff's claim of a need to investigate will be rejected where a court finds that the plaintiff was already in possession of all of the necessary facts regarding the alleged infringement prior to the period of investigation.[43]

(b) Evidence of **Active** Settlement Negotiations

Delays resulting from plaintiff's good faith attempts to negotiate a settlement with the defendant have been held not to result in a bar to preliminary injunction relief.[44] On the other hand, once active settlement negotiations cease, further delay may result in the denial of a plaintiff's preliminary injunction motion.[45]

(c) Change in Scope or Nature of Infringement

Under some circumstances a material change in the nature or scope of defendant's infringement will excuse a plaintiff's decision not to immediately sue for infringement or move for preliminary injunctive relief when the defendant's infringement was first discovered.

(i) Different products, different channels.

Big O Tires, Inc. v. Bigfoot 4x4, Inc.[46] (delay is excusable where an alleged infringer at first sold different products in a different market through different distribution channels later coming into competition with the plaintiff);

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[42] *See* King v. Innovation Books, 976 F.2d 824 (2d Cir. 1992) (author's eight-month delay in filing claim did not rebut presumption of irreparable harm because he spent that time trying to obtain a copy of the infringing screenplay and movie), *aff'd in part, vacated in part and remanded subnom*; King v. Allied Vision, 65 F.3d 1051 (2d Cir. 1995). Fisher-Price, Inc. v. Well-Made Toy Mfg. Corp., 25 F.3d 119 (2d Cir. 1994) (manufacturer's eight-month delay in filing claim did not rebut presumption of irreparable harm because it had notified its sales force to search for the competitor's product but had been unable to locate it for some five months).

[43] Gidatex, S.R.L. v. Campaniello Imports, Ltd., 13 F. Supp. 2d 420, (S.D.N.Y. 1998).

[44] *See, e.g.*, Times Mirror Magazines, Inc. v. Las Vegas Sports News, L.L.C., 212 F.3d 157 (3d Cir. 2000).

[45] *See, e.g.*, Seiko Kabushiki Kaisha v. Swiss Watch Int'l, Inc., 188 F. Supp. 2d 1350 (S.D. Fla. 2002) (relief denied; court finds three month delay between plaintiff's last communication with defendants and filing of suit is inexcusable).

[46] Big O Tires, Inc. v. Bigfoot 4x4, Inc., 167 F. Supp. 2d 1216 (D. Colo. 2001)

(ii) Different market conditions.

Montblanc-Simplo GmbH v. Staples, Inc.[47] (it is reasonable for a plaintiff to file for relief which it previously had not sought when there is a change in market conditions);

(iii) Expansion of activities.

Calamari Fisheries, Inc. v. Village Catch, Inc.[48](court held that plaintiff had reasonably explained delay for not earlier moving for preliminary injunction because it was not until defendant opened its third restaurant that "a level of consumer confusion far greater than anything plaintiff could reasonably have known from its experience with its two small Boston restaurants" was revealed).

On the other hand, where the plaintiff's evidentiary showing falls short, courts have found the delay to be not excusable.[49]

(d) Plaintiff's Conduct

(i) Litigation Tactics.

Preliminary injunctions in the context of trade shows or other major events are not uncommon. When preliminary injunction motions are filed on the eve of such an event, the plaintiff should expect the court to scrutinize the timing of plaintiff's filing in view of the greatly increased exposure a defendant may face in having its activities enjoined at that time. Accordingly, where it is established that the plaintiff knew of a defendant's activities for a significant period in advance of the trade show or major event and then waited until the eve of the event to file the action and/or move for a preliminary injunction, the court will likely deny such relief.[50]

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[47] Montblanc-Simplo GmbH v. Staples, Inc., 172 F. Supp. 2d 231 (D. Mass. 2001)

[48] Calamari Fisheries, Inc. v. Village Catch, Inc., 698 F. Supp. 994, 1014 (D. Mass. 1988)

[49] *See* New Dana Perfumes Corp. v. Disney Store, Inc., 131 F. Supp. 2d 616 (M.D. Pa. 2001) (rejecting plaintiffs' reliance on the doctrine of "progressive encroachment"); Del-Rain Corp. v. Pelonis USA Ltd., No. 94-CV-587S, 1995 WL 116043, at *6 (W.D.N.Y. Feb. 28, 1995) (plaintiff's claim that the defendant "dramatically changed its packaging and advertising . . . finds no support in the record") (internal quotations omitted); Bear U.S.A. v. A.J. Sheepskin & Leather Outerwear, Inc., 909 F. Supp. 896 (S.D.N.Y. 1995) (plaintiff entitled to a preliminary injunction as to defendant's infringing line of boots and jackets but not defendant's infringing jeans and shirts that had been on the market three months before plaintiff sought its preliminary injunction).

[50] *E.g.*, Media Group, Inc. v. Ontel Prods. Corp., No. CIVA300CV2034, 2001 WL 169776 (D. Conn. Feb. 14, 2001) (injunctive relief denied in view of plaintiff's moving for a preliminary injunction on the eve of a major trade show when the facts established that plaintiff had been aware of defendant's alleged infringement more than six months); Century Time, Ltd. v. Interchron, Ltd., 729 F. Supp. 366 (S.D.N.Y. 1990) (plaintiff's motion for a preliminary injunction filed on the eve of a trade show denied where plaintiffs, by their own admission, had known about defendant's infringing product for more than six months as plaintiff's request smacked of "tactical maneuvering").

(ii) Other conduct suggesting plaintiff apathy

In a number of recent cases courts have scrutinized the conduct of the plaintiff in assessing the issue of delay. In particular, courts have been influenced by any conduct relating to the litigation which suggests a lack of urgency. *See* Fed. Express Corp. v. Federal Expresso, Inc.[51], ("although there apparently was no delay by Federal Express in bringing the present action, this Court may take into account whether or not a plaintiff has been assiduous in pursuing the litigation once started. At the oral argument of this appeal, which took place nearly a year after the district court denied the preliminary injunction motion, Federal Express informed us that nothing had been done in the district court to speed the proceedings toward an ultimate resolution of the merits. The seeming lack of urgency on the part of a plaintiff who has been denied interim relief tends to confirm the view that irreparable harm was not imminent").

(e) Prejudice to Defendant

Delay in pursuing a preliminary injunction may raise questions regarding the plaintiff's claim that he or she will face irreparable harm if a preliminary injunction is not entered. Where a defendant is able to establish that it was prejudiced by the delay, the plaintiff's motion is subject to denial.[52]

(f) Willful Infringement by Defendant

Several courts have held that the equitable doctrine of laches may only be invoked by a party acting in good faith. Where defendant is found to have engaged in willful infringement, it will not be allowed to rely on the doctrine of estoppel or laches.[53]

(g) Evidence of Substantial Confusion

In addition to protecting legitimate business interests, one of the goals of the Lanham Act is to protect the public from being confused. Accordingly, even in cases where the plaintiff presents insufficient evidence explaining its delay in pursuing a preliminary injunction, such relief may be granted where there is evidence of substantial confusion in the marketplace. Dial-A-Mattress Operating Corp., 841 F. Supp. at 1339.

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[51] Fed. Express Corp. v. Federal Expresso, Inc., 201 F.3d 168, 178 (2d Cir. 2000)

[52] Philip Morris, Inc. v. Allen Distribs., Inc., 48 F. Supp. 2d 844 (S.D. Ind. 1999) (the presumption of irreparable injury may be defeated with a showing that the plaintiff's delay in requesting preliminary injunction relief lulled the defendant into a false sense of security or the defendant acted in reliance on plaintiff's delay).

[53] See Dial-A-Mattress Operating Corp. v. Mattress Madness, Inc., 841 F. Supp. 1339, 1359 (E.D.N.Y. 1994) ("even when a party has been dilatory in enforcing its rights, the courts will not shy away from issuing such relief where to do so would be to aid a second comer who has sought to trade upon the efforts and good will of the first comer").

C. Preliminary Injunction – Substantive Issues

1. Injunctions Requiring Deidentification

It is well established in trademark infringement cases that courts have the power to require infringers to take affirmative steps to distinguish their goods or services from those of the trademark owner. This is a scenario often encountered with "holdover" franchisees (e.g., where a departed franchisee continues to use the franchisor's intellectual property after expiration or termination of its franchise agreement). A preliminary injunction is a powerful tool available to the franchisor to compel a departed franchisee's deidentification from the franchisor's system. Where such relief is sought, courts require the franchisor to show that its intellectual property is being used by the departed franchisee without the franchisor's consent and that the unauthorized use is likely to deceive, cause confusion, or result in mistake. The continued use of the franchisor's intellectual property by a franchisee after the lawful termination of a franchisee agreement will satisfy this requirement if the franchisor properly terminated the agreement, thus resulting in the unauthorized use of trademarks by the former franchisee.[54] Injunctive relief compelling deidentification has been found to be applicable not only to the marks and slogans of a franchisor[55], but also to the franchisor's protectable trade dress.[56] In granting such relief courts are often persuaded by the franchisor's argument that the post termination use of the franchisor's intellectual property by the departed franchisee will result in the franchisor losing control of its intellectual property and reputation and in a loss of customers.

2. Injunctions Prohibiting Deidentification.

While the more usual practice is for a franchisor to seek preliminary injunctive relief to compel a franchisee to comply with a franchise agreement's deidentification provisions, in some cases franchisors pursue preliminary injunctive relief to achieve the opposite result – to keep the franchisee from deidentifying.[57] In doing so franchisors have successfully argued that permitting the franchisee to deidentify creates consumer confusion and erodes confidence in the franchisor's network of franchises.[58]

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[54] McDonald's Corp. v. Robertson, 147 F.3d 1301 (11th Cir. 1998).

[55] Atlanta Bread Co. Intl., Inc. v. Nine Star Enters., Inc., [2002-2004 Transfer Binder] Bus. Fran. Guide ¶12,521 (N.D. Ga. Sept. 4, 2002); El Pollo Loco, Inc. v. Hashim, Bus. Fran. Guide ¶12,500 (9th Cir. 2003); Dunkin' Donuts, Inc. v. N. Queens Bakery, Inc., 216 F. Supp. 2d 31 (E.D.N.Y. 2001)

[56] *See, e.g.*, Burger King Corp. v. Weaver, 33 F. Supp. 2d 1037 (S.D. Fla. 1998).

[57] *See, e.g.*, Med. Shoppe Int'l, Inc. v. S.B.S. Pill Dr., Inc., 336 F.3d 801 (8th Cir. 2003); ATL Int'l, Inc. v. Milton [1997-1998 Transfer Binder], Bus. Fran. Guide (CCH) ¶11,284 (D. Md. May 19, 1997), Country Kitchen Int'l, Inc. v. Anderson, [1986-1987 Transfer Binder] Bus. Fran. Guide, (CCH,) ¶8919 (Colo. Dist. Ct. 1987).

[58] Med. Shoppe Int'l, 336 F.3d at 805.

3. Injunctions Requiring Compliance with Franchise Standards

Courts have also been receptive to granting preliminary injunctive relief to franchisors compelling franchisees to comply with a franchise agreements standards regarding health, sanitation and safety.[59] In doing so, they have noted that such reprehensible conduct clearly presents a threat of irreparable injury to the franchisor because it may put the public in danger and the franchisor's trademarks, trade name and reputation at risk.

4. Injunctions in Aid of Arbitration

Franchisors occasionally feel hamstrung in pursuing preliminary injunctive relief by their franchise agreements, particularly where they contain broad arbitration provisions with no carve out for actions seeking equitable relief. However, courts have repeatedly held that injunctive relief is warranted in an arbitrable dispute pending arbitration where the prerequisites for injunctive relief are satisfied.[60]

D. Telephone Listings

In many franchised businesses, particularly in consumer service fields, a significant portion of business is generated through telephone listings. These listings can serve to identify both the name of the franchised business and the goods and services offered. As a result, franchisors and franchisees often expend substantial time and resources promoting telephone listings through various media including business white pages and yellow pages listings, the internet, television and radio commercials, and magazine and newspaper advertisements. Recognizing the value of telephone listings to the franchised business, many franchisors routinely include a provision in their franchise agreements requiring franchisees to assign these listings to the franchisor, or a party whom the franchisor designates (i.e., a replacement franchisee), upon termination or expiration of the franchise agreement.[61]

Even without the benefit of an express contractual provision, franchisors and other trademark owners have generally had success prohibiting uninhibited post-termination or post-expiration use of the telephone listing by a departing franchisee, or infringing or unfairly competitive use of a telephone listing by competitors, because (1) the telephone listing itself in alphanumeric form is a

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[59] *See, e.g.*, Dunkin' Donuts, Inc. v. Kashi Enters., Inc., 106 F. Supp. 2d 1325 (S.D. Ga. 2000); *See also* Dunkin' Donuts, Inc. v. Albireh Donuts, Inc., 96 F. Supp. 2d 146 (N.D.N.Y. 2000).
[60] *See* Erving v. Va. Squires Basketball Club, 468 F.2d 1064, 1067 (2d Cir. 1972) ("[I]n a proper case . . . the only way to preserve the status quo during the pendency of the arbitration proceeding is by the granting of injunctive relief").
[61] *See, e.g.*, Midas Int'l Corp. v. T&M Unlimited, Inc., No. 00-CV-0899E(F), 2000 WL 1737946 (W.D.N.Y. Nov. 17, 2000).

protectable trademark or service mark[62], (2) the telephone listing is so intertwined with the name of the franchisor's business that its continued use by the franchisee after termination or expiration of the franchise agreement would result in inevitable confusion of the relevant consuming public[63], or (3) in the case of an infringer, the use of the listing is likely to confuse or deceive the consuming public into believing that an affiliation exists between the trademark owner and the infringer and/or their respective goods and services.[64]

Though the franchisor typically has strong grounds at the conclusion of litigation to compel the transfer of the departing franchisee's telephone listing based on specific performance of a franchise agreement telephone listing assignment provision or by establishing that continued use of the telephone listing constitutes trademark infringement, unfair competition or deceptive advertising[65], courts generally do not order such a transfer at the preliminary injunction stage absent egregious circumstances.[66] At that point in the litigation, courts are instead inclined toward a more cautious approach, designed to balance the franchisor's interest in the franchisee's telephone listing with the harm that the franchisee would suffer if required immediately to assign that telephone listing.[67]

A popular interim remedy, therefore, is to order that the telephone listing be subjected to a "split telephone intercept" while the lawsuit is pending,[68], or until issuance of a new telephone directory in the area where the franchisee does business.[69] Upon implementation of the split telephone intercept, the franchisee

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[62] In re Dial-A-Mattress Operating Corp., 240 F.3d 1341 (Fed. Cir. 2001) ("1-888-M-A-T-T-R-E-S-S" held to be a protectable trademark); Dial-A-Mattress Franchise Corp. v. Page, 880 F.2d 675 (2d Cir. 1989) (plaintiff's telephone number "DIAL-A-MATTRESS" held to be a valid mark and infringed by defendant's telephone number "1-800-MATTRESS"),

[63] *E.g.*, Servicemaster Indus., Inc. v. McLeod, 218 U.S.P.Q. 515 (E.D. Wis. 1982),

[64] *See, e.g.*, Florist's Transworld Delivery, Inc. v. Worldwide Flower and Gift Emporium, Inc., 46 U.S.P.Q.2d 1244 (D. Nev. 1998).

[65] *E.g.*, Union Tank Car Co. v. Lindsay Soft Water Corp., 257 F. Supp. 510 (D. Neb. 1966), *aff'd*, 387 F.2d 477 (8th Cir. 1967) (in addition to former dealer being enjoined from further use of plaintiff's mark, telephone company was enjoined from accepting from the former dealer any yellow pages advertising containing any reference to plaintiff's mark),

[66] *E.g.*, Scientific Applications, Inc. v. Energy Conservation Corp., 436 F. Supp. 354 (N.D. Ga. 1977) (defendant enjoined from listing its service in the white or yellow pages under plaintiff's service mark or a confusingly similar mark); Coit Drapery Cleaners, Inc. v. Coit Drapery Cleaners of N.Y., Inc., 423 F. Supp. 975, 978 (E.D.N.Y. 1976) (defendant required to transfer its telephone number to plaintiff after a period of 60 days during which it could notify all customers that it was no longer associated with the plaintiff and further advising of defendant's new phone number).

[67] *E.g.*, Mayflower Transit, Inc. v. Ann Arbor Warehouse Co., 892 F. Supp. 1134, 1145 (S.D. Ind. 1995); *See also* Sunward Electronics, Inc. v. McDonald, Bus. Fran. Guide ¶ 12,768 (N.D. N.Y. 2004).

[68] Credit Counseling Ctrs. of Am., Inc. v. Budget & Credit Counseling Servs., Inc., No. 97 Civ. 1368, 1997 U.S. Dist. LEXIS 2828, (S.D.N.Y. March 5, 1997)

[69] *See e.g.,* Vocational Personnel Servs., Inc. v. Statistical Tabulating Corp., 163 U.S.P.Q. 55 (D. Minn. 1969) (defendant ordered immediately to instruct the telephone company in writing to delete and discontinue from any telephone directories henceforth any listing of the defendant under the name "TASK FORCE"); *See also* Mayflower Transit, Inc., 892 F. Supp. at 1146

can no longer answer "live" telephone number at issue. Instead, when the number is called, the caller will reach either a recorded message or a telephone operator who will provide information on how to reach the franchisor and the franchisee. The rationale for the split telephone intercept is that customers should have the ability to receive immediate and equal access to the telephone number of the franchisor (or its designee) and the new telephone number of the franchisee so that they can decide with whom they want to do business.[70] At the same time, courts tend to be more sympathetic to the franchisor or the trademark owner in the crafting of split telephone intercept provisions as the telephone listing is generally viewed as a property right of the franchisor or trademark owner in which they have a substantial investment. [71]

V. Resolution of Website Issues and Domain-Name Dispute: Making Sure No One Hunts With Your Dog

A. Introduction

Success in establishing a recognized trademark often breeds imitation, or at least opportunistic behavior. Far from being "sincere flattery," this behavior is aimed at trading off the good will and quality associated with your franchise brand and marks. Everyday the creative and proprietary efforts of franchisors are copied and exploited by their competitors. One need only turn on the television, read the newspaper, or surf the net to understand that, in this technological age, the expression of ideas is a very valuable enterprise and that the copying of these ideas is big business. The rise of importance in, and the impact of technology upon, all businesses, especially franchises, has necessitated an increased vigilance by franchise owners and their franchisees to account for and to protect the valuable trademarks and other intellectual property rights which they hold out as the keys to their business.

Nowhere has this problem become apparent than in the burgeoning growth of competitive activity on the Internet. Once, geographically remote marks and marks used with only remotely-related products might never have been detected, and most likely would never present a threat. With the Internet, the smallest and most distant of entities automatically has a nationwide

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(telephone intercept in effect until such time as the 1995-96 Ann Arbor/Ypsilanti and South Lyon phone directories have been issued to the general public, or November 1, 1995, whichever comes first).

[70] *See, e.g.*, Duct-O-Wire Co. v. United States Crane, Inc., 31 F.3d 506, 510 (7th Cir. 1994) (a split intercept "expands the realm of consumer knowledge, and as between ignorance and confusion on the one hand and knowledge and informed choice on the other, the latter prevails"); Mayflower Transit, Inc., 892 F. Supp. at 1145 ("the use of an interrupt operator not only would balance the competing harms faced by [plaintiff] and [defendant]. . ., but also would serve the interests of the consuming public").

[71] *See, e.g.*, Tse, Saiget, Watanabe and McClure, Inc. v. Gentlecare Sys., Inc., 17 U.S.P.Q.2d 1571, 1573 (D. Ore. 1990).

presence, with the resulting potential for consumer confusion. Further, new technology, coupled with age-old greed, allows your competitors to hide behind every click, link, frame, metatag, search, and web page, seeking not only to take advantage of your good will and trademarks, but to divert your franchise's customers to their oft inferior products and services. Disgruntled employees and customers can use the Internet as a forum to vent their perceived grievances.

So what does the franchisor need to do to protect its good name on the Internet? What weapons does he or she have readily available to fight these new cyber-wars? This section provides the franchisor with a working knowledge of **some** of these weapons and to provide practical guidance in curbing these unfair practices.

B. How Trademarks May Be Misused on the Internet

Obviously, just like any valuable idea, competitors often simply copy your trademarks or use marks that are confusingly similar to those of your franchise. With all its amazing technology, however, the Internet presents a very basic, additional low-tech opportunity for the copyist. This opportunity arises from the conflict between brands as source identifiers and brands as Internet addresses. Customers on the Internet do not find your goods or services in the same way they find them the world of sticks and bricks. Rather than a physical street address, the net has an IP address (a series of numbers) that is typically found by searching for a domain name. We are all familiar with the www.YOUR\franchise.com style domain name address. The problem stems from the fact that your trademark or brand names usually are also your Internet address and are almost always the key to reaching your Internet site. When a consumer searches for you or your franchisees, he or she typically types a few words associated with you or your products or services into a search engine to locate you. As we will see below, by using similar names or marks, even misspelled trade names or marks, or by hiding your name or marks on their sites, your competitors can confuse potential customers into believing that they have reached you, at least initially, and ultimately lure them away.

Although far from a complete list of the problems which this system allows, some of the more common problems include:

1. Cybersquatting

One court of appeals defined the practice as follows:

> Cybersquatting is the Internet version of a land grab. Cybersquatters register well-known brand names as Internet domain names in order to force the rightful owners of the marks to

pay for the right to engage in electronic commerce under their own name.[72]

2. Typosquatting[73]

This form of cybersquatting occurs when a person registers common misspellings and phonetic variations of trademarks to gain traffic to a well-known trademark owner's website.[74] Typosquatting can also include mousetrapping, which occurs when one misspells a domain name and they are led to a series of pop up advertisements that prevent them from getting out of the website they originally accessed.

3. Domain Name Hijacking

Whether through fraud, the exercise of unequal bargaining power, overzealousness or other abuse of the domain name dispute resolution process, persons and companies sometimes force the transfer to of domain names that were, in fact, rightfully owned and used by the initial registrant. In 1999, Congress amended the Lanham Act to provide a limited remedy to this practice.[75]

4. Tying Appearance of Advertisements to Key Words Registered by Trademark Owners

Search engines allow advertisers to purchase the ability to have their advertisements appear on pages returned when users enter certain key words. A misuse of trademark or infringement issues can arise when a party purchases

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[72] Interstellar Starship Servs. v. Epix, Inc., 304 F.3d 936, 946 (9th Cir. 2002); *See also* Sporty's Farm LLC v. Sportsman's Market, Inc., 202 F.3d 489, 493 (2d Cir. 2000); TCPIP Holding Co. v. Harr Communications, Inc., No. 99 Civ. 1825 (RCC), 2004 U.S. Dist. LEXIS 13543 (S.D.N.Y. July 19, 2004).

[73] *See, e.g.*, Robert C. Cumbrow, *Typosquatters Pose Threat to Trademark Owner's on the Web*, New York Law Journal, Oct. 13, 1998.

[74] Shields v. Zuccarini, 254 F.3d 476 (3d Cir. 2001) (trademark owner of joecartoon.com sued cybersquatter who had registered similar variations including joescartoon.com, joecarton.com, and cartoonjoe.com and mouse trapped anyone who entered any of these variations in a series of advertisements); Elec. Boutique Holdings Corp. v. Zuccarini, No. 01-1476, 2002 WL 917789 (April 25, 2002) (Table) (trademark owner of electronicsboutique.com sued cybersquatter who registered "eletronicsboutique.com, electronicbotique.com, ebwold.com, and ebworl.com"); *See also* The Sports Auth. Mich., Inc. v. Banks, Nat'l Arb. Forum Dec. , Nos. FA0307000173374, FA0307000173376, FA0307000175287 (Oct. 6, 2003) (transferring domain names to trademark owners that included: "www.sportsauthoity.com," "www.sprotauthority.com," and "www.sportdauthority.com," as prohibited "typosquatting"); AT&T Corp. v. ATT&T, Inc., No. Civ. A. 00-699-SCR, 2002 WL 31500934 (D. Del. Oct. 31, 2002) (defendant ordered to stop using "ATT&T," "attinc.com," "atttel.com," "attt.com" as likely to cause confusion with trademark owner's mark).

[75] *See* 15 U.S.C. § 1114(2)(D)(ii),

the right of a search engine to tie the appearance of its advertisements to the trademarks or trade names of another party.[76]

5. Wrongful Use of Metatags

Metatags are pieces of HTML code that are embedded in a website. Typical search engine results are ranked based on the number of times a search word appears in a website. By repeating terms in a website's metatags, a site operator can attempt to have its site appear at the top of the list of search results provided to a user, thereby increasing the chance that the user will access the site. As discussed below, this is the practice of using a trademark owner's marks or brand names as pointers or key words which act behind the scenes to bring potential customers to the alleged infringer's site when they search for the trademark owner using key words or a trademark owner's brand name or mark.[77] See section V.C. below

6. Linking, and Deep Linking

As also discussed below, this is the practice by using unauthorized reproductions or links to a trademark owner's website in order to confuse potential customers into believing that, at least in the initial instance, the trademark owner is associated with the site, goods, or services referenced on the site.

Linking: Linking is generally defined as using a third party's trademark as a means to connect from one website to another. This practice may create confusion for users by suggesting a false affiliation with the trademark owner.[78]

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[76] *See, e.g.*, Estee Lauder, Inc. v. Fragrance Counter, Inc., 189 F.R.D. 269 (S.D.N.Y. 1999).

[77] *Cf.* Promotech Indus., Ltd. v. Equitrack Corp., 300 F.3d 808 (7th Cir. 2002) (court granting preliminary injunction finding that competitor's use of "copy track" in metatags created a likelihood of initial interest confusion where copy track was owned by another party who sold similar services); Horphag Research Ltd. v. Pellegrini, 337 F.3d 1036 (9th Cir. 2003), *cert. denied*, 124 S. Ct. 1090 (2004) (trademark owner obtained judgment against competitor who used registered mark "pycnogenol" as a metatag within its website); Eli Lilly & Co. v. Natural Answers, 233 F.3d 456 (7th Cir. 2000) (use of "prozac" in metatags of website infringed trademark owner's trademark rights in that term) with Playboy Enterprises, Inc. v. Wells, 7 F. Supp. 2d 1098 (S.D. Cal. 1998), *aff'd* mem., 162 F.3d 1169 (9th Cir. 1998) (denying preliminary injunction for registered mark "playboy and playmate" where used in good faith by former playmate of the year); PACCAR Inc. v. TeleScan Techs., LLC, 319 F.3d 243 (6th Cir. 2003) (6th circuit overturned portion of injunction that prohibited use of registered marks in metatags as district court had not considered whether the use of trademarks in the metatags created a likelihood of confusion independent of use of trademarks in domain names which was properly enjoined); Ty, Inc. v. Jones Group, Inc., 98 F. Supp. 2d 988 (N.D. Ill. 2000), *aff'd*, 237 F.3d 891 (7th Cir. 2001) (use of "beanie" name in metatags did not alone demonstrate a bad faith intent on part of competitor to trade off trademark owner's goodwill).

[78] *Cf*, Nissan Motor Co. v. Nissan Computer Corp., 231 F. Supp. 2d 977 (C.D. Cal. 2002) (improper linking) with Ford Motor Co. v. 2600 Enterprises, 177 F. Supp. 2d 661 (E.D. Mich. 2001) (denying trademark claims relating to website "www.fuckgeneralmotors.com" which automatically linked to "www.ford.com" due to noncommercial use and commentary nature of

7. Framing

Framing occurs when a webpage incorporates a third party's website by creating borders around it and making it appear as part of the framing party's website.[79]

8. Cyber Griping

This type of misuse, discussed below, involves marrying a franchisor's mark with a disparaging word and registering it as a domain name. For example, many cybergripers attach the term "sucks" to trademarks, i.e., "www.yourfranchisenamesucks." This type of cybersquatting highlights the conflict between trademark infringement and the protection of speech and parody under the First Amendment.[80]

C. Enforcement of Trademark Rights on the Web

Trademark rights may be enforced in either state or federal court. The federal act, the Lanham Act, protects against a broad variety of claims, including:

1. Trademark infringement (unauthorized use of a name or mark that is so similar to the mark owner's mark, as used with related goods or services, as to be likely to cause confusion among an appreciable segment of consumers)[81];

2. Unfair competition (infringement of a unregistered mark, and other false or misleading representations that are likely to cause confusion with respect to origin, source, affiliation, sponsorship, endorsement and the like)[82];

3. Dilution (the unauthorized use of another's "famous" mark, or a mark similar to a famous mark in a way that is causes erosion of the distinctive

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site); Voice-Tel Enters., Inc. v. JOBA, Inc., 258 F. Supp. 2d 1353 (N.D. Ga. 2003) (franchisee operated website that contained link to a pornographic site; court denied dilution by tarnishment claim stemming from link to pornographic site).

[79] *E.g.*, The Washington Post Co. v. TotalNews Inc., 97 Civ. 1190 (S.D.N.Y., filed Feb. 2, 1997)

[80] *See, e.g.*, Mayflower Transit, LLC v. Prince, 314 F. Supp. 2d 362 (D.N.J. 2004) (discussion of trademark and speech rights in context of "www.mayflowervanlinebeware.com"); Wal-Mart Stores, Inc. v. Wallmartcanadasucks.com, WIPO Case No.: D2000-1104 (Nov. 23, 2000); *Cf.* Full Sail, Inc. v. Spevack, WIPO Case No.: 02003-0502 (Oct. 3, 2003) (recognizing case law that allows use of "sucks" as legitimate protest and not misuse of trademark) with Planned Parenthood Federation of America, Inc. v. Bucci, 1997 WL 133313 (S.D.N.Y. Mar. 24, 1997), *aff'd*. mem., 152 F.3d 920 (2d Cir. 1998) (enjoining use of "www.plannedparenthood.com" as protest site as creating likelihood of confusion and not protected by the First Amendment); *See also*, Berlitz Invest. Corp. v. Tinculescu, WIPO Case No.: 02003-0465 (Aug. 22, 2003) ("www.berlitzsucks.com").

[81] 15 U.S.C. § 1114(1).

[82] 15 U.S.C. § 1125(a); *see, e.g.*, Moniflo Int'l., Inc. v. Sahm, 726 F. Supp. 121 (E.D. Va. 1989).

character of the mark or tarnishment of the reputation of the mark, even if that use is not likely to cause confusion as to ownership or source)[83]; and

4. False advertising (false and disparaging trade statements)[84].

With regard to the Internet, there are also some additional statutory or policy initiatives which provide the franchisor with even more specific claims:

5. The Anticybersquatting and Protection Act ("ACPA") affords franchisors and other trademark owners a more specific federal weapon to combat the misappropriation of trademarks or domain names[85];

6. The Uniform Domain Name Dispute Resolution Policy ("UDRP") governs disputes between franchisors and other trademark owners and domain name registrants. As discussed below, the UDRP allows a trademark owner to initiate arbitration proceedings against domain name registrants in one of four arbitration forums approved by the Internet Corporation for Assigned Names and Numbers ("ICANN")[86]; and

7. The Reverse Domain Name Hijacking provisions of the Lanham Act, allowing rightful domain name owners to recover domain names that have been improperly transferred to others.[87]

All of these enforcement mechanisms must be strategically considered when dealing with a cyber-infringer. Each mechanism has unique advantages and disadvantages—and often, the most strategic efforts include a combination of these enforcement mechanisms.

D. <u>Review of Franchisor's Legal Remedies to Stop Unfair Competition</u>

1. The Enemy Within – Getting Your Own House in Order

The best place to start protecting your cyber-brand is at home. The process begins with the selection of a distinctive, strong mark, as described above. It continues with uniform presentation and, especially in the case of franchise networks, the imposition and actual enforcement of quality control over

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[83] 15 U.S.C. § 1125(c) (The Federal Trademark Dilution Act of 1995); *see, e.g.* Ringling Bros.-Barnum & Bailey Combined Shows v. Utah Div. of Travel Dev., 955 F. Supp. 605 (E.D. Va. 1997).
[84] 15 U.S.C. § 1125(a); *see, e.g.*, Mylan Labs. v. Matkari, 7 F.3d 1130 (4th Cir. 1993).
[85] 15 U.S.C. § 1125(d).
[86] The Internet Corporation for Assigned Names and Numbers may be found at Http://www.ICANN.org.
[87] 15 U.S.C. § 1114(2)(D)(ii). For applications of the remedy, *see* Hawes v. Network Solutions, Inc.,337 F.3d 377 (4th Cir. 2003)(effort to recover gripe site domain www.lorealcomplaints.com transferred to the French company Loreal, failing because of the procedural posture of the earlier transfer); Barcelona.com, Inc. v. Excelentisimo Ayantamiento de Barcelona, 330 F.3d 617 (4th Cir. 2003).

the goods and services provided by franchisees. And it is never complete without vigilant enforcement of rights against infringers, whether terminated franchisees or confusingly-similar third-party marks. The enforcement of trademark rights is not discretionary. Because a mark, by definition, identifies the single source of a product or service,[88] allowing another to use your mark or a mark confusingly similar to it – even if the use is not large and does not pose an immediate business threat – means the mark no longer performs its core source-identifying function, and the owner thus risks a total abandonment of its trademark rights.[89]

With the onset and importance of the Internet, many franchisors have not expressly amended their franchise agreements and/or operating manuals to take into account the clear propensity for misuse of trademarks by the franchisor's current and former franchisees. Although contractual matters are covered elsewhere in this conference, a franchisor should, at a minimum, update or amend its franchise agreement and/or to operation manual to account for the following:

- Strictly control the use made by the franchisees of all brands, marks and other protected intellectual property owned by the franchisors on web pages or over the Internet;[90]

- Expressly protect and restrict the dissemination of any confidential or proprietary materials on websites or over the Internet;

- Expressly reserve the right to approve both the format and content of any web pages used by the franchises;

- Insist upon the consistent branding and formatting of all IP assets on the Internet;

- Strictly control both the ownership and use of any domain names that incorporate your brand or marks;

- Expressly provide for the transfer of any domain names used by the franchisee to franchisor in the event of termination along with other

[88] In the case of a franchise network, the mark identifies goods or services controlled by a single source, thus providing consumers an assurance of uniform quality.

[89] Both the NCAA and an Illinois high school association were locked for years in a dispute over rights to MARCH MADNESS. Yet, the lingering dispute jeopardized the ability of each to enforce any rights as against third parties, so they eventually agreed to form a joint organization responsible for enforcing such rights. See March Madness Athletic Assoc., L.L.C. v. Netfire, Inc., 2005 U.S. App. LEXIS 1475, 73 U.S.P.Q.2d 1599 (5th Cir. 2005).

[90] Common contractual restrictions on franchisees and other licensees include: prior approval of all forms and stylizations of use; prohibition of use of the franchisor's mark in a corporate name, as opposed to the branded trading name; restrictions on ancillary businesses or the use of marks with ancillary businesses; and, of course, meaningful quality control requirements.

post-termination procedures such as the immediate cessation of any uses of brands or marks.

- Specifically limit or prohibit the use of confusingly similar domain names both during and after any franchise relationship;

- Limit the use of any third-party materials on any web site; and

- Set forth an express policy that controls the use of links, frames, metatags, and other related Internet issues as discussed below.

2. Legal Remedies

(a) Trademark Infringement and Unfair Competition

Trademark law is governed by the Lanham Act. Section 32(1) of the Lanham Act, 15 U.S.C. § 1114(1), prohibits the "use in commerce" of any "reproduction, counterfeit, copy, or colorful imitation" of a registered mark in a manner that is "likely to cause confusion, or to cause mistake or to deceive . . .." Additionally, § 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), prohibits the use "in commerce [of] any word, term, name, symbol or device . . . which . . . is likely to cause confusion, or to cause mistake or to deceive as to the affiliation, connection, or association of" the mark, owner, and a third party. Using a confusingly similar trademark on the Internet would constitute "use in commerce" and would bring to bear the full panoply of the Lanham Act remedies for trademark infringement.[91] Each state has "common law" or statutory causes of action for trademark infringement, unfair competition, passing off and palming off.

(i) Necessary Elements for Trademark Claim

To prevail under a claim that another party's acts on the internet constitute trademark infringement and unfair competition under the Lanham Act, the franchisor must demonstrate that the accused defendant used, in commerce, without consent, the franchisor's mark in connection with the sale, offering for sale, distribution or advertising of any goods," in a manner that is likely to cause confusion.[92]

The first necessary element for a claim of trademark infringement therefore is ownership of a valid mark. The presumptions of ownership and validity accorded a federally-registered mark, while rebuttable, make proof of the essential element much easier in most instances.

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[91] 15 U.S.C. §§ 1116 (injunctive relief), 1117 (damages, including treble damages, profits wrongfully earned, and in exceptional cases attorneys' fees and costs) 1118 (destruction of infringing articles).

[92] *See, e.g.*, TCPIP Holding Co. v. Haar Communications, Inc. No. 99 Civ. 1825 (RCC), 2004 U.S. Dist. LEXIS 13543 (S.D.N.Y. July 19, 2004)

Accordingly, the touchstone of any trademark infringement or unfair competition claim will be "likelihood of confusion." The term "likelihood of confusion" boils down to a case by case review of several factors. Although these factors differ from circuit to circuit, they typically include the following:

1. The distinctiveness of the trademark owner's mark;

2. The similarity between the trademark owner's mark and the alleged infringing mark;

3. The similarity of the goods or services that the marks identify;

4. The similarity of the marketing channels (sales and advertising) that the parties used to transact their business;

5. The defendant's intent in adopting the same or similar marks (while innocent use of a confusingly similar mark is still infringement, intentional adoption indicates a design to confuse);

6. The sophistication of the consuming public;

7. The quality of the defendant's product; and

8. Actual confusion (not necessary, but naturally probative of a likelihood of confusion).[93]

The case law recognizes that each of these factors may not be germane to every circumstance and that some factors may be more important than others. In essence, these factors are to be used as a guide to analyzing the likelihood of confusion.

(ii) Remedies Available for Trademark Infringement and Unfair Competition.

A judge or jury may award a plaintiff two non-exclusive types of monetary damages for trademark infringement or unfair competition. These include plaintiff's actual damages and/or defendant's profits. In addition, other forms of equitable relief are available, including most importantly, an injunction.

[93] *Cf.* Sara Lee Corp. v. Kaiser-Roth Corp., 81 F.3d 455, 463 (4th Cir. 1996) with Frisch's Rests., Inc. v. Ely's Big Boy of Steubenville, Inc., 670 F.2d 642, 648 (6th Cir. 1982); *See also* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 23.1, et seq. (2003 ed.).

(b) Trademark Infringement Through Use of Confusingly Similar Domain Names

(i) Courts have typically applied traditional trademark and unfair competition analysis to sort out trademark infringement claims that involve domain names.

In and of themselves, domain names are addresses, not marks, because when used as domain names alone they do not perform a source-identifying function.[94] The owner of a domain name typically could not register its domain name as a mark pointing only to use as a domain name. Instead it would need to point to show evidence of use of that domain name elsewhere – as in the body of the website itself – to establish use in commerce of the domain name as a brand.[95] If the domain name or the content of the domain name (for example, AMAZON being a mark that comprises the body of the domain name www.amazon.com), operates as a source identifier overall, it can tube claimed as a mark. And if another uses that name or mark in a domain name in a manner likely to cause confusion, it infringes.

The touchstone of this analysis is to determine if words in domain names communicate information as to the source or sponsorship of a site.[96] A domain name can be more than an address and can identify the source of goods and services associated with a website.[97] Each case is typically dependent upon the facts of the case and the application of trademark and unfair competition law. Factors that inure to trademark owner's benefit in obtaining trademark infringement and unfair competition relief against another domain name owner include: (1) strength of the trademark owner's mark; (2) closeness of goods and services and competition; (3) use by defendant of mark in a purely commercial fashion as opposed to comparative advertising or fair use; and (4) bad faith intent indicated by the registration of domain names containing marks similar to competitor's.

One recent example which illustrates these points is TCPIP Holding Co. v. Haar Communications, Inc. No. 99 Civ. 1825 (RCC), 2004 U.S. Dist. LEXIS 13543 (S.D.N.Y. July 19, 2004), in which the court granted summary judgment in favor of the operator of a children's clothing franchise, "The Children's Place," on various grounds, including traditional trademark infringement and unfair competition. In TCPIP, the defendant had registered the domain name

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[94] *Cf.* Interactive Prods. Corp. v. A2Z Mobile Office Solutions, Inc., 326 F.3d 687, 696 (6th Cir. 2003) (domain names have been held to infringe when they signify source, but post-domain paths that include another's mark are unlikely to do so, and thus do not infringe).

[95] *See* In re Eilberg, 49 USPQ2d 1955 (TTAB 1998).

[96] PACCAR Inc. v. Tulsan Techs., LLC, 319 F.3d 243, 250 (6th Cir. 2003); People for the Ethical Treatment of Animals v. Doughney, 263 F.3d 359, 366 (4th Cir. 2001).

[97] Card service Int'l, Inc. v. McGee, 950 F. Supp. 737, 741 (E.D. Va.), *aff'd*, 129 F.3d 1258 (4th Cir. 1997).

“thechildrensplace.com” and sixty-six other domain names containing variations on the word “children” and “place.” Finding that the plaintiff had demonstrated that the defendant’s use of the domain name would likely cause confusion, that the marks were clearly similar, that there existed a sufficient proximity of goods and services between the various marks and competitors, that the defendant had engaged in bad faith by registering similar domain names even after being issued a cease and desist letter by the trademark owner, and that the lack of sophistication of the buyer’s would not protect consumers from being confused by the similar marks, the court granted summary judgment on trademark infringement and unfair competition.[98]

Contrary to the cases cited above, several cases have denied trademark infringement and unfair competition where defendants have employed a domain name that is allegedly confusingly similar to a trademark owner’s mark. Factors that weigh against the trademark owner in having trademark infringement and unfair competition claims denied for allegedly confusingly similar domain names include: (1) weakness in trademark owner’s mark (descriptive mark, lacking strong secondary meaning); (2) lack of competition between goods and services related to the mark; (3) the adoption of domain names that include marks related to defendant’s business and good faith; and (4) lack of other bad faith indicators.[99]

[98] Examples of other cases in which trademark infringement or unfair competition has been awarded include Northern Light Technology, Inc. v. Northern Lights Club, 97 F. Supp. 2d 96 (D. Mass. 2000), *aff’d*, 236 F3d 57 (1st Cir. 2001), (“northernlight.com”); Advanced Magazine Publishers, Inc. v. Vogue International, 123 F. Supp. 2d 790 (D. N.J. 2000) (owners of fashion magazine VOGUE and TEEN VOGUE awarded injunction under trademark infringement and unfair competition along with other claims against defendant using domain names “teenvogue.com,” “teenvogue.net,” and “vogue-international.com” for websites offering clothing, cosmetics, and fashion accessories for sale); Washington Speakers Bureau, Inc. v. Leading Authorities, Inc., 33 F. Supp. 2d 488 (E.D. Va. 1999), *aff’d*, 217 F.3d 843 (4th Cir. 2000) (despite mark being merely descriptive, court found the mark “Washington Speakers Bureau” was entitled to trademark protection due to established secondary meaning. Court found a likelihood of confusion between the marks and noted that the Internet provided more opportunity for confusion as people often guess the addresses of websites they wish to visit. Court found trademark infringement for defendant’s registration of “washingtonspeakers.com;” “washington-speakers.com,” “washingtonspeakers.net,” and “washington-speakers.net.”).

[99] *See, e.g.*, The Network Network v. CBS, Inc., 54 U.S.P.Q.2d 1150 (C.D. Cal. 2000) (defendant’s use of “tnn.com” did not infringe CBS’s trademark rights in Opryland USA, Inc.’s service mark “tnn” with no substantial evidence that defendant attempted to trade upon trademark owner’s trade name or trademark); Entrepreneur Media, Inc. v. Smith d/b/a EntrepreneurPR, 61 U.S.P.Q.2d 1705 (9th Cir. 2002) (registration by defendant of entrepreneurpr.com and entrepreneurmag.com despite plaintiff’s federal registration of the mark “entrepreneur” court noted that consumers are aware that domain names for different websites are quite often similar because of the need for language economy and that very small differences matter.).

(c) Initial Interest Confusion: Metatags, Keying and Similar Practices

An additional type of “confusion” which has developed under trademark/unfair competition infringement law vis-à-vis the Internet[100] is the initial interest confusion doctrine. In one of the seminal internet cases[101], the Ninth Circuit Court of Appeals explained that the use of a confusingly similar domain in a manner calculated to capture initial consumer interest, even though no actual sale is finally completed can also form the basis of a trademark infringement claim. Other courts have explained that initial interest confusion “occurs when consumers seeking a particular website are diverted by allegedly infringing domain names . . . to a competing website and then realize that the site they have access is not the one they were looking for, but nonetheless decide to use the offerings of the infringing site.”[102] Establishing initial interest confusion by a domain name does not assure trademark infringement or unfair competition per se; rather, the trademark owner must still prevail on the other elements of the traditional likelihood of confusion analysis. The initial interest confusion doctrine has been applied in a variety of internet cases in an inconsistent fashion; some have upheld the doctrine in finding infringement[103], some have denied its application in finding no infringement[104], and some courts have rejected the doctrine.[105]

Cases of initial interest confusion can be as straightforward as the use of domain names that are misspellings of or close variations of well know narks, intended to attract viewers to sites that are unrelated to the mark owner’s business.[106] Yet, a number of recent cases deal with other practices designed to use marks as metatags and keys to bring viewers to sites in which they may have a legitimate interest by reason of their knowledge or interest in a branded product.

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[100] Actually, this doctrine began outside the Internet, but has grown in relevance within the context of this new technology. *See, e.g.*, Grotrain Helfferich, Schulz, Th. Steinweg Nachf. v. Steinway Sons, 523 F.2d 1331 (2d Cir. 1975); Mobil Oil Corp. v. Pegasus Petroleum, 818 F.2d 254 (2d Cir. 1987); *See also* C. Doellinger, *Trademarks, Metatags, and initial Interest Confusion: A Look to the Past to Reconceptualize the Future*, 41 IDEA – The Journal of Law and Technology 173 (2001).

[101] Book Field Communications, Inc. v. West Coast Entmt., Inc., 174 F.3d 1036 (9th Cir. 1999).

[102] Caterpillar, Inc. v. Telescan Techns., LLC, 2002 WL 1301304 at *4 (C.D. Ill. Feb. 13, 2002) cited by Avlon Indus. v. Robinson, 69 U.S.P.Q.2d 1254 (N.D. Ill.)

[103] *See, e.g.*, Nissan Motor Co. v. Nissan Computer Corp., 89 F. Supp. 2d 1154 (C.D. Cal.), *aff’d*, 246 F.3d 675 (9th Cir.); Eli Lilly & Co. v. Natural Answers, Inc., 86 F. Supp. 2d 834 (S.D. Ind. 2000), *aff’d*, 233 F.3d 456 (7th Cir. 2000); People for the Ethical Treatment of Animals v. Doughney, 113 F. Supp. 2d 915 (E.D. Va. 2000).

[104] Northland Ins. Cos. v. Blaylock, 115 F. Supp. 2d 1108 (D. Minn. 2000); CheckPoint Sys., Inc. v. Check Point Software Techs., Inc., 104 F. Supp. 2d 427 (D.N.J. 2000), *aff’d*, 269 F.3d 270 (3d. Cir. 2001); Big Star Entmt. Inc. v. Next Big Star, Inc., 105 F. Supp. 2d 185 (S.D.N.Y. 2000).

[105] Northern Light Tech, Inc. v. Northern Lights Club, 97 F. Supp. 2d 96 (D. Mass. 2000), *aff’d*, 236 F.3d 57 (1st Cir., 2001); Simon Prop. Group LP v. mySimon, Inc., 104 F. Supp. 2d 1033 (S.D. Ind. 2000).

[106] *E.g.*, Coca-Cola Co. v. Purdy, 382 F.3d 774 (8th Cir. 2004)

A recent example which illustrates the application of the initial interest confusion doctrine is Playboy Enterprises v. Netscape Communications Corp., 354 F.3d 1020 (9^{th} Cir. 2004). In Playboy, a trademark owner brought an action for trademark infringement and trademark dilution, challenging an internet search engine operator's use of the trademark owner's mark in lists for "keyed" banner advertisements. The lower court granted summary judgment in favor of the defendant and the trademark owner appealed. In analyzing the claim for trademark infringement, the Ninth Circuit Court of Appeals recognized that the plaintiff's best case for trademark infringement was for initial interest confusion. The court noted that initial interest confusion is customer confusion that creates initial interest in a competitor's product. Although dispelled before an actual sale occurs, initial interest confusion impermissibly capitalizes on the goodwill associated with the mark and is therefore actionable trademark infringement where the other elements of trademark infringement are shown.

In Playboy, the defendant had keyed adult oriented advertisement to trademark owner's trademarks such that the banner advertisements appeared immediately after a user typed in the trademark owner's mark. This, contended the trademark owner, lead to an initial confusion that the banner ads were sponsored or associated with the trademark owner. In reversing the grant of summary judgment against the plaintiff trademark owner, the court applied the initial interest confusion doctrine. Like other courts which have applied the doctrine, however, the court reviewed the evidence in connection with the well-established test for likelihood of confusion. In doing so, the court found that there were more than enough factual issues to create a genuine issue of material fact such that the trademark owner should be allowed to bring its trademark infringement claim to trial.[107]

A recent dispute that has attracted much commentary and interest, Government Employees Insurance Co. v. Google, involved a similar practice. Google used GEICO and other marks as triggers to prompt the placement on "sponsored links" on search result lists. As a result, an Internet user searching for GEICO would see advertised links for competitors of GEICO, for example. In December 2004, Judge Brinkema of the U.S. District Court for the Eastern District of Virginia granted summary judgment to Google, holding that such backroom use of a mark to make advertisements more targeted did not constitute trademark use, and thus was not an infringement. The decision reaches essentially the opposite result to that in Playboy. Moreover, in litigation in France over the very same practice, a court ruled that Google had infringed in a decision handed down only two months earlier.

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[107] *Id.* at 1026-1029 (finding that uncontroverted expert report, though criticized, provided strong conclusions with regard to initial interest confusion and therefore supported factor of actual confusion in likelihood of confusion analysis).

Disputes like those in Playboy and GEICO differ from conventional initial interest confusion cases in that the defendant is not "infringing" in a way that is visible to the Internet user, and that user is never really confused in the usual sense. Rather, he or she simply is presented with an opportunity to view competitors' sites via advertisements appearing along with his search results. What is so vexing to mark owners, however, is that search engine companies and their advertisers extract value from consumers' recognition of their well-known marks. The Supreme Court recently reaffirmed that it is not infringement for one to mark "non-trademark" use of another's mark, descriptively and in good faith. to describe one's own goods and services, even if confusion may arise as a result.[108] Generally consistent with that principle, a district court recently held that a maker of replacement parts for competitor's lubricating systems did not infringe when it used the competitor's name and mark as a metatag to attract potential customers to its site. While noting that metatags can be used to create actionable initial interest confusion, in this instance it concluded that the parts supplier needed to truthfully use the competitor's name and mark in order to promote its ability to sell replacement parts for the competitor's products, and that the metatags did not give rise to a likelihood of confusion in the absence of any misleading statements on the site itself.[109]

Generally, the courts are still wrestling with the question of when use of marks as metatags, keys and the like constitutes actionable trademark infringement as opposed to permissible nontrademark use.[110]

(d) Dilution of Trademark Rights

The Federal Trademark Dilution Act of 1995 ("FTDA") allows the owner of a "famous mark" to enjoin another person's use of a trademark or trade name which causes dilution of the "distinctive quality" of the famous mark. The law governing dilution is independent from the law attendant to claims of trademark infringement. "Dilution law, unlike traditional trademark law . . . is not based on a likelihood of confusion standard, but only exists to protect the quasi-property rights a holder has in maintaining the integrity and distinctiveness of this mark."[111] Courts basically recognize two principal forms of dilution: tarnishing and blurring. Dilution by blurring occurs when consumers see the plaintiff's trademark used on a plethora of different goods and services raising the possibility that the mark will lose its ability to serve as a unique identifier of

[108] KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 125 S. Ct. 542 (2004); see 15 U.S.C. § 1115(b)(4).
[109] Bijur Lubricating Corp. v. Devco Corp., 332 F.Supp. 2d 722 (D.N.J. 2004).
[110] *Compare, e.g.*, U-Haul Int'l, Inc. v. Whenu.com, Inc., 279 F. Supp. 2d 723 (E.D. Va. 2003); Wells Fargo & Co. v. WhenU.com, Inc., 293 F. Supp. 2d 734 (E.D. Mich. 2004), *with* 1-800 Contacts, Inc. v. WhenU.com, 309 F. Supp. 2d 467 (S.D.N.Y. 2003).
[111] *See* Kellogg Co. v. Toucan Golf, Inc., 337 F.3d 616, 628 (6th Cir. 2003).

plaintiff's product.[112] Tarnishment is the association of one trademark for some goods or services that has a negative connotation.[113]

Section 43(c) of the amended Lanham Act provides:

> The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous and causes dilution of the distinctive quality of the mark, and to obtain such other relief as is provided in this subjection . . .[114]

Dilution is defined by the FTDA as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, *regardless of the presence or absence of: (1) competition between the owner of the famous mark and the other parties; or (2) likelihood of confusion, mistake, or deception*.[115]

(i) Necessary Elements for FTDA Claims

A *prima facie* case for federal dilution includes five basic factors: the trademark must be: (1) famous; and (2) distinctive. Use of the alleged infringing mark must (3) be in commerce; (4) have begun subsequent to the trademark owner's mark becoming famous; and (5) cause dilution to the distinctive quality of the senior mark.[116]

To determine whether a mark is "distinctive and famous,"[117] the court may consider the following factors:

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[112] Eli Lilly & Co. v. Natural Answers, Inc., 233 F.3d 456, 466 (7th Cir. 2000); Auto Zone, Inc. v. Tandy Corp., 373 F.3d 786 (6th Cir. 2004).

[113] *See* Hasbro, Inc. v. Internet Entmt. Group, Ltd., 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996) (famous manufacturer of game boards known as Candyland trademark obtained an injunction against internet sites containing sexually explicit material); *See also* Mattel, Inc. v. Internet Dimensions, Inc., 55 U.S.P.Q.2d 1620 (S.D.N.Y. 2000) (owner of a trademark in Barbie obtained relief against defendant who registered the domain name "Barbie'sPlayPen.com" for a pornographic site.

[114] 15 U.S.C. 1125(c)(1).

[115] 15 U.S.C. § 1127.

[116] Auto Zone, 373 F.3d at 802; *See also* 4 McCarthy § 24:89, at 24-146 (outlining a similar test for *prima facie* case of trademark dilution).

[117] Although there is dispute on the issue, it is possible to have a mark be famous only within a "niche market." As a result, such a mark would not be universally famous, and therefore, for a dilution claim to be successful, courts have found that a product must be directed towards the same niche market for a dilution claim to lie. *See, e.g.*, Times Mirror Magazine, Inc. v. Las Vegas Sports News, LLC, 212 F.3d 157, 164 (3d Cir. 2000); Syndicate Sales, Inc. v. Hampshire Paper Corp., 192 F.3d 633, 641 (7th Cir. 1999); Advantage Rent-a-Car Co. v. Enterprise Rent-a-Car Co., 238 F.3d 378, 380 (5th Cir. 2001); Hartog & Co. v. SWIX.com, 136 F. Supp. 2d 531 (E.D. Va. 2001).

- The degree of inherent or acquired distinctiveness of the mark;
- The duration and extent of use of the mark;
- The duration and extent of advertising and publicity of the mark;
- The geographical extent of the trading area in which the mark is used;
- The channels of trade for goods or services for which the mark is used;
- The degree of recognition of the mark and the trading area and channels of trade used by the trademark owners as well as persons against whom the injunction is sought;
- The nature and extent of the use of the same or similar marks by third parties; and
- Whether a federal registration was issued for the mark.

(ii) Application of the FTDA to the Internet

Up until recently, owners of famous marks have been quite successful in using the FTDA to obtain injunctions against those misusing their famous marks. For example, in Hasbro, Inc. v. Internet Entertainment Group, Ltd., the maker of a famous game board known as "CANDYLAND" enjoined defendant. Internet Entertainment Group from using the same mark "CANDYLAND" in connection with its Internet site containing explicit sexual material. 40 U.S.P.Q.2d 1479 (W.D. Wash. 1996). Similarly, in Mattel, Inc. v. Internet Dimensions, Inc., the owner of the famous "BARBIE" mark was able to enjoin the defendant from using the domain name "Barbie'sPlayPen.com" for a pornographic site. 55 U.S.P.Q.2d 1620 (S.D.N.Y. 2000). See also Victoria's Cyber Secret Limited Partnership v. V. Secret Catalogue, Inc., 161 F. Supp. 2d 1339 (S.D. Fla. 2001); court orders the transfer of domain name "VictoriaSexSecret.com" as violative of the famous "VICTORIA'S SECRET" mark.

Recently, however, the use of the FTDA has become more problematic. In Moseley v. V. Secret Catalogue, Inc., 537 U.S. 418, 155 L. Ed.2d 1 (2003) ("Moseley"), the Supreme Court addressed the discrete issue whether a dilution claim required proof of actual dilution or whether proof of a likelihood of dilution would suffice. Id. at 428.[118] Analyzing the text of § 1125(c)(1), the court held

[118] The Moseley decision resolved a split within the circuits on this issue. *Cf.* Ringling Bros.-Barnum Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449, 464 (4th Cir. 1999) (requiring proof of actual dilution) with Nabisco, Inc. v. P.F. Brands, Inc., 191 F.3d 208 (2d Cir. 1999).

that the statute "unambiguously requires a showing of actual dilution, rather than a likelihood of dilution."[119] Actual dilution "does not mean that the consequences of dilution, such as an actual loss of sales or profits, must be proved."[120] However, "where the marks at issue are not identical, the mere fact that consumers mentally associate junior users mark with a famous mark is not sufficient to establish actual dilution . . . [because] such mental association will not necessarily reduce the capacity of the famous mark to identify the goods of its owner, statutory requirement for dilution under the [anti-dilution act].[121] The court specifically recognized that proof of actual dilution may be difficult to obtain and noted that circumstantial evidence may be used to show actual dilution under certain circumstances, such as the "obvious" case when the marks are identical. As a result, in order to employ the FTDA in the future, cases will require that a franchisor show proof of actual dilution before a grant of an injunction under this act will be awarded.[122]

(e) Anticybersquatting Consumer Protection Act

The Anticybersquatting Consumer Protection Act (the "ACPA"), 15 U.S.C. 1125(d), adopted in the fall of 1999 makes cyber piracy a separate violation of the Lanham Act. The Act provides an additional weapon in combating cyber piracy. More specifically, any person who has bad faith intent to profit from another's mark and registers a domain name that is identical or confusingly similar to a distinctive or famous mark of another, violates the ACPA. The ACPA was enacted in an effort stop cyber squatting, a practice defined as the "deliberate, bad-faith and abusive registration of internet domain names in violation of the rights of trademark owners."[123]

(i) Jurisdiction

Because it is often difficult to locate the entities or persons responsible for registering and offending the main name, the ACPA authorizes suit not only the domain registrant (the person or entity), but in limited circumstances, also authorizes an action *in rem* against the domain name itself.[124] Accordingly, under the ACPA, franchisor may bring suit *in rem* against a domain name where the trademark owner cannot, after exercising "due diligence,"[125] "find a person

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[119] Moseley, 537 U.S. at 433.
[120] *Id.*
[121] *Id.*
[122] Cases post-Moseley have not given clear guidance on what is necessary to prove actual dilution. *See, e.g.*, Auto Zone, 373 F.3d at 804-807.
[123] Virtual Works, Inc. v. Volkswagen of Am., Inc., 238 F.3d 264, 267 (4th Cir. 2001) (quoting S. Rep. 106-140, 4); *See also* Mayflower Transit LLC v. Prince, 314 F. Supp. 2d 362 (D.N.J. 2004).
[124] Various courts have upheld the constitutionality of the ACPA's *in rem* provisions. *See, e.g.*, CNN, LP v. CNNews.com, 66 U.S.P.Q.2d 1057 (4th Cir. 2003).
[125] This circumstance could include a situation in which a registrant of a domain name has "provided the domain name registrar with inaccurate or false identifying information." Linee Aeree Italiane S.p.A. v. Casinoalitalia.com, 128 F. Supp. 2d 340, 347 n.16 (E.D. Va. 2001). 15 U.S.C. § 1125(d)(2)(A)(ii)(ll) provides that before proceeding *in rem*, plaintiff must attempt to contact or

who would have been a defendant" in an ACPA claim based on *in personam* jurisdiction.[126] An *in rem* lawsuit may be filed only in the judicial district in which the "domain name registrar, domain name registry, or other domain name authority is located."[127]

The ACPA applies only to situations in which the United States trademark right has allegedly been violated. In order to assert jurisdiction over non-U.S.-based domain name registrants, the ACPA applies *in rem* jurisdiction over the domain name based on the location of the registry or registrar, provided that a plaintiff trademark owner demonstrates that personal jurisdiction is not available over the defendant registrant. The remedies for an *in rem* ACPA action are limited to the transfer of the domain name. In seeking *in rem* relief under the ACPA, the moving party must demonstrate that it has exercised sufficient due diligence in trying to establish personal jurisdiction over the purported defendant before receiving such *in rem* relief. Thus, for example, in HeathMount A.E. Corp. v. Technodome.com, 106 F. Supp. 2d 860 (E.D. Va. 2000), the court allowed a trademark owner to obtain *in rem* relief over a Canadian resident who had registered certain allegedly infringing domain names after the moving party demonstrated that it had exercised sufficient due diligence in attempting to obtain personal jurisdiction over the defendant. Likewise, in Porche Cars North America, Inc. v. Porche.net, 302 F.3d 248 (4th Cir. 2002), plaintiff filed both dilution and anticybersquatting claims against a British defendant arising out of the defendant's use of plaintiff's trademarks in certain domain names. After establishing *in rem* jurisdiction against the defendant for purposes of the ACPA claim, the defendant submitted to the personal jurisdiction of the United States District Court for the Southern District of California three days before trial. A Virginia district court thereafter dismissed the ACPA claim for lack of *in rem* jurisdiction. The district court's action, however, was reversed by the Fourth Circuit finding that nothing in the ACPA requires that the conditions for *in rem* jurisdiction continue throughout the duration of a specific litigation.[128]

(ii) Necessary Elements for Case

Under the ACPA, domain name owner will be liable as a cybersquatter if that person:

(1) Has a **bad faith intent to profit from the mark**; or

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identify the domain name owner by: (aa) sending a notice of the alleged violation and intent to proceed under this paragraph to the registrant of the domain name at the postal and e-mail address provided by the registrant to the registrar and (bb) publishing notice of the action as the court may direct promptly after filing the action. Courts have upheld the constitutionality of the ACPA's *in rem* provisions. *See e.g.,* Cable News Network v. Cnn News.com, 66 U.S.P.Q.2d 1057 (4th Cir. 2003).

[126] 15 U.S.C. § 1125(d)(2)(A)(ii)(ll).

[127] 15 U.S.C. § 1125(d)(2)(A).

[128] *See also* Harrods Ltd. v. Sixty Internet Domain Names, 302 F.3d 214 (4th Cir. 2002).

(2) Registers, traffics, and/or uses a domain name that:

(a) Is identical or confusingly similar to a mark that is *distinctive* at the time of registration of the domain name;

(b) Is identical or confusingly similar to or dilutive of a mark that is *famous* at the time of registration of the domain name; or

(c) Is a trademark, word, or name protected by statute.

(iii) Use in Commerce/Distinctive or Famous Mark

It is worth noting that the ACPA permits a cause of action where the defendant "registers, traffics or uses a domain name" in a manner prohibited by the ACPA. This is distinctly different from claims under the trademark infringement or unfair competition provisions as the ACPA allows liability to be established even where a defendant does not actually use plaintiff's mark in commerce.[129]

By definition, a mark must be distinctive or famous for the ACPA to apply. Courts are divided over whether the statute applies to only inherently distinctive marks or whether the statute applies as well to marks that have acquired distinctiveness as a result of developing a secondary meaning.[130]

(iv) Comparison of Confusingly Similar Versus Likelihood of Confusion

As set forth above, traditional trademark and unfair competition claims require that the plaintiff prove that the alleged infringing mark is likely to cause confusion between a plaintiff's trademark and a defendant's use of the mark in a domain name or otherwise. The ACPA relieves franchisors of this requirement. Under the ACPA, a plaintiff must prove that the defendant's domain name is "identical or confusingly similar to" plaintiff's trademarks in terms of sight, sound, and meaning.[131] Liability exists under this standard even if the sites themselves offer quite different goods or services, or even is a parody of the mark owner, such that no one is confused once they see the site operating under the confusingly similar domain name. Thus, under the ACPA, the plaintiff's proof

[129] *See, e.g.*, Porche Cars N. Am., Inc. v. Spencer, 55 U.S.P.Q.2d 1026 (E.D. Cal. 2000) (allowing ACPA claim against defendant who was auctioning the inactive domain name porchesource.com).

[130] *Cf.* Sporty's Farm v. Sportsman's Market, Inc., 202 F.3d 489, 497 (2d Cir. 2000) ("distinctiveness refers to inherent qualities of a mark and is a completely different concept from fame" which may be acquired through extensive marketing and use) with Northern Light Technology, Inc. v. Northern Lights Club, 97 F. Supp. 2d 96, 116 (D. Mass. 2000) (a "mark is distinctive [under the ACPA] if it is either inherently distinctive or has acquired secondary meaning"), *aff'd*, 236 F.3d 57 (1st Cir. 2001).

[131] 15 U.S.C. § 1125(d)(1)(A)(ii)(I).

need not address many of the traditional likelihood of confusion factors set forth above.

Several recent decisions illustrate that the standard of confusion is different under the ACPA. In Coca-Cola Co. v. Purdy, 382 F.3d 774 (8th Cir. 2004), the court of appeals affirmed the decision of the trial court holding that an activist's registration of domain names similar to famous marks (for example, www.mycocacola.com) and then linking of those sites to his anti-abortion site violated the ACPA, notwithstanding his first amendment defense and his (probably correct) factual assertion that no one would believe the anti-abortion site was operated by the famous mark owners. In Harrod's Ltd. v. Sixty Internet Domain Names, 157 F. Supp. 2d 658 (E.D. Va. 2001), *aff'd*, 302 F.3d 214 (4th Cir. 2002), the court held that the domain names incorporating plaintiff's HARRODS mark, such as Harrodsbank.com and harrodsstore.com along with other Spanish versions of the mark, were confusingly similar to plaintiff's mark because they resemble plaintiff's mark in sight and sound. Likewise, noting the difference between the Lanham Act's likelihood of confusion standard and that required by the ACPA, the court in Omega S.A. v. Omega Eng'g, Inc., 228 F. Supp.2d 112 (D. Conn. 2002) noted that the ACPA analysis merely compares the plaintiff's mark and the defendant's domain name in terms of sight, sound, and meaning such that where the domain name "bears such a visual resemblance [to plaintiff's mark] that internet users would reasonably assume that the names were modified, used, proved, and/or permitted by [the plaintiff]" the confusingly similar element of the ACPA is met.

(v) Bad Faith Intent

Obviously, the key to making a claim under the ACPA is establishing that the cybersquatter had a *bad faith intent to profit from the mark* in question. In determining whether bad faith exists, the ACPA provides a list of non-exclusive factors the court may consider in determining whether a name was registered in bad faith, including:

- The trademark or other intellectual property rights of the domain name owner;

- Whether the domain name consists of the legal name of the domain name owner or is otherwise commonly used to identify such owner;

- The domain name owner's prior use of the domain name in connection with the bona fide offering of goods or services;

- The domain name owner's bona fide noncommercial or fair use of the mark in a corresponding web site;

- The domain name owner's intent to divert consumers from the mark owner's web site;

- The domain name owner's offer to sell, assign or otherwise transfer the domain name;

- The domain name owner's provision of material or misleading false contact information;

- Whether the domain name owner has acquired or registered multiple domain names identical or confusingly similar to the marks of others; and

- Whether the mark is distinctive and/or famous.

Litigants and courts have debated whether the "bad faith intent to profit" requirement of the ACPA amounts to a "commercial use" requirement, such that confusingly similar domain names used for political and noncommercial purposes are immune under the ACPA. The issue has special significance for those concerned with "cyber-gripe" sites. The record in mixed. In Coca-Cola Co. v. Purdy, the Eighth Circuit considered the fact that Purdy's clearly political anti-abortion sites either solicited funds or linked to sites that solicited funds as evidence of a bad faith intent to profit.[132] In TMI Inc. v. Maxwell,[133] however, the Fifth Circuit concluded that a disgruntled customers gripe site was neither commercial in nature nor registered and used with a bad faith intent to profit.[134] Another court of appeals, ruling similarly, concluded that the ACPA was designed for "the protection of consumer from slick internet peddlers who trade on the names and reputations of established brands. The practice of informing fellow consumers of one's experience with a particular service provider is surely not inconsistent with this ideal."[135]

(vi) Safe Harbor Provision

The ACPA provides a safe harbor provision for avoiding liability if the defendant can establish that it reasonably believed that its use of the domain name was fair and lawful.[136] Obviously, the application of the safe harbor provision is wholly dependent upon the facts of each case and there are cases which accept and reject the defense.[137] Typically, where the court finds there is any evidence of bad faith, the safe harbor provision of the ACPA does not apply.

[132] 382 F.3d at 785-87.
[133] 368 F.3d 433 (5th Cir. 2004).
[134] *Id.* at 439.
[135] Lucas Nursery & Landscaping, Inc. v. Grosse, 359 F.3d 806, 811 (6th Cir. 2004).
[136] 15 U.S.C. § 1125(d)(1)(B).
[137] *See, e.g.*, Virtual Works v. Volkswagen of Am., Inc., 238 F.3d 264 (4th Cir. 2001) (Fourth circuit concluding that registration of the domain name vw.net was at least partially in bad faith and therefore the defendant was not entitled to the ACPA safe harbor provision.

See Harrod's Ltd. v. Sixty Internet Domain Names, 302 F.3d 214 (4th Cir. 2002); Pinehurst, Inc. v. Wick, 256 F. Supp. 2d 424 (M.D.N.C. 2003).

(vii) Remedies

Where a franchisor brings an action *in personam* against a cyber squatter under the ACPA, the franchisor may obtain both equitable and legal relief, including injunctive relief, directing that the domain name be transferred to the trademark owner; statutory damages of between $1,000 and $100,000 per infringing domain name; and, in appropriate cases, attorneys' fees. Where a franchisor is proceeding under the ACPA's *in rem* jurisdiction, the franchisor may recover injunctive relief only.[138]

E. Uniform Domain Name Dispute Resolution Policy ("UDRP")

The UDRP governs disputes between trademark owners, including franchisors and domain name registrants. As described above, the UDRP is an ICANN-developed policy where by cybersquatting disputes are resolved through administrative proceedings. It was adopted by ICANN on August 26, 1999 and has been adopted by all accredited domain name registrars for generic top level domain names (i.e., .com, .net, .org, .info, .biz, .name, .aero, .coop, and .museum). The UDRP permits a trademark owner to initiate an arbitration proceeding against a domain name registrant in one of four forums approved by ICANN:

- The World Intellectual Property Organization ("WIPO");
- The National Arbitration Forum ("NAF");
- CPR Institute for Dispute Resolution ("CPR"); and
- Asian Domain Name Dispute Resolution Centre ("ADNDRC").

Each of these dispute resolution providers offers one to three person panels to review domain name disputes. ICANN has established detailed procedural rules that all parties to the UDRP must follow and arbitration proceedings typically are decided pursuant to written submission.[139] Typically, the UDRP has been favorable to trademark holders although there is nor requirement that the UDRP adhered to "precedent."[140]

A proceeding under the UDRP is significantly less expensive to prosecute than a claim under federal trademark law or the ACPA in federal district court.

[138] 15 U.S.C. § 1117(d); 15 U.S.C. § 1125(c)(2).
[139] *See, e.g.*, www.icann.org.
[140] One study by a Canadian law professor, Michael Geist, found that WIPO and NAF each ruled in favor of trademark owners over 82% of the time.

The UDRP is available to complainants with or without United States trademark rights, leads to faster resolution of disputes but is limited in its relief, allowing only for the transfer of the domain name and not for monetary damages.

1. Necessary Elements for a UDRP Claim

Under the UDRP, a franchisor must demonstrate that:

- The domain name in question is identical to or *confusingly similar* to trademarks in which the trademark owner has rights;

- The respondent both registered and is using the domain name in *bad faith*.

- The respondent has no rights or legitimate interest in the domain name in question; and

2. Confusingly Similar Analysis

Like the ACPA, to determine whether the mark and domain name are "confusingly similar," the panel focuses upon the actual mark and domain name in dispute. There is no broad analysis of likelihood of confusion as required by the Lanham Act for trademark infringement and unfair competition.

3. Bad Faith Registration and Use of Domain Name

The UDRP requires that complaining franchisor prove that the domain name respondent both registered and uses the domain name in "bad faith." Paragraph 4(b) of the UDRP sets forth a non-exhaustive list of factors which arbitrators may consider in determining the issue of bad faith, including:

- Circumstances indicating that you have registered or you have acquired the domain name primarily for the purpose of selling, renting, or otherwise transferring the domain name registration to the complainant who is the owner of the trademark or service mark or to a competitor of that complainant, for valuable consideration in excess of the documented out of pocket costs directly related to the domain name; or

- You have registered the domain name in order to prevent the owner of the trademark or service mark from reflecting the mark in a corresponding domain name, provided that you have engaged in a pattern of such conduct; or

- You have registered the domain name primarily for the purpose of disrupting the business of a competitor; or

- By using the trade name, you have intentionally attempted to attract, for commercial gain, internet users to your website or other online location, by creating a likelihood of confusion with the complainant's mark as to the source, sponsorship, affiliation, or endorsement of your website or location of a product or service on your website or location.

Several other panels have found other acts to indicate bad faith.[141]

4. Requirement for "Use" of Challenged Domain Name

Panels under the UDRP are split over the meaning of the "use" requirement of policy. For example, in one panel decision, the panel concluded that the respondent had made a bad faith use of the domain name in question by "warehousing" or failing to link its domain name to an active website. However, other UDRP panels have held that the domain name holders do not "use" domain name within the meaning of the policy merely by registering it and then warehousing it. Cf. Telstra Corp. Ltd. v. Nuclear Marshmallows, WIPO No. D2000-003 (Feb. 18, 2001) with Cyro Indus. v. Contemporary Design, WIPO No. D2000-00336 (June 19, 2000).

5. Respondent's Lack of Rights or Legitimate Interest in Domain Name

The UDRP requires that the moving party establish that the respondent have no rights or legitimate interest in the domain name in question. This has evolved into more of an ability for the respondent to provide rebuttal evidence to refute bad faith by demonstrating that it has a legitimate interest in domain name.[142] Evidence of this nature commonly includes that respondent has commonly been known by that name, that respondent has made a good faith

[141] *See, e.g.*, Kate Spade LLC v. Earmstadter Designs, WIPO Dec. No. D2001-1384 (Jan. 3, 2002) (failure to conduct a trademark search before registering a domain name); Wachovia Corp. v. Carrington, WIPO Dec. No. D2002-0775 (Jan. 3, 2002) (use of domain name in connection with a pornographic website); Hamburger Hamlets, Inc. v. Wachsmuth, WIPO Dec. No. D2000-1548 (Jan. 21, 2001) (providing false contact information to domain name registrar); Advanced Comfort, Inc. v. Grillo, WIPO Dec. No. D2002-0762 (Oct. 18, 2002) (failure to actually establish a website); Rovos Rail (pty) Ltd. v. Innovative Technical Solutions, WIPO Dec. No. D2001-1299 (Feb. 10, 2002) (accepting domain name that is subject to dispute); Am. Red Cross v. Habersham, Nat'l Arb. Forum Dec. No. FA103926 (Mar. 6, 2002) (no explanation for use of another's trademark and domain name); U.S. Office of Personal Management v. MS Tech Inc., Nat'l Arb. Forum Dec. No. FA0310000198898 (Dec. 9, 2003) (copying portions of trademark owner's site); Berlitz Invs. Corp. v. Tinculescu, WIPO Dec. No. D2003-0465 (Aug. 22, 2003) (refusing to comply with order regarding domain name); Bragg v. Condon, Nat'l Arb. Forum Dec. No. FA0092528 (Mar. 2, 2000) (business competitor registering two domain names that were strikingly similar to complainant's trademarks).

[142] *See, e.g.*, Valazquez Jimenez v. Velazquez-Perez, WIPO Case No.: D2001-0342 (May 8, 2001); G.A. Modefine Savar Mani, WIPO Case No. D2001-0537 (July 20, 2001).

prior use of the name in connection with offering goods or services or that the respondent is making a legitimate noncommercial use or fair use of the domain name without the intent to gain commercially, to misleadingly divert customers, or to tarnish the mark.[143]

6. Post Arbitration Proceedings

Once a claimant or respondent does not prevail under the UDRP, either may pursue their claim in a court of competent jurisdiction.[144] According to at least one court of appeals, decisions pursuant to the UDRP do not qualify as arbitrations under the Federal Arbitration Act, 9 U.S.C. § 1, et seq., and therefore not entitled to the deferential review standards that permit courts to vacate arbitration proceedings only in very limited circumstances.[145]

7. Choosing between ACPA Litigation and UDRP Arbitration.

While generally similar, the standards applicable to ACPA and UDRP proceedings differ in some respects that may at times dictate the choice of proceedings. UDRP arbitration generally will provide a quicker remedy at less cost, though there is no prospect of recovering attorneys fees or damages. Of course, UDRP proceedings are advantageous only where the defendant's conduct is limited to cybersquatting: If the defendant is infringing in other manners, only civil litigation can afford full relief. The power of judges to issue broad injunctive relief and the attendant risk to a defendant of being held in contempt are factors that strongly favor ACPA litigation where a serious threat to one's business appears, especially given the predilection of cybersquatters to resurface in other corporate guises or under new domain names.

F. Practical Measures for Managing Internet Trademark Risks.

Successful franchisors will face Internet challenges to their trademark rights sooner or later. Even the most aggressive of trademark protection programs is unlikely to successfully avert all challenges, but companies can take several steps to better manage the problem. Some examples include:

- As noted at the outset of this paper, a franchisor is always in a stronger position to deal with disputes – whether in litigation or in settlement negotiations -- if it has selected a strong, inherently distinctive mark, and if it has federally registered its mark.

[143] Societe des Produits Nestle S.A. v. Pro Fiducia Treuhandag, WIPO Case No. D2001-0916 (Oct. 12, 2001).
[144] *See, e.g.*, Sallen v. Corinthians Licenciamentos LTDA, 273 F.3d 14 (1st Cir. 2001).
[145] Dluhos v. Strasberg, 321 F.3d 364 (3d Cir. 2003).

- If a franchisor's domain name differs appreciably from its principal mark, it should consider steps to use the heart of the domain name as a secondary mark.

- An ounce of prevention is worth a pound of cure. Domain name registrations are inexpensive. While it is impossible to anticipate all variations of ones mark and domain name, it is generally advisable to register as many variations as possible, having each link to your site. This applies not only to your mark as used with top level domain names other than "com," but also spelling variations of your mark. You should also "lock up" likely cybergripe sites. Establish procedures so that you know when you must renew domain name registrations.

- Be sure that franchise agreements control franchisees' internet presence, and requires your approval for use of your mark on franchisee domain sites and on any independent franchisee domain names.

- Add to employment and franchise agreements a provision where the employee acknowledges your rights in your marks and agrees, as a contractual matter, not to use at any time (even after termination of the relationship) any variation of your mark as a mark or domain name without corporate approval.[146] This provision could be coupled with anti-disparagement language.

- Especially with employees and domain name usage, where damages associated with cybergripe sites may be hard to ascertain, consider adding to the agreement a liquidated damages provision as well as an attorneys' fee provision.

- Establish a routine for monitoring use of your marks on the Web; you likely will find it necessary to augment your monitoring efforts with procedures for tracking down and challenging wrongdoers. Laches is a powerful defense in trademark law in situations where use of a similar mark is innocent (as opposed to more willful infringement), and inaction for even a few months can imperil your trademark rights.

- Be mindful when sending cease and desist letters to infringers that anything you write may be posted on the Internet. Sometimes negotiations, properly conducted, can lay the groundwork for showing the necessary element of a bad faith intent to profit in

[146] While the Supreme Court recently reaffirmed the right to use another's mark descriptively – trademark "fair use" as it is sometimes called, *see supra* – a contractual surrender of those rights should be enforceable absent situations involving particular first amendment concerns.

cybersquatting actions. With copycat sites, especially e-commerce sites, intent to infringe is a foregone conclusion. The infringer will almost always shut down if challenged by demand, but where there is a risk of him resurfacing elsewhere (as there often is), immediate recourse to the courts for injunctive relief often makes more sense.

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