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BLOGS

Trademarks

Franchisee's Claims to Trademark Rejected

The United States Court of Appeals for the Eighth Circuit has affirmed the rejection of a franchisee's claims for breach of contract and violation of the South Dakota Franchise Act in an interesting case involving trademark rights. *Pinnacle Pizza Co., Inc. v. Little Caesar Enterprises, Inc.*, 2010 U.S. App. Lexis 5801 (8th Cir. Mar. 22, 2010). A Little Caesar franchisee had brought suit over use of the HOT-N-READY trademark. The franchisee alleged that it originated the phrase "Hot-N-Ready" in advertising ready-to-pick-up pizzas, and that the later adoption of the phrase by the franchisor as part of a national program used throughout the franchise system was not permitted. It filed claims for breach of contract and violations of the South Dakota Franchise Act, and it also sought to cancel the HOT-N-READY trademark. Little Caesar filed counterclaims contending that the franchisee had breached the franchise agreement by disputing the validity of its trademarks.

On appeal, the Eighth Circuit affirmed and held that the franchisee's claims were time-barred by the statute of limitations, as the alleged breach should be considered a single incident occurring in 1997. The court also held that the lower court had properly denied the franchisee's claim seeking cancellation of the trademark registration. Under the franchise agreement, the trademark rights created by the franchisee's use vested with the franchisor and, thus, the franchisee could not show fraud by the franchisor in the trademark application. Finally, in an interesting twist, the court also affirmed the finding of summary judgment for the franchisor on its counterclaim for breach of contract against the franchisee. The franchise agreement prohibited the franchisee from contesting the validity or ownership of the franchisor's trademarks. The court held that the franchisee had violated this covenant not to sue, that there is no "good faith" exception to such a covenant, and that enforcement is not "unfair or inequitable."