'Dawn Donut Rule': A Guide for Expanding Franchises to Enforce Trademark Rights

By Marc Lieberstein and Bill Bryner | April 18, 2023 at 11:42 AM

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A relatively recent trend indicates that state regulators in franchise registration states are conducting state trademark searches and advising franchise owners, who are filing applications to offer and sell franchises in those registration states, that a local third party already operates in the state under the same or similar trademark as the franchise. Consequently, the state regulator is requesting, and in some cases requiring, additional franchisor disclosures and representations in the Franchise Disclosure Document (FDD) concerning the franchise's trademark rights, and the potential risks to prospective franchisees concerning the right to use the franchise trademark in the state.

This scenario presents a significant issue for franchisors and their ability to sell franchises in a state in which they had not yet been operating, but into which they expected to expand without interference. In addition to the prospect of the franchise trademark owner having to enforce its trademark rights against a local third-party infringer in the state, there's a good chance that any prospective franchisee will refuse to sign a franchise agreement after receiving the state regulator required amended FDD, thereby delaying expansion into the new state, as well as increasing costs to do so.

Fortunately, trademark law helps the franchise trademark registration owner in this situation. Pursuant to 15 U.S.C. Section 1057(c), and as a matter of law, a franchise owner's federal trademark registration "constitutes constructive use of the trademark, conferring a right of priority, nationwide in effect, on or in connection with the goods or services specified in the registration against any other person." And to guide federal trademark registration owners on how they can enforce their trademark rights even when they have not yet used their trademark in every state, the "Dawn Donut Rule" was established nearly 60 years ago in the Second Circuit's decision in *Dawn Donut v. Hart's Food Stores,* 267 F.2d 358 (2d Cir. 1959). It serves to confirm protection for the franchise trademark owner's interest where they own a federal trademark registration and can show confusion and concrete business plans in the state where the local third party cited by the state franchise regulator operates.

We quote our partner, Christopher Bussert, for a succinct description of the "Dawn Donut Rule": "Although a federal registration does give [a franchise owner] nationwide priority vis a vis subsequent users of confusingly similar marks, it does not relieve [the franchise owner]'s burden to establish in litigation that consumers in the geographic area in which [the local state nonfranchisee] operates are likely to believe, mistakenly, that [local state nonfranchisee]'s operations are affiliated or associated with or licensed or endorsed by [franchise owner]. To make that showing, [franchise owner] must demonstrate either: (a) that its reputation extends to [the local state]; or (b) that it has definitive concrete plans to expand there. Unless [the franchise trademark owner] can satisfy either or both of these requirements, a court will likely conclude that there is no likelihood of consumer confusion in the [local state non-franchisee] territory and the litigation will be unsuccessful. However, once [the franchise owner] 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 v. Hart's Food Stores.*" (Trademark Enforcement In Distinct Geographic Territories: Is the Infringement Case "Ripe"? by Christopher Bussert, Franchise Lawyer (ABA), Summer 2019)).

Be advised, however, that the Dawn Donut Rule only applies to a franchise trademark owner who owns a federal trademark registration, and who can also show priority of use of the trademark (either actual or constructive) in the United States If the local state operator can prove it has prior use of the mark in its local state, it may have intervening trademark rights in that state (or geographic area), and the franchise trademark owner may not be able to enjoin the local state operator's use as well as possibly be prevented from expanding into that state (or geographic area).

To the extent significant time has passed where the franchise trademark owner failed to act against the local state operator using a confusingly similar mark, most courts have held that since the franchise trademark owner has not operated in the state technically there's no real action for infringement. Accordingly, a future infringement action against the local state operator is not likely to be barred for laches or acquiescence. Crucial for the franchise trademark owner is that it must show strong evidence of its intent to operate in the target state in order to impose the Dawn Donut Rule to its advantage, e.g., its own actual operations in the state; an executed franchise agreement covering the state; or current negotiations with a prospective franchisee for the state which have stalled due to the presence of the local state operator using the same mark.

Accordingly, both trademark law and the Dawn Donut Rule would support a franchise trademark owner decision to proactively disclose information in the Franchise Disclosure Document about the local state operator using the confusingly similar mark and enable it to do so in a manner that truthfully explains the law concerning the franchise trademark owner's nationwide priority trademark rights. Such a disclosure is not mandatory but may be needed if the state regulator demands it for the benefit of prospective franchisees considering the knowledge imparted by the state franchise regulator to the franchise trademark owner seeking to register its franchise.

Short of immediate litigation, the franchise trademark owner may also want to consider first taking the step of sending a demand letter to the local state operator/alleged infringer notifying it of: (i) the franchise trademark owner's superior trademark rights; (ii) the law spelling out the franchise trademark owner's entitlement to injunctive relief; and (iii) the franchise trademark owner's intent to expand to the disputed territory. Such a letter may serve the purpose of suggesting (a) the local state operator/alleged infringer begin taking steps to transition to a non-infringing mark; or (b) the local state operator consider becoming a franchisee. Sometimes this results in an amicable resolution/transition by the local state operator without litigation. And, if things don't work out amicably, the letter may then serve to support the franchise trademark owner's case for willful infringement that may entitle it to enhanced remedies, including attorney fees, in the event litigation becomes necessary.

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