This article originally ran in the *New York Law Journal*

What Does the 2020 Trademark Modernization Act Have in Store for Franchising?

Although many portions of the Trademark Modernization Act of 2020 won't become effective until Dec. 27, 2021, it is the most significant trademark legislation since the landmark Trademark Law Revision Act of 1988.

With all of the legislation about COVID-19, the attack on the U.S. Capitol, the Inauguration, and the NFL playoffs, you might have missed the passing of the Trademark Modernization Act of 2020 into law (TMA 2020). And although many portions of the TMA 2020 won't become effective until Dec. 27, 2021, it is the most significant trademark legislation since the landmark Trademark Law Revision Act of 1988. Several of its provisions will be of great interest to the franchise community, and one in particular will have a significant impact in trademark infringement matters.

Perhaps most significant for franchisors who seek to enforce their trademarks, is that the TMA 2020 restores or confirms (depending on the jurisdiction) the presumption of irreparable harm in trademark cases where injunctive relief is sought. The reinstatement of the presumption reverses what has been a refusal by many courts to apply the presumption in trademark cases after 2006 based on the U.S. Supreme Court's decisions in *eBay v. MercExchange*, 547 U.S. 388 (2006) and *Winter v. Natural Resources Defense Counsel*, 555 U.S. 7 (2008), which eliminated similar presumptions in litigation brought under patent and environmental law.

Franchisors and franchisees frequently litigate over trademarks in cases arising from "holdover scenarios" where a franchisee continues to use the franchisor's trademarks after expiration or termination of the franchise relationship in connection with a competing venture, often from the same location as the former franchised business. The Lanham Act, which is the federal statute governing trademark law in the United States, provides franchisors with a significant weapon to secure preliminary and ultimately permanent injunctive relief to address these scenarios. It also revives the preliminary injunction as a weapon for franchisors to stop third parties from infringing the franchised trademarks and protect the investment of their franchisees in the brand.

To obtain injunctive relief, franchisors typically must demonstrate: (1) a likelihood of success; (2) irreparable injury; (3) the threatened injury to the movant outweighs the harm the relief sought would inflict on the opposing party; and (4) the injunction would not be adverse to the public interest. Prior to 2006, courts routinely held that a movant was entitled to injunctive relief merely by demonstrating a likelihood of success on the merits of a trademark infringement claim. The reason for this was judicial recognition of a "presumption" of irreparable harm to the movant because of the infringement.

After *eBay* and *Winter*, there has been a substantial debate over whether those holdings should be limited to their respective subject matters or given broader application to other areas of the law such as trademark infringement and other Lanham Act matters. Over the past 14 years, court decisions have been decidedly mixed on the issue of whether a presumption of irreparable harm continues apply in trademark infringement matters. The TMA 2020 has resolved the split of authority by clarifying that in trademark infringement matters the franchisor trademark owner enjoys a rebuttable presumption of irreparable harm upon establishing infringement at the proof stage, or showing of a likelihood of success in proving infringement in the context of motions for temporary restraining orders or preliminary injunctions.

For franchisor trademark owners, the availability of a presumption of irreparable harm should make it easier to obtain injunctive relief in trademark infringement litigation. And with this presumption back in play, franchisees may think twice about using the franchisor's trademarks without permission or in a manner that fails to comply with the franchise agreement's terms. But franchisor trademark owners should be mindful about the importance of showing evidence of actual irreparable harm resulting from the alleged trademark infringement rather than relying solely on the presumption. Without such evidence of actual harm, the opposing party may be able to rebut the presumption. Although loss of revenues certainly qualifies as evidence of irreparable harm, franchise trademark owners can also make that showing by demonstrating harm to the brand and its reputation and value in the marketplace. Such evidence may be particularly helpful in jurisdictions that previously refused to apply the presumption immediately following *eBay* and *Winter* and which may, at least initially, balk at its reapplication.

The TMA 2020 next addresses a new perceived threat to U.S. trademark owners, including franchisors, primarily from foreignbased businesses and, in particular, those from China who obtain or maintain registrations based on false or inaccurate use claims and/or submission of fake or digitally altered specimens not actually showing use of the mark in U.S. commerce. The TMA 2020 provides two new mechanisms for franchisor trademark owners to challenge trademark registrations where substantial questions exist whether the subject mark was ever used in commerce.

The first is a procedure for *ex parte reexamination* that permits challenges to use-based registrations issued under §1(a) of the Lanham Act on the ground that the subject mark was not used in commerce at the time the application was filed (if use was averred there) or, alternatively, as part of the amendment to allege use or statement of use submitted during prosecution of an application originally filed under §1(b). The second is a procedure for *ex parte expungement*, which permits challenges to registrations covering marks that have never been used in commerce. The primary purpose of the expungement option is to target registrations obtained by foreignbased businesses under either §44(e) or §66(a) of the Lanham Act. Nevertheless, the two proceedings are not mutually exclusive, and, at least in theory, a challenger could bring both against the same registration.

Numerous regulations will be needed to enable the reexamination and expungement mechanisms, but the TMA 2020 does provide for the following: (1) unlike inter partes opposition and cancellation proceedings in the U.S. Trademark Office, there is no standing requirement to initiate the new mechanisms, meaning any person can petition the Director of the U.S. Patent and Trademark Office (Director) to institute a reexamination or expungement proceeding. Alternatively, the Director can institute either proceeding sua sponte; (2) to initiate a proceeding one could potentially institute either mechanism by filing a Petition with the Director that identifies the registration(s) at issue and the challenged goods and/or services. The Petition must include a verified statement of the "reasonable investigation" of the merits of the challenge conducted by the Petitioner, any supporting evidence, and any fee prescribed by the Director. The Director will review the Petitioner's submission and determine if it establishes a prima facie case of nonuse. If so, the Director will institute the proceeding and notify the Registrant, who will have the opportunity to submit documentary evidence of use. In the case of expungement, the Registrant alternatively may provide evidence that any nonuse is due to special circumstances excusing such nonuse. The Director will render a final decision on the Petition; and (3) as for timing, one may file a Petition for expungement only between the third and tenth anniversaries of the subject registration, although for a limited time of three years after the TMA 2020's effective date, Petitions to expunge may be brought at any time after their third anniversaries. One may file a Petition for reexamination at any time within the first five years of the subject registration's issuance. One can appeal the Director's decision to invalidate all or a portion of a challenged registration to the Trademark Trial and Appeal Board. In contrast, however, a determination by the Director whether or not the Petitioner has established a prima facie case of nonuse is not appealable.

Another significant part of the TMA 2020 codifies the existing "letter of protest" procedures, which would allow franchisor trademark owners (or any third party) to raise certain challenges to pending applications during examination. This could be an attractive less expensive alternative for franchisor trademark owners to prevent third party applicants of confusingly similar marks from obtaining registrations without having to file opposition proceedings.

The TMA 2020 provides a more formal approach to submission and consideration of "letters of protest" and evidence relevant to a ground for the refusal of particular applications. Within two months after the date on which a third party files a submission, the Director will determine whether to include that evidence in the record of the application. Any determination by the Director of whether to forward that evidence to the examiner assigned to an application is final and nonreviewable, but it will not prejudice any party's right to raise any issue and rely on that or any other evidence in any other proceeding.

Last, under the TMA 2020, the Director will provide by regulation flexibility to examining attorneys in establishing deadlines to Office Actions. Currently, applicants receive a rigid six-month period to respond to Office Actions, regardless of the issue presented. The TMA 2020 authorizes the Director to establish shorter deadlines of not less than 60 days, which the Director may extend at the request of the applicant for an aggregate of up to six months from the issuance of the original Office Action, upon payment of a fee prescribed by the Director. The practical effect of these new more flexible timing regulations is that trademark registrations for franchisors could issue more quickly, assuming the franchisor trademark owner responds substantively to the Trademark Office on or before the new permitted shorter deadlines.

Upon promulgation of all regulations envisioned by its drafters, the TMA 2020 should be beneficial to franchisor trademark owners and the consuming public in numerous respects. Indeed, taken together, the TMA 2020's reforms may result in greater and more cost-effective protection for trademark owners seeking injunctive relief and a registration system that more accurately reflects the reality of the marketplace.

Chris P. Bussert *is senior counsel and* **Marc A. Lieberstein** *is partner at Kilpatrick Townsend & Stockton.*