Published on *The National Law Review* https://natlawreview.com

Back to the Future: Prior Third-Party Settlement Doesn’t Impact Future Trademark Licensees

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The US Court of Appeals for the Eleventh Circuit ruled that under certain circumstances a trademark licensee can bring a claim against a third party for unfair competition under the Lanham Act even if the licensing agreement does not expressly authorize it to do so. *Overhead Door Company of Kansas City v. OGD Equipment Company, LLC*, Case No. 22-10985 (Fed. Cir. Aug. 22, 2023) (**Branch**, Brasher, JJ.; Winsor, Dist. J., sitting by designation).

This appeal involved three parties: D.H. Pace Company, Overhead Door Corporation and Overhead Garage Door (OGD). All three companies are involved in selling and servicing garage doors. Pace is a licensee of Overhead. Under its license, Pace is permitted to advertise and promote the trade name OVERHEAD DOOR COMPANY. OGD is a competitor of Overhead and Pace. Prior to the current appeal, Overhead and OGD had been involved in litigation involving OGD’s alleged trademark infringement and unfair trade practices, which resulted in a settlement. As a part of the settlement, OGD and Overhead could not bring suits against each other. However, the settlement terms were not expressly binding on any current or future licensees of Overhead.

In the current litigation, Pace filed suit against OGD for unfair competition in violation of § 43(a) of the Lanham Act, deceptive trade practices and various state trademark infringement violations. Pace alleged that OGD was leading consumers to believe that it was the same company as, or was affiliated with, Overhead (Pace’s licensor). In response, OGD moved for summary judgment, which the district court granted. The district court ruled that the licensing agreement between Pace and Overhead was a contractual bar to relief because the agreement did not affirmatively give Pace the right to sue. The district court also ruled that as a non-exclusive licensee, Pace lacked standing to bring its suit. The district court held that because Pace’s trademark rights were derived from a licensing agreement with Overhead, by discharging rights in the prior settlement with OGD, Overhead also discharged Pace’s right to sue.

Through a *de novo* review, the Eleventh Circuit disagreed with the district court’s grant of summary judgment against Pace. As the district court recognized, under § 43(a) of the Lanham Act, parties other than the owner of the mark can bring suit, but here the district court barred Pace’s claims based on the licensing agreement, Pace’s status as a non-exclusive licensee and the settlement agreement between OGD and Overhead. In reversing, the Eleventh Circuit held that none of these reasons was sufficient to bar Pace’s claims.

According to the Eleventh Circuit, the licensing agreement did not bar Pace from suing since there were no contractual term imposing a bar. While a licensee's right to sue can be restricted, there was nothing in the licensing agreement at issue that limited Pace's right to sue. The license agreement did not address trademark enforcement or either party's ability to sue.

The Eleventh Circuit explained that the district court misread the Eleventh Circuit's 2019 decision in *Kroma Makeup v. Boldface Licensing*. Rather than requiring a licensing agreement to contain a right to sue provision in order for a licensee to bring a Lanham Act claim, *Kroma* simply acknowledged that a licensing agreement between two parties can limit a licensee's otherwise broad ability to bring a claim under the Lanham Act and explained that courts must use "basic principles of contract interpretation" to determine what rights and obligations a licensing agreement may otherwise impose on parties. As the Court explained, the district court misread *Kroma* as affirmatively requiring a right to sue provision. Correctly applying *Kroma*, the Court concluded that there was no contractual bar to sue because nothing in the licensing agreement barred Pace from bringing a Lanham Act claim.

Regarding Pace's status as a non-exclusive licensee, the Eleventh Circuit explained that standing is not limited to trademark registrants as specified in § 32(1) of the Lanham Act. The Court explained that Pace's suit was brought under § 43(a) of the Lanham Act. Under that Lanham Act provision, parties other than the owner of the mark can bring suit if they would suffer adverse consequences from the alleged violation of § 43(a).

The Eleventh Circuit also held that the settlement agreement between Overhead and OGD did not bar Pace from filing suit since the settlement agreement only stipulated that Overhead and OGD were precluded from suing each other. The agreement not to sue was not made binding on current or future licensees. The Court rebuffed OGD's argument that Pace's rights were derivate and not directly conferred by the license agreement. As the Court explained, "a *licensee's* § 43(a) claim under the Lanham Act is not barred where a *registrant's* claim may be otherwise barred by a separate contract between the registrant and a third-party." Applying the plain language of the settlement agreement, the Court found nothing that would bar Pace from bringing its claims.

Practice Note: Rights granted to a licensee by a licensor should be clearly defined, and any rights that are to be withheld from the licensee should also be clearly defined.

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National Law Review, Volumess XIII, Number 250

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