Trademark Enforcement In Distinct Geographic Territories: Is the Infringement Case "Ripe"?

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The following scenario is a common one when it comes to trademark enforcement. Butter Udder Franchising is an emerging ice cream franchise concept. Since its inception two years ago, it has grown to fifteen franchise locations in Georgia, Alabama, and South Carolina. The principals of Butter Udder have been well schooled on the benefits of protecting the concept's intellectual property rights and, to that end, Butter Udder has recently obtained a federal trademark registration for its BUTTER UDDER house mark. One of the benefits Butter Udder has been advised flows from federal registration is "nationwide priority" against subsequent users of confusingly similar marks.

While on vacation in Jackson Hole, Wyoming, one of Butter Udder's franchisees discovers that an ice cream/dessert purveyor has just opened there under the name Butter Udder's Dessert Emporium ("Butter Udder's Wyoming"). The franchisee contacts Butter Udder about this third party and asks what Butter Udder is going to do about Butter Udder's Wyoming's use. After verifying that the nationwide priority date of its federal trademark registration predates Butter Udder's Wyoming's date of first use, Butter Udder is weighing whether to institute immediate legal action to address Butter Udder's Wyoming's activities. Should it do so? Will it be successful?

Without more helpful facts, the answers to both questions are likely "no and no." Although a federal registration does give Butter Udder nationwide priority vis a vis subsequent users of confusingly similar marks, it does not relieve Butter Udder's burden to establish in litigation that consumers in the geographic area in which Butter Udder's Wyoming operates are likely to believe, mistakenly, that Butter Udder's Wyoming's operations are affiliated or associated with or licensed or endorsed by Butter Udder. To make that showing, Butter Udder must demonstrate either: (a) that its reputation extends to Jackson Hole; or (b) that it has definitive concrete plans to expand there. Unless Butter Udder can satisfy either or both of these requirements, a court will likely conclude that there is no likelihood of consumer confusion in Butter Udder Wyoming's territory and the litigation will be unsuccessful. However, once Butter Udder expands to the disputed territory, it should be entitled to an immediate injunction. This principle is known as the "Ripeness Doctrine" or "Dawn Donut Rule," named after the Second Circuit's landmark decision in *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959).

The Dawn Donut Rule has formed part of the law for nearly sixty years, and it has shown remarkable resilience. All Circuits except for the Sixth have adopted the Dawn Donut Rule and, despite at least one commentator's suggestion that the significance of the Dawn Donut Rule may diminish in light of the rise of the internet, *See* Thomas L. Casagrande, *The "Dawn Donut Rule:" Still Standing (Article III, That is) Even with the Rise of the Internet*, 90 Trademark Rep. 723 (2000), courts today still routinely take into account the Dawn Donut Rule in assessing infringement. *See, e.g., Paleteria La Michoacana, Inc. v. Productos Lacteos Tocumbo S.A. de* C.V., 188 F. Supp. 3d 22, 118-19 (D.D.C. 2016), *aff'd*, No. 17-7075, 2018 WL 3894587 (D.C. Cir. Aug. 10, 2018); *Russell Rd. Food & Beverage v. Spencer*, No. 2:12-CV-01514-LRH-GWF, 2013 WL 321666, *3 (D. Nev. Jan. 28, 2013). However, there is no question that the extent of the trademark owner/federal registrant's internet-related activities is having an increasing influence both on the issue of whether the reputation of the mark extends to the disputed area and, in some cases, on the scope of injunctive relief.

So, what does that mean for Butter Udder? Butter Udder has now approached you with the following questions about its options and next steps:

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Laches/Acquiescence:
Butter Udder is concerned that now that it is aware of Butter Udder's Wyoming's activities, the clock has started running on laches and acquiescence and that, if Butter Udder does not take legal action now, it may be precluded from taking action later. Here is one instance in which the Dawn Donut Rule helps Butter Udder. Because there is arguably no infringement during the period of time the parties' activities are geographically distinct, courts have held that a failure to take immediate action or, for that matter, any action prior to the trademark owner/federal registrant's expansion into the disputed territory does not result in acquiescence or laches. *See, e.g., What-A-Burger of Va., Inc. v. What-A-Burger, Inc. of Corpus Christi, Tex.*, 357 F.3d 441 (4th Cir. 2004); *Synergistic Int'l, Inc. v. Windshield Doctor*, 66 U.S.P.Q.2d 1936 (C.D. Cal. 2003).

Concrete Intent to Expand:
Butter Udder advises you of its rapid expansion to date throughout Georgia, Alabama, and South Carolina, that it plans to expand nationwide in the next couple of years and would consider selling a franchise now or itself opening a location in or around Jackson Hole, Wyoming if the right opportunity presented itself. Is this sufficient evidence of a concrete intent to expand to institute successful trademark infringement action against Butter Udder's Wyoming?

The answer is probably no. Courts have been relatively strict in construing the concrete intent to expand requirement of the Dawn Donut Rule. For example, courts have rejected naked assertions that a trademark owner/federal registrant is willing to sell a franchise or initiate operations itself, or is ready to begin selling product into the junior user's territory, for failing to establish sufficient concreteness. *See, e.g., Paleteria La Michoacana*, 188 F. Supp. 3d at 119 (finding both that these alleged facts were insufficient and unsupported by the record). In another case, a trademark owner/federal registrant's assertions that it had traveled to the junior user's territory, consulted with real estate agents, organized investor meetings, and attempted to establish local relationships was held insufficient to demonstrate a sufficiently concrete likelihood of entry. *See Russell Rd. & Beverage* at *3-4.

Activities by Butter Udder that might establish a sufficiently concrete intent to expand to be successful in a trademark infringement action include instances in which (a) it has itself leased premises in Jackson Hole, Wyoming and is ready to begin sales; (b) it has entered into a franchise agreement covering the disputed territory; or (c) it has been in negotiations with a prospect to enter into a franchise agreement and that prospect has balked at purchasing the franchise because of the trademark conflict in the disputed territory.

Scope of Injunctive Relief:
Suppose Butter Udder advises you that it has just sold a franchise covering Jackson Hole that is due to open within the month, but that it has now just discovered that Butter Udder's Wyoming has also recently opened locations in Minnesota, Colorado, and Arizona. Butter Udder wants to institute a trademark infringement action but would like to enjoin Butter Udder's Wyoming's non-Wyoming locations as well. Will it be successful in doing so?

This presents a hard question and more detailed fact gathering will be necessary to answer the question. At the outset, several recent decisions addressing a junior user's multistate operations often do so under a strict Dawn Donut analysis. For example, in *Bros. of the Wheel M.C. Exec. Council, Inc. v. Mollohan*, 909 F. Supp. 2d 506, 520-21 (S.D. W.Va. 2012), aff'd, 609 Fed. Appx. 149 (4th Cir. 2015), the court found that although the trademark owner/federal registrant had established a likelihood of confusion with defendant's activities in Kentucky, Ohio, and West Virginia, it declined to issue a nationwide injunction under a Dawn Donut analysis because the trademark owner/federal registrant's physical operations were limited to the foregoing three states and it could not demonstrate the probability of confusion elsewhere.

On the other hand, two other recent cases found that a nationwide injunction was appropriate despite the fact that the trademark owner/federal registrant's physical operations were geographically limited. *Boldface Licensing + Branding v. By Lee Tillett, Inc.*, 940 F. Supp. 2d 1178 (C.D. Cal. 2013), involved a trademark infringement action between competitive cosmetic companies. The trademark owner/federal registrant Tillett sold it products over the internet and in stores in Florida, California, New York, New Jersey, Hawaii, South Carolina, Pennsylvania, and Connecticut. In contrast, the junior user Boldface had begun selling its products nationwide through more than 5,000 stores as well as on the internet. After Tillett established liability for trademark infringement, Boldface argued that the injunction should be limited to the states in which Tillett had physical locations.

The court declined to do so for two reasons. First, the court noted that Tillett's internet sales included customers nationwide and that Tillett had actively promoted its products in nationwide media. These facts, among others, demonstrated a present likelihood that Tillett would expand nationally into areas occupied by Boldface.

Perhaps more importantly, the court found that a limited injunction was inappropriate because this case involved "reverse confusion," i.e. where a substantially larger junior user's allegedly infringing use dwarfed the activities of the trademark owner/federal registrant and threatened to destroy the trademark owner/federal registrant's business. *Id*. at 1199-1200. The court added that if Boldface was barred only in the areas where Tillett was doing business, Boldface's activities might eliminate Tillet's identity, goodwill, and reputation even in Tillett's geographic area given the size of Boldface's operations. And a more limited injunction could serve as a disincentive to Tillet's attempting to expand its business into areas already occupied by Boldface and even though Tillet may well be able to enjoin those activities, as it would likely incur significant expense in doing so. *Id*. at 1200.

Similarly, in *Guthrie Healthcare Sys. v. ContextMedia*, Inc., 826 F.3d 27 (2d Cir. 2016), a case involving two entities in the medical field, the Second Circuit reversed a district court's decision limiting preliminary injunctive relief for trademark infringement to the trademark owner/federal registrant's existing geographic service area. In doing so, it limited the application of the Dawn Donut Rule on the issue of injunctive relief. According to the court, although a trademark owner/federal registrant was required to prove a probability of confusion in the first instance in some geographic area as a prerequisite to any injunctive relief, once it did so it did not have to show the same probability of confusion to extend that injunction to other geographic areas. Rather, the injured trademark owner/federal registrant was required only to present adequate evidence of "plausibly foreseeable confusion" beyond its main area of injury to merit the granting of a broader, and possibly a nationwide, injunction. *Id* at 49. The court added that its conclusion was bolstered by the fact that the trademark owner/federal registrant recruited nationwide, disseminated information over the internet to a nationwide audience and received referrals nationwide, all of which increased the risk of confusion and harm with the alleged infringer whose activities were nationwide. *Id* at 48-49.

<u>Other Advice:</u>
Although frustrated, Butter Udder appreciates your advice and has reluctantly agreed not to institute litigation immediately. But then it inquires what additional steps should be taken as it develops expansion plans for Jackson Hole. One tactic the author has found helpful is to send a demand letter to the alleged infringer notifying it of: (i) the trademark owner/federal registrant's superior rights in the trademark at issue; (ii) the black letter law spelling out the trademark owner/federal registrant's entitlement to injunctive relief; and (iii) the trademark owner/federal registrant's intent to expand to the disputed territory. Such a letter may then suggest that the alleged infringer begin now taking steps to transition to a non-infringing mark. Sometimes this results in a cooperative transition by the alleged infringer without the need for litigation. If the alleged infringer fails to cooperate or ignores the demand letter, then the letter might help the trademark owner/federal registrant build a case for willful infringement that may entitle it to enhanced remedies in the event litigation becomes necessary. *See Synergistic Int'l, LLC v. Korman*, 402 F. Supp. 2d 651 (E.D. Va. 2005), *aff'd in part and vacated in part*, 470 F.3d 162 (4th Cir. 2006), *on remand*, No. CIV 2:05CV49, 2007 WL 517677 (E.D. Va., Fed. 8, 2007).

Conclusion
Convincing a trademark owner/federal registrant that delaying a trademark infringement action against a known third-party use of a confusingly similar trademark is often a tough sell. But reminding the trademark owner/federal registrant that by deferring the institution of litigation until the parties' geographic areas of operation converge, the third party's use will be enjoined at least in the disputed territory makes that pill much easier to swallow. As perhaps best said by Judge Chamberlain Haller of *My Cousin Vinny* fame, the Dawn Donut Rule or Ripeness Doctrine at most operates as a "stay of execution" for the alleged infringer. *My Cousin Vinny* (Twentieth Century Fox 1992).