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## BLOGS

### Damages

# Franchisor Recovers Lanham Act and Actual Damages From Holdover Franchisee

A federal court in Texas awarded a hotel franchisor statutory damages consisting of profits, additional damages and costs, plus actual damages measured by lost royalties. *Choice Hotels Int'l, Inc. v. Bhakta*, 2013 U.S. Dist. LEXIS 49863 (S.D. Tex. Apr. 5, 2013). The lawsuit arose after Choice Hotels terminated a franchisee for its failure to comply with remodel requirements and to timely pay fees. Although the franchisee received a notice of termination in which Choice Hotels specifically demanded that the franchisee cease using its trademarks, the franchisee continued operating under the marks for sixteen months.

The court first awarded Choice Hotels damages authorized by the Lanham Act in the form of the franchisee's "profits" during the relevant time period. Although the franchisee protested that over the sixteen-month period it posted a net loss, the court followed the rule that when intellectual property is infringed, the owner "is not treated as a 'partner' subject to both profits and losses," but rather "is permitted to pick and choose the transactions on which it will recover." Thus, Choice Hotels was entitled to \$105,453.29, the net income from the franchisee's profitable months. Choice Hotels also recovered actual damages of \$39,521.28, representing the royalties it would have received during the applicable time period. Finally, the court held that the franchisee's conduct was intentional and knowing since it continued to operate after receiving the termination letter with the cease and desist language, and acknowledged that under the Lanham Act, such conduct may entitle Choice Hotels to treble damages. In the interest of equity, the court awarded Choice Hotels \$75,000 in additional damages plus costs, but declined to award attorneys' fees, which are only available under the Lanham Act for willful or malicious conduct.

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