

Loss of Trademark: A Franchisor's Worst Nightmare

By Rupert M. Barkoff

New York Law Journal

February 26, 2019

Franchise agreements are essentially fancy trademark license agreements. The heart of the franchise agreement is the licensing by a franchisor to a franchisee of the use of the franchisor's system, which includes the franchisor's trademarks. By definition, under both the FTC's franchise disclosure rule and state franchise registration and sales laws, generally speaking, if there is no trademark license or equivalent, there is no franchise. A franchise arrangement may cover one mark, or it may cover many. Some of the marks may not be critical to the franchise, but when there is only one, or several very important marks, the loss of any of these might spell out disaster to the franchisor and its franchisees, even though the mark might only be licensed for a limited territory.

In these kinds of proceedings McDonald's would have the burden to show that it has used the mark for a period of at least five years. In *Supermac's (Holdings) Ltd. v. McDonald's Intellectual Property Company, Ltd.*, the European Union Intellectual Property Office, Cancellation No. 144788 C (Jan. 11, 2019), the Cancellation Division of the European Union Intellectual Property Office (the Division) ruled that McDonald's had failed to prove its case. Its evidence of non-abandonment consisted primarily of three affidavits provided by McDonald's employees. McDonald's also submitted evidence that the BIG MAC mark was appearing in materials posted on the Wikipedia website. The Division gave little weight to this evidence. The Division also, on its own initiative, looked at evidence of McDonald's use of this BIG MAC mark and found that it did not support McDonald's contention that it had made continuous use of the mark for at least five years. The Division ultimately concluded that McDonald's had abandoned the mark and thus the mark should be cancelled.

McDonald's, as we all know, has a plethora of marks, but the BIG MAC mark is one of the mainstays of the McDonald's system, including in Ireland, where the petitioner operated numerous units of its system. Interestingly, the court laid out multiple facts where McDonald's failed to present evidence that would have saved the day. Hopefully this list of shortcomings in McDonald's arguments may prevent other franchisors from falling into the same trap.

Many franchisor and other trademark owners lose their rights to certain marks by failing to prove or provide adequate usage. A good example of this is where the franchisor is intentionally phasing out a mark, which has probably been replaced by one or more other marks. But even here, the franchisor might continue a registration prosecution, based on usage, to prevent a competitor's use of that mark, which could lead to confusion in the marketplace.

So, how does a franchisor protect itself from claims of abandonment? First, the best practice is to maintain a docket which includes dates by which affidavits of use must be submitted, and adhere to the docket. This should prevent most unintended losses of marks.

Second, franchisors should examine closely the factors set forth in the *Supermacs* case and determine if their own efforts to protect their marks is sufficient to retain its trademark rights. What is perplexing about the *Supermacs* decision is that the prerequisites to ward off an abandonment claim did not appear to be that stringent. Many of them involved statistical information. In fact, one would think that they should have been routine steps that McDonald's would follow as part of its policies to protect its intellectual property. But often there are facts that explain why a company did not comply with the prerequisites to maintain its rights to intellectual and tangible and other property that are not obvious.

What are the damages resulting from a successful claim of abandonment in a franchise context?

The first problem in assessing damages from loss of a trademark is that the value of a mark, as reflected on the balance sheet, would have to be written off when the mark became abandoned. If the mark was created by the company, this amount might be de minimis. However, if the mark had been purchased from a third party, the book value will be given a value of the mark at the time it was purchased. This could result in a large loss when the mark is written off. Thus the write-off could make the company insolvent. As a result, the franchisor might not be able to register its franchises, where applicable, and might have to highlight the insolvency in its franchise disclosure document. This, in turn, might make prospective franchisees unwilling to take the risk associated with a franchise purchase.

A perhaps even greater challenge is that the company must now go through the process of finding a replacement mark, and this would require manpower and financial resources. It is likely that the franchisor would want to do some research in finding a new mark, and the franchisor should test the franchisee community to make sure the mark is acceptable to its franchisees.

There are two particularly interesting situations in modern franchising where changes of marks have been all but simple. After United Parcel purchased Mailboxes, Etc., it changed the name of its franchise system to THE UPS STORE. Many of the franchisees did not like the new name and ultimately substantial litigation resulted, probably costing much more than would have been the cost of reaching a settlement agreement with UPS over the new name.

The other case involved the trademark litigation between Amstar and Domino's Pizza over the mark DOMINO'S. *Amstar Corp. v. Domino's Pizza, Inc.*, 15 F.2d 252 (5th Cir. 1980). Amstar claimed that it had priority rights over Domino's with respect to the use of this mark in connection with pizza. At trial, Amstar prevailed, but on appeal the appellate

court reversed the decision. The decision by the appellate court not only covered pizza, but several other product lines. In the meantime, in preparation for a possible doomsday, Domino's searched out a new mark for its system just in case it lost on its appeal. Had the trial court's decision not been reversed, all Domino's pizza customers would be seeing the name PIZZA DISPATCH on the carry-out boxes containing their pizzas. Interesting questions arising from this decision are who would have had to pay for the changeover, and what would have happened to the loss of goodwill? These would have probably been resolved based upon the terms of the Domino's franchise agreements.

But the ultimate question in the *Supermacs* case was why didn't McDonald's do a better job of protecting the BIG MAC mark? There is certainly some explanation, but to this author's knowledge it has yet to surface.

Rupert M. Barkoff is chair of the franchise team at Kilpatrick Townsend in Atlanta. He is a former Chair of the American Bar Association's Forum on Franchising, and currently serves as an adjunct professor at the University of Georgia School of Law.

Reprinted with permission from the February 26, 2019 edition of the New York Law Journal® 2019 ALM Media Properties, LLC. All rights reserved. Further duplication without permission is prohibited. ALMReprints.com – 877-257-3382 - reprints@alm.com.