



JONES DAY
COMMENTARY

AUTOMOTIVE ALERT: DISTRICT COURT ENJOINS DEALER FROM USING HARLEY-DAVIDSON TRADEMARKS

A federal court recently preliminarily enjoined a dealer from using Harley-Davidson trademarks after the parties previously signed a settlement agreement providing that the dealer agreement (“Dealer Contract”) would terminate on December 31, 2009. See *Harley-Davidson Motor Co. v. Elworth’s Harley-Davidson Sales & Serv., Inc., et al.*, Mem. Opinion, No. 8:10CV86 (D. Neb. April 8, 2010). The dealer (“Elworth’s”) was an independent dealer that had been authorized to act as a Harley-Davidson dealer since 1981. Under the then-current Dealer Contract, Elworth’s had the right to sell Harley-Davidson products, identify itself as an authorized Harley-Davidson dealer, and use Harley-Davidson trademarks and service marks consistent with the Dealer Contract’s terms. The Dealer Contract also required Elworth’s to cease using the trademarks upon the contract’s expiration on December 31, 2009.

In July 2007, Harley-Davidson Motor Company (“HDMC”) applied to the Nebraska Motor Vehicle Industry Licensing Board for permission to terminate

the Dealer Contract. After Elworth’s objected to the proposed termination, the parties settled the matter. The settlement agreement provided that the defendants would have until December 31, 2009, to conclude an approved sale or, if not, the Dealer Contract would “be deemed to have been voluntarily surrendered and terminate” without further notice or need for Board approval. HDMC withdrew its permission to terminate, and the Board accepted the settlement and dismissed the termination proceeding without requiring that the settlement agreement be filed or specifically approved by the Board.

The defendants did not conclude the sale by the required date. HDMC notified them that the Dealer Contract was deemed voluntarily surrendered and terminated and that they needed to stop using Harley-Davidson trademarks and service marks. The defendants continued to hold Elworth’s out as an authorized Harley-Davidson dealer and to use Harley-Davidson trademarks, claiming that the Dealer Contract was never terminated.

Plaintiffs (HDMC and another company that owned the trademarks, H-D Michigan LLC) brought a variety of claims, including trademark infringement, unfair competition, and trademark dilution under the Lanham Act and common law claims for trademark infringement, unfair competition, and misappropriation of goodwill. The court first addressed the probability that the plaintiffs would succeed on the merits for trademark infringement and unfair competition under the Lanham Act. To prevail on those claims, the court explained, the plaintiffs must prove (a) that they own a valid and legally protectable trademark; (b) that defendants have used the mark in commerce without the plaintiffs' consent; and (c) such unauthorized use is likely to cause confusion. The court found that (c) was satisfied, noting that "[c]ommon sense compels the conclusions that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks." (Quotation and citation omitted.) The court also found that element (a) above was satisfied, noting that defendants did not meaningfully dispute that element.

With respect to element (b), whether the use was unauthorized, the defendants claimed that the Dealer Contract was never terminated under the state statute and claimed that the settlement agreement's automatic termination provisions were void as against public policy. The court rejected both arguments. First, the court found that regardless of the statute or the validity of the settlement agreement, the defendants had no rights to use the trademarks under the Dealer Contract after December 31, 2009. In addition, the court found that the plaintiffs were likely to prove that they properly terminated the Dealer Contract under the statute in any event, because they likely complied with the requirement of "good and sufficient" evidence based on the prior settlement agreement, which the Board accepted even though it did not require the agreement to be filed or specifically approved by the Board. The court further found that because the statute authorizes parties to resolve termination disputes by agreement and the parties advised the Board of the agreement, it is unlikely that the settlement agreement's termination provisions are void as against public policy.

As to the threat of irreparable harm to the plaintiffs, the court found such harm "presumed because they have shown a likelihood of success on the merits of their claims." The court found any threatened harm to defendants to be "not significant in this case because issuing a preliminary injunction would simply give effect to the agreements defendants voluntarily entered into." Finally, the court found that "[t]he public interest is served by preventing consumer confusion in the market place, especially where, as here, the potential for consumer confusion is significant." (To date, no appeal has been filed.)

Harley-Davidson may be a helpful decision to manufacturers and franchisors who want to make sure that their trademarks are protected in the context of termination proceedings and the expiration of contracts. After all, trademarks are one of the primary assets of many manufacturers and franchisors.

LAWYER CONTACTS

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