

PUBLICATION

Fighting Fire with Fire: Federal Court Orders Cancellation of Firehouse Subs' Trademark after Jury Finds Fraud on the PTO

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The Federal District Court for the District of South Carolina recently upheld a jury verdict against Firehouse Restaurant Group, Inc. (FRG), the owner of the "Firehouse Subs" sandwich chain, creating potentially significant challenges for the franchise system and providing a cautionary tale to franchisors and other federal trademark applicants. The dispute between FRG and another restaurant named "Calli Baker's Firehouse Bar & Grill" in Myrtle Beach, South Carolina, began in 2008 when FRG sent the restaurant's owner, Heath Scurfield, sole member of Scurmont, LLC, a cease-and-desist letter demanding that Scurmont stop using the word "Firehouse" in the name of its restaurant. FRG claimed the use was infringing on FRG's "Firehouse" word mark. FRG had obtained a federal trademark registration for the "Firehouse" word mark (Registration No. 3,173,030) covering "restaurant services." Scurmont had not filed a federal trademark application but was using the "Firehouse" mark for its full-service restaurant. Because FRG had Myrtle Beach-area franchisees, FRG attempted to stop Scurmont's use. Scurmont, however, answered the alarm aggressively.

After receiving the cease-and-desist letter, Scurfield, individually and on behalf of Scurmont, filed a declaratory judgment action in federal court in South Carolina. FRG and FRG's two Myrtle Beach-area franchisees (collectively, the "*Firehouse* plaintiffs") then filed an infringement action against Scurmont in the same court. The court consolidated the cases into *Firehouse Restaurant Group, Inc. v. Scurmont, LLC*, No. 4:09-cv-00618-RBH. In response to the *Firehouse* plaintiffs' infringement action, which alleged infringement of 34 federally-registered FRG marks, Scurmont filed counterclaims requesting a declaratory judgment of non-infringement and cancellation of the *Firehouse* plaintiffs' registered "Firehouse" word mark due to fraud on the United States Patent & Trademark Office (PTO). FRG's application never mentioned its awareness of other restaurants using the "Firehouse" name.

At the August 2011 trial, the jury found that Scurmont had not infringed on any of the FRG trademarks. The jury decided FRG had committed fraud on the PTO because it possessed an "intent to deceive" and had made material misrepresentations to the PTO. The jury's verdict hinged upon damning facts Scurmont unearthed regarding steps FRG took prior to filing its federal application for the "Firehouse" word mark. Scurmont demonstrated that FRG had been aware of a restaurant in Tampa, Florida, called Firehouse Grill & Pub that had begun using the "Firehouse" mark prior to FRG's use. Not only did FRG's owners know about the restaurant, but one of the owners, Chris Sorensen, had visited the restaurant in order to talk to the owner prior to filing FRG's application. No written coexistence agreement was offered by FRG, though, until almost three weeks after FRG filed its application. At that time, Sorensen presented the Tampa restaurant's owner, Bryan Carroll, with a written coexistence agreement and a check for \$5,000. Carroll never signed the agreement or cashed the proffered check, and continued to operate the restaurant without a name change.

When filing a federal trademark application, a representative of the applicant must sign a declaration stating that "no other person, firm, corporation, or association has the right to use the mark in commerce in the identical form thereof or in such near resemblance thereto as to be likely, when used on or in connection with the goods/services of such other person, to cause confusion, or to cause mistake, or to deceive." Scurmont convinced the jury that FRG committed fraud on the PTO by signing that declaration, since FRG knew about the existence of Tampa's Firehouse Grill & Pub. Scurmont argued, and the jury agreed, that signing the declaration constituted an intent to deceive the PTO. The jury also found that FRG's misrepresentation in

signing the declaration was material because "but for the misrepresentation, the federal registration either would not or should not have issued." FRG had countered that, during an earlier opposition to the "Firehouse" word mark application, an attorney for the opposing party entered into evidence a list of 27 third-party users of the word "Firehouse" in connection with restaurants, and despite that, the examining attorney still issued the registration. The jury, and later the court, found that argument unconvincing because the fact remained that without signing the false declaration, FRG could not have filed the application and the registration could never have been issued. Since an application cannot be filed without the declaration, essentially, the jury found fault with the mere fact that FRG filed an application.

After the jury rendered its verdict, the *Firehouse* plaintiffs filed motions to reverse the jury verdict or start over with a new trial. The court rejected the motions, upholding the jury's verdict and providing detailed reasoning as to why it believed the verdict was sound. Significantly, the court also found the fraud to create an "exceptional" case in which the Lanham Act required the court to award reasonable attorneys' fees to the prevailing party. The court parsed Scurmont's request for attorneys' fees and determined the "reasonable" amounts requested to total \$241,888.

If the jury's verdict and court's decision stand, FRG will face branding challenges. Only the "Firehouse" word mark was cancelled because Scurmont only requested cancellation of that mark, but could other senior users of the Firehouse name also file cancellation actions against other registered marks in the Firehouse family using that word? FRG must now assess its brand presence across the country and prepare a plan for protecting the cancelled word mark in each state, if possible.

Fortunately for FRG, the 2011 Franchise Disclosure Document (FDD) of its franchisor subsidiary, Firehouse of America LLC (FOA), does include a robust disclosure in its Item 13 – "Trademarks" section. The FDD discloses the Scurmont case and lists nine cities in which a restaurant operates using the Firehouse name. Tampa, Florida, is listed. This puts potential franchisees in those areas on notice of the issues of protectability and exclusivity of the FRG marks there. We do not assess whether and when that disclosure was made in the historical FDDs and UFOCs of FOA to solicit existing franchisees in those areas that may be affected by senior users, or whether any risk factor about the frailty of the house mark was sufficient.

This case illustrates the care all trademark applicants must take in performing due diligence prior to filing a federal application. The best practice is to order a search offered by a commercial search service to determine if any similar users exist prior to beginning use of a mark. Such searches typically cost between \$450 and \$600, plus attorney review time. If other users exist for similar goods or services, prudence suggests finding another trademark at that early stage before investment in branding and goodwill creates "identity inertia." The Firehouse case demonstrates that the costs of performing this analysis on the front end are minor compared with the costs a registrant could face later if the trademark was not cleared. For franchisors, this task is even more important because as a franchisor expands throughout the United States, the exclusive right to use the mark is extremely important and not having a registered mark adversely affects franchise sales and regulatory compliance, particularly in states with business opportunity law exemptions based on a registered mark.

This case may also cause trademark registrants to think twice about aggressively pursuing infringing junior users if their trademark house is not in order with senior users in all areas of the country. Of course, that becomes a problem since a federal registrant also has an obligation to police its mark to avoid abandonment. Again, to avoid these problems, the best practice is to avoid using a mark that has conflicting senior users, or approach and come to coexistence agreements with those senior users prior to filing an application.

Restaurant trademarks are some of the most difficult trademarks to clear if the name is in any way common, since there are so many small restaurants in operation that can typically meet the "interstate commerce" requirement. A restaurant owner with designs on franchising must prepare a strong trademark protection plan

at the outset and preferably choose a very distinctive name in order to feel secure in knowing that its mark will remain protected throughout the United States.

Hospitalitas will report in a future issue if this decision is appealed and additional court opinions result.