Franchisors Must Take Control of Their Trademarks When Faced with a Failing Franchisee: Billboard Displaying a Formerly Licensed Mark Found not Actionable under Lanham Act

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Franchisors must be vigilant in protecting their valuable intellectual property assets when confronted with failed franchise relationships. The recent decision by the District of New Jersey in *Howard Johnson International, Inc. v. Vraj Brig, LLC*, Civ. No. 08-1466, 2010 U.S. Dist. LEXIS 3189, 2010 WL 215381 (D.N.J. Jan. 14, 2010)[1] (motion for reconsideration denied at 2010 U.S. Dist. LEXIS 21458 (D.N.J. March 8, 2010))[2] illustrate the perils of delay, and also the difficulty franchisors face when confronted with the need to debrand a physical location no longer within their control.

Howard Johnson International, Inc. ("HJI"), operates a hotel franchise system. It licensed defendant Vraj Brig to use the HOWARD JOHNSON marks in connection with a HOWARD JOHNSON hotel in Mount Holly, New Jersey. Defendant Peter Tucci owned the property on which Vraj Brig operated the hotel. On September 1, 2006, Tucci took physical possession of the hotel after a dispossession action to obtain the property. At the time Tucci took possession of it, the property was "non-functioning with extensive vandalism, theft, and destruction evident."

Soon after learning that Vraj Brig had stopped operating the hotel, HJI terminated Vraj Brig's franchise. HJI then began negotiating with Tucci to operate the hotel. Negotiations broke down and HJI sued everyone involved in the Spring of 2008. The suit included claims against Tucci for trademark infringement, unfair competition and dilution under the Lanham Act, unjust enrichment under New Jersey common law and amorphous unfair competition claims under New Jersey law. HJI's claims against Tucci arose from the continued display of the HOWARD JOHNSON mark on a billboard located on Tucci's property.

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[1] Available at http://scholar.google.com/scholar_case?case=8899331338885418144.

[2] Available at http://scholar.google.com/scholar_case?case=4799138878911969522.

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The billboard bearing the HOWARD JOHNSON mark was visible from a nearby highway. Vraj Brig's license with HJI, as with most trademark licenses in the franchise context, required Vraj Brig to stop using the HOWARD JOHNSON marks in the event of termination. Allegedly, Vraj Brig and HJI attempted to remove the billboard as early as September 9, 2006, but Tucci refused to allow them to do so. Tucci denied these allegations.

On cross-motions for summary judgment, the court found that Tucci did not operate any business at the property after taking possession of it and, therefore, could not be liable under the Lanham Act, either for infringement or dilution. As the Court stated, "...the Lanham Act should not be construed to apply to the situation where a defendant displays a protected mark but does not use the mark in the offer or provision of any goods or services."

That is, Tucci did not cause the HOWARD JOHNSON billboard to be displayed at his property and, after taking possession of the property, he did not operate a business there, therefore, there was no actionable use of the HOWARD JOHNSON mark by Tucci.

The potential problems faced by franchisors, and trademark licensors generally, as a result of this decision are clear: unless they can access the property upon which the licensed marks are displayed after the termination of the franchise, the franchisee may simply abandon the property, leaving the owner of the property to display the licensed marks, so long as the property owner does not conduct business at the property. The mark owner seemingly would have no recourse (but see below regarding common law unfair competition claims, which were not fully developed by the parties here).

While an apocalyptic scene of abandoned branded chain hotels, restaurants and gasoline stations across the country is not the likely result of this ruling, fallow property is becoming more common. Under this decision, franchisors would have no recourse under the Lanham Act to control the use of their trademarks at such abandoned properties, thereby losing the ability to control the goodwill in their marks, contrary to one of the principles underlying trademark law. The inability to control the use of one's mark, especially in a case like this one where the HOWARD JOHNSON billboard is associated with a derelict and vandalized building, is a significant problem because of the potential loss of goodwill. Consumers may recognize that the facility is a former HOWARD JOHNSON hotel, but they may also wonder what that hotel was like when it was operating and view the HOWARD JOHNSON mark unfavorably. *Cf. College Savings Bank v. Florida Prepaid postsecondary Education Expense Board, et. al.*, 527 U.S. 666 (1999) (J. Scalia) ("the hallmark of a protected property interest is the right to exclude others.").

The Court's problematic ruling may have stemmed, in part, from a misinterpretation of one of the primary cases upon which it relied. Specifically, the court looked to *Holiday Inns, Inc. v. 800 Reservation, Inc.,* 86 F.3d 619 (6th Cir. 1996)[3] for the proposition that the defendant must have used the allegedly infringed mark for there to be actionable confusion. Specifically, the Court found that, "... the defendant must take some affirmative action to create or enhance the confusion in order to violate the Lanham Act." *Holiday Inns* stands for a different proposition: the defendant's use of the allegedly infringing designation – affirmative or passive – must be *the source* of the confusion.

[3] In the interest of full disclosure, Pattishall McAuliffe represented the defendant in this case.

In *Holiday Inns*, the Sixth Circuit held that Holiday Inns could not obtain an injunction against the defendant's use of the number "1-800-H0LIDAY" (using a zero instead of the "O") despite Holiday Inns' ownership of the mark 1-800-HOLIDAY. There was no question that the defendant used the phone number 1-800-405-4329, but it never displayed the designation 1-800-H0LIDAY in connection with the services it provided. People already were misdialing the phone number and the defendant merely appropriated the misdialed phone number without advertising it or even mentioning its telephone keypad spelling. Additionally, its introductory message warned potential customers that if they were looking for Holiday Inns, they should call the right number.

In HJI, Tucci controls the billboard on his property upon which the HOWARD JOHNSON mark is displayed. The fact that Tucci controls the display of the HOWARD JOHNSON mark rather than HJI is a crucial difference from *Holiday Inns*, where the defendant had no control over consumer misdialing.

The parties both seemed to ignore HJI's potential state law claims for common law unfair competition, where use in connection with goods or services may not be required. The Court therefore did not explore them in detail, though they may hold promise for an appeal or future plaintiffs facing a similar situation.

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