STATE OF MICHIGAN

COURT OF APPEALS

MOVIE MANIA METRO, INC., Plaintiff-Appellant, v GZ DVD'S INC., HAZIM JARBO, and SANDRA A. ZIELKE, Defendants-Appellees.	FOR PUBLICATION September 9, 2014 9:15 a.m. No. 311723 Macomb Circuit Court LC No. 2011-002876-CB

Before: METER, P.J., and CAVANAGH and SAAD, JJ.

SAAD, J.

Plaintiff appeals the trial court's order that granted summary disposition to defendant. For the reasons stated below, we affirm.

I. NATURE OF THE CASE

This case is a claim for trademark infringement. As our Court recently explained in *Janet Travis, Inc v Preka Holdings, LLC*,[1] Michigan law has offered protection of trademark rights for the benefit of:

> business owners, and the consuming public. Business owners, who invested significant amounts of money and effort to convince consumers to identify their marks with their products and services, needed a remedy against competitors who sought to free-ride on this accumulated goodwill by copying or pirating already established marks. Consumers, who associated and expected a certain level of service and quality with certain marks, needed protection from those imposters who copied or pirated already-established marks to "pass off" their goods and services as those of the business associated with the already established marks. [*Janet Travis, Inc v Preka Holdings, LLC*, ___ Mich App ___; ___ NW2d ___ (2014), 2014 WL 3759323, slip op at *1 (footnotes omitted).]

[1] ___ Mich App ___; ___ NW2d ___ (2014), 2014 WL 3759323.

Trademark law therefore involves "the advancement of two distinct but related interests: the private right of the trademark holder to prevent others from using his mark to pass off their goods or services as his own, and the public right to protection from such market-related deceptive practices." *Travis*, slip op at *1–2.

Because the right of a trademark holder to his trademark is a byproduct of these two interests, trademark rights are a special kind of intellectual property, in that the mark holder's right to exclusive use of his mark is tempered by and dependent on the perceptions of the consuming public. For a mark to serve as a trademark and be entitled to legal protection, the consuming public must be able to use the mark to "distinguish a good as originating from a particular source."[2] If the consuming public is unable to use the mark to "distinguish a good as originating from a particular source," the mark does not function as a trademark and is thus not entitled to legal protection. Trademark rights are thus inherently mutable, because they are dependent on whether the consuming public is able to use the mark to distinguish a good or service as originating from a particular source.

Consumer perception of a mark can be shaped by many factors, including the actions of the mark holder. Normally, as in *Travis*, the mark holder realizes the valuable nature of his trademark and will thus make every effort to ensure that, in the minds of consumers, his mark remains associated with his products and services, and his products and services alone. But on occasion, as here, a mark holder, through his own actions or omissions, destroys the value of his trademark, by severing the link in the mind of the consumer between the mark holder's mark and his particular product or service. In other words, a mark holder's actions can cause his mark to no longer function as a trademark, and thus not be entitled to legal protection.

One common way that a mark holder may engage in this mark-destroying process is "naked licensing," or the practice of "allowing others to use [its] mark without exercising reasonable control over the nature and quality of the goods, services, or business on which the [mark] is used by the licensee."[3] If other businesses are using the mark holder's mark, and operate independently and with little to no oversight from the mark holder, consumers will be unable to use the mark to distinguish goods and services bearing the mark as originating exclusively from the mark holder. In other words, a mark that is the subject of naked licensing can no longer function as a trademark, and is accordingly not the proper subject of legal protection. In the parlance of trademark law, naked licensing destroys a mark's "distinctiveness" and renders it "not valid"[4] as a trademark.

---

[2] *Travis*, slip op at * 9, citing MCL 429.32(e).

[3] *Eva's Bridal Ltd v Halanick Enterprises, Inc*, 639 F3d 788, 789 (CA 7, 2011) (EASTERBROOK, CJ) (internal quotation marks omitted).

[4] "Not valid" is a term of art in trademark law that refers to a trademark's lack of "validity." A "valid" trademark is one that is properly the subject of trademark law—i.e., is protectable under trademark law. See *Abercrombie & Fitch Co v Hunting World, Inc*, 537 F2d 4, 9 (CA 2, 1976)

Because this practice prevents consumers from being able to use the mark to identify goods and services as the products of a specific business, courts have refused to protect marks that are subject to naked licensing at common law, Michigan law, and federal law. Initially, both state and federal courts did so by holding that nakedly licensed marks were not valid trademarks, and thus not properly protectable under trademark law. After revisions to the federal Lanham Act[5] in 1988, however, most federal decisions now hold that nakedly licensed trademarks have been "abandoned," while state courts continue to hold, under statute and common law, that nakedly licensed trademarks are not valid.

This case requires us to make this doctrinal distinction between state and federal law. The Lanham Act explicitly states that naked licensing constitutes "abandonment" of a trademark, in that trademark holders who engage in naked licensing relinquish all rights to their mark.[6] The Michigan Trademark and Service Mark Act ("Trademark Act")[7] does not state that naked licensing constitutes "abandonment" of a trademark, and instead defines "abandonment" to mean mere non-use, or implied non-use, of the trademark.[8] Accordingly, a mark holder who engages in naked licensing of his trademark "abandons" his trademark under the Lanham Act, but does *not* "abandon" his trademark under the Trademark Act. Nevertheless, a mark holder who engages in naked licensing is not able to sustain a trademark-infringement claim under the Trademark Act or at common law, because the naked licensing of a mark renders that mark not valid as a trademark.

Here, plaintiff is a mark holder that engaged in naked licensing of its mark, "Movie Mania," for over five years with multiple parties. It nonetheless sued defendant, who used the "Movie Mania" mark a decade after the first instance of plaintiff's naked licensing, for trademark infringement, under both the Lanham Act and Trademark Act. The trial court granted defendant's request for summary disposition on the theory that plaintiff's naked licensing constituted abandonment of the "Movie Mania" mark under both the Lanham Act and Trademark Act.

We affirm this decision, but the trial court reached the right result for the wrong reasons. Naked licensing constitutes abandonment under the Lanham Act. But it does not constitute abandonment under the Trademark Act's more narrow definition of that term. Even so, plaintiff's action for infringement fails, because its naked licensing of "Movie Mania" has made the mark not valid, and defendant's use of the mark does not make it liable for trademark infringement under the Trademark Act.

(FRIENDLY, J). In this opinion, we use the terms "not valid" and "invalid" interchangeably to refer to a mark's lack of validity.

[5] 15 USC § 1051, *et seq*.

[6] 15 USC § 1127(2).

[7] MCL 429.31, *et seq*.

[8] MCL 429.31(i) states that a mark is "'abandoned' when its use has been discontinued with intent not to resume."

We therefore reject plaintiff's arguments on appeal and affirm the order of the trial court.

II. FACTS AND PROCEDURAL HISTORY

Plaintiff operated a video-rental business in metro Detroit, and began using the name "Movie Mania" in commerce in 1989. It subsequently registered the "Movie Mania" mark with the Michigan Department of Regulatory Affairs ("the Department") in 1996. Thereafter, plaintiff acted as a promiscuous licensor, and allowed various unaffiliated parties in the Detroit area to use the "Movie Mania" mark in conjunction with those parties' video-rental businesses.

This lawsuit is the product of a series of such licensing transactions, which began in 1999. In that year, plaintiff sold one of its Movie Mania locations to another company, CLD, Inc ("CLD"), which sought to continue the store's video-rental business. Plaintiff allowed CLD to continue to use the "Movie Mania" mark for $1 in annual royalties. Yet the licensing agreement placed almost no restrictions on the use of the mark, nor did it contain standards on advertising or store operations, or include any requirements related to the rental or sale of merchandise at the CLD-owned Movie Mania.

CLD sold its Movie Mania store to Adnan Samona in 2005. Samona contacted plaintiff and asked permission to continue use of the "Movie Mania" mark, which plaintiff granted. Plaintiff did not require Samona to sign a licensing agreement or pay any royalty fee in return for use of the mark. Nor did plaintiff object or contact Samona as he expanded his business in 2006 and 2007, purchasing another, unaffiliated video-rental store and changing its name to "Movie Mania."[9] Again, as in its dealings with CLD, plaintiff provided Samona with almost no restrictions on the use of the mark, nor did it set standards on advertising or store operations, or outline requirements related to the rental or sale of merchandise at the Samona-owned Movie Mania.

In 2010, Samona closed his St. Clair Shores Movie Mania location, and sold its business assets to defendants. As Samona had done in 2005 when he purchased CLD's Movie Mania store, defendant Zielke contacted plaintiff to ask permission to continue use of the "Movie Mania" mark. One of plaintiff's officers told Zielke that defendant could not use the mark unless defendant paid a fee and signed a licensing agreement. Defendant did not acquiesce to plaintiff's request, and opened a video-rental store bearing the "Movie Mania" mark one block away from Samona's original location. In January 2011, plaintiff told defendants that "Movie Mania" was a registered Michigan service mark (actually, it was not—as noted, its registration expired in 2006 because plaintiff failed to renew the registration) and demanded that defendants cease and desist use of the mark. Plaintiff did not reregister the "Movie Mania" mark until an even later date, April 18, 2011, which further demonstrates that it places little value in its mark.

---

[9] Plaintiff's lack of proprietary regard for the mark extended to its registration, which expired in 2006. See MCL 429.38(a) (registered marks that are more than ten years old and not renewed are canceled from the register). Nonetheless, the licensed (and unlicensed) use of the "Movie Mania" mark continued unabated: by the end of Samona's expansion in 2007, six stores bearing the mark operated in metro Detroit. Plaintiff owned only two of the locations.

Plaintiff then initiated this action against defendants in the Macomb Circuit Court, and alleged, among other things: (1) trademark infringement under the common law, the Trademark Act, and Lanham Act; and (2) trademark dilution under the Lanham Act. After discovery, defendants moved for summary disposition under MCR 2.116(C)(10) because plaintiff abandoned the "Movie Mania" mark when it: (1) failed to renew the mark in 2006; (2) allowed other parties to use the mark without supervision, fees, or standards; and (3) generally failed to protect the mark as a source identifier.

The trial court granted defendant's motion for summary disposition as to plaintiff's claims. In a written opinion, it found that plaintiff's trademark-infringement arguments (under the common law, Trademark Act, and Lanham Act) were precluded because plaintiff engaged in naked licensing from 1999 to 2005, and thus abandoned the mark before defendants used it. The trial court also rejected plaintiff's argument that defendants' activities constituted trademark dilution under the Lanham Act, because the "Movie Mania" mark was not a "famous" mark and thus not entitled to a trademark-dilution remedy.

Plaintiff makes three claims on appeal, two of which are under the Lanham Act (trademark infringement and trademark dilution), and one pursuant to the Trademark Act (trademark infringement). Defendants ask that we uphold the trial court's grant of summary disposition as to these claims.

III. STANDARD OF REVIEW AND JURISDICTION

A trial court's decision on a motion for summary disposition is reviewed de novo. *Smith v Globe Life Ins Co*, 460 Mich 446, 454; 597 NW2d 28 (1999). When our Court reviews a motion for summary disposition brought under MCR 2.116(C)(10), it considers "affidavits, pleadings, depositions, admissions, and documentary evidence filed in the action or submitted by the parties, in a light most favorable to the party opposing the motion." *Id*. at 454 (internal citations omitted).[10]

"Although the federal courts have jurisdiction over trademark claims brought under the Lanham Act, that jurisdiction is not exclusive. . . . A party alleging a trademark violation under the statute may litigate in state court if it so chooses." *Bd of Regents of Univ of Wis Sys v Phoenix Int'l Software, Inc*, 653 F3d 448, 465 (CA 7, 2011), citing 15 USC § 1121(a), 28 USC § 1338(a), and *Aquatherm Industries, Inc v Fla Power & Light Co*, 84 F3d 1388, 1394 (CA 11, 1996).

Statutory interpretation is a question of law that is reviewed de novo. When interpreting a statute, a court "ascertain[s] the legislative intent that may reasonably be inferred from the words expressed in the statute. This requires courts to consider the plain meaning of the critical word or phrase as well as its placement and purpose in the statutory scheme." *Fradco, Inc v*

[10] The trial court did not specifically identify the appropriate summary judgment subrule, but it is apparent that it is MCR 2.116(C)(10), as the trial court's consideration went beyond the parties' pleadings. *Healing Place v Allstate Ins Co*, 277 Mich App 51, 55; 744 NW2d 174 (2007).

Dept of Treasury, 495 Mich 104, 112; 845 NW2d 81 (2014) (footnotes and quotation marks omitted). "The Trademark Act is informed by the common law, and it is thus appropriate, when interpreting the statute, to look to federal and state cases that apply the common law of trademark. . . . It is also appropriate to look to federal case law when interpreting a state statute which parallels its federal counterpart, as it appears the Michigan Trademark Act does the federal Lanham Act." *Travis*, slip op at *5–6 (internal citations and footnotes omitted).

IV. ANALYSIS

A. FEDERAL CLAIMS UNDER THE LANHAM ACT

We note at the outset that plaintiff merely asserts trademark infringement and trademark dilution under the Lanham Act. It devotes almost the entirety of its brief to naked licensing and abandonment under *Michigan* law—only one claim among the three it brings—and fails to discuss the relevant legal standards necessary to establish trademark infringement and trademark dilution under *federal* law.[11] "An appellant may not merely announce his position and leave it to this Court to discover and rationalize the basis for his claims, nor may he give issues cursory treatment with little or no citation of supporting authority." *Houghton ex rel Johnson v Keller*, 256 Mich App 336, 339; 662 NW2d 854 (2003) (internal citations omitted). Accordingly, plaintiff has abandoned its argument that the trial court erred when it granted summary disposition to defendants on these federal claims.

1. TRADEMARK DILUTION

In any event, plaintiff's federal claims, such as they are, lack merit. Its assertion of trademark dilution is particularly frivolous. 15 USC § 1125(c)(1) states:

> the owner of a famous mark that is distinctive, inherently or through acquired distinctiveness, shall be entitled to an injunction against another person who, at any time after the owner's mark has become famous, commences use of a mark or trade name in commerce that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark, regardless of the presence or absence of actual or likely confusion, of competition, or of actual economic injury.

As such, only owners of a "famous mark" will prevail on a dilution claim. A mark is famous if it "is widely recognized by the general consuming public of the United States as a designation of source of the goods or services of the mark's owner." 15 USC §1125(c)(2)(A). In addition, "fame for likelihood of confusion [claims][12] and fame for dilution [claims] are

---

[11] "In Michigan, there are three sources of trademark law: common law, the state Trademark Act, and the federal Lanham Act. A plaintiff may bring separate trademark-related claims under each body of law." *Travis*, slip op at *6.

[12] "Likelihood of confusion" refers to an element plaintiffs must show to demonstrate trademark *infringement* (not trademark dilution, which is a wholly separate claim) under the Lanham Act, the Trademark Act, and common law. See *Travis*, slip op at *7. Consumer perception and

distinct concepts, and dilution fame requires a more stringent showing." *Coach Services, Inc v Triumph Learning LLC*, 668 F3d 1356, 1373 (Fed Cir, 2012) (footnote added), citing 4 McCarthy on Trademarks § 24:104 (4th ed) ("[t]he standard for the kind of 'fame' needed to trigger anti-dilution protection is more rigorous and demanding than the 'fame' which is sufficient for the classic likelihood of confusion test").

Needless to say, the "Movie Mania" mark is not "famous" per 15 USC § 1125(c)(1)—it is not "widely recognized by the general consuming public of the United States." Accordingly, the trial court correctly granted defendant summary judgment on plaintiff's trademark dilution claim.

2. TRADEMARK INFRINGEMENT

Plaintiff's claim of trademark infringement under the Lanham Act is equally unavailing, because it abandoned the "Movie Mania" mark under 15 USC § 1127(2) when it engaged in naked licensing.

2A. NAKED LICENSING

As noted, naked licensing is the practice of "allowing others to use [a] mark without exercising reasonable control over the nature and quality of the goods, services, or business on which the [mark] is used by the licensee."[13] When other businesses use the mark that is the subject of naked licensing, consumers are unable to use the mark to distinguish goods and services bearing the mark as originating exclusively from the mark holder. Because naked licensing of a mark destroys the mark's ability to serve as a source identifier for consumers—in other words, destroys the mark's ability to function as a trademark—state courts held at common law that plaintiffs who engaged in naked licensing could not prevail in trademark-infringement actions against defendants who used the mark plaintiff nakedly licensed.[14] In trademark-law

---

recognition of a mark are a necessary component of the likelihood-of-confusion analysis. The statement above in *Coach* makes clear that the standard of consumer mark-recognition required for a trademark-*dilution* claim is much more stringent—meaning truly national, widespread recognition—than that required for a likelihood-of-confusion analysis in a trademark-infringement claim.

[13] *Eva's Bridal*, 639 F3d at 789 (internal quotation marks omitted).

[14] See, for example, *Detroit Creamery Co v Velvet Brand Ice Cream Co*, 187 Mich 312, 316; 153 NW 664 (1915) ("[i]t has been universally held that a trademark, as such cannot be assigned separately and distinct from the property to which it has been attached, and likewise the rule has been laid down that a naked license to use a trade-mark is of no more validity than an assignment thereof"); and *Broeg v Duchaine*, 319 Mass 711, 713; 67 NE2d 466 (Mass, 1946) (holding under common law of trademark that "[o]ne who has developed a trade mark as a guaranty of the quality of his merchandise should not be permitted to license its use apart from his business to those who may sell an inferior product"); and 3 McCarthy on Trademarks (4th ed), § 18:48.

terms, a mark that is the subject of naked licensing is not "distinctive," and thus not a valid trademark that is properly protectable under trademark law.[15]

After the passage of the Lanham Act opened the federal judiciary to trademark-law disputes in 1946, federal courts also recognized that naked licensing rendered marks not valid and made them unworthy of protection under the Lanham Act:

> If the licensor is not compelled to take some reasonable steps to prevent misuses of his trademark in the hands of others the public will be deprived of its most effective protection against misleading uses of a trademark. The public is hardly in a position to uncover deceptive uses of a trademark before they occur and will be at best slow to detect them after they happen. Thus, unless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly deceived will be increased and this is precisely what the Act is in part designed to prevent. See Sen. Report No. 1333, 79th Cong., 2d Sess. (1946). Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees. [*Dawn Donut Co, Inc v Hart's Food Stores, Inc*, 267 F2d 358, 367 (CA 2, 1959).]

This mode of analysis shifted in 1988, when Congress revised 15 USC § 1127(2) and codified the concept of naked licensing in a specific context: "abandonment." Under the Lanham Act's revised definition of "abandoned," a trademark holder who engages in "acts of omission as well as commission" that cause the trademark to "lose its significance as a mark"—i.e., naked licensing—abandons the mark and relinquishes all rights to it. 15 USC § 1127(2).

Accordingly, most federal cases now analyze naked licensing through the framework of abandonment: i.e., plaintiff engaged in naked licensing and has thus abandoned his mark under 15 USC § 1127(2).[16] However, this new analysis of naked licensing does not contradict the pre-codification approach, which analyzes naked licensing under the framework of the mark's validity. In fact, labeling naked licensing as "abandonment" of a mark is simply another way of saying that naked licensing renders a trademark *not valid*. In each classification, the trademark holder's conduct—uncontrolled licensing—causes the mark to lose its ability to function as a source identifier to consumers. 3 McCarthy on Trademarks (4th ed), § 18:48. Stated another

---

[15] See, for example, *88 Cent Stores, Inc v Martinez*, 227 Or 147, 160; 361 P2d 809 (Or, 1961) ("[i]n the absence of [licensor control over licensees], the goods or services are not treated as emanating from a common source, an essential element of a common law trade-mark or trade name"); *Alexander Ave Kosher Restaurant Corp v Dragoon*, 306 AD2d 298, 300; 762 NYS2d 101 (2003) ("a licensor must have some quality control of the goods produced by the licensee"); and 3 McCarthy on Trademarks (4th ed), § 18:48.

[16] See, for example, *Eva's Bridal*, 639 F3d at 789; *Exxon Corp v Oxxford Clothes, Inc*, 109 F3d 1070, 1075 (CA 5, 1997); *Doeblers' Pennsylvania Hybrids, Inc v Doebler*, 442 F3d 812, 823 (CA 3, 2006); and *FreecycleSunnyvale v Freecycle Network*, 626 F3d 509, 516 (CA 9, 2010).

way, naked licensing causes the trademark to lose all significance as a trademark. Calling the mark "abandoned," as 15 USC § 1127(2) does, or focusing on the mark's validity, as the earlier cases did, are thus two ways of describing the same concept, and both mandate the same result: a trademark holder who engages in naked licensing cannot prevail in a trademark infringement suit against an alleged infringer using the mark that was nakedly licensed.

Plaintiffs who engage in naked licensing thus lose their rights to their mark in two ways. First, at common law, and under the Trademark Act[17] and Lanham Act, a mark that is nakedly licensed loses its ability to function as a source identifier for consumers, and thus is no longer a valid trademark. Second, under 15 USC § 1127(2)'s definition of "abandonment," a trademark holder who engages in naked licensing abandons his trademark and loses all rights to the use of his mark.

To analyze plaintiff's federal claim of trademark infringement under the Lanham Act, then, we turn to 15 USC § 1127(2) and its definition of "abandonment."

2B. PLAINTIFF'S TRADEMARK INFRINGEMENT CLAIM

15 USC § 1125(a)(1) allows mark holders to bring a civil action against "any person" that, among other things, confuses consumers or misrepresents the origins of the goods and services on offer. 15 USC § 1127 also provides that marks can be "abandoned" by mark holders, and thus cease to be a mark for purposes of the Lanham Act:

> A mark shall be deemed to be "abandoned" if either of the following occurs:
>
> (1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.
>
> (2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.

[17] As noted, "[t]he Trademark Act is informed by the common law, and it is thus appropriate, when interpreting the statute, to look to federal and state cases that apply the common law of trademark." *Travis*, slip op at *5–6, citing MCL 429.44. Furthermore, "[i]t is also appropriate to look to federal case law when interpreting a state statute which parallels its federal counterpart, as it appears the Michigan Trademark Act does the federal Lanham Act." *Id*. (footnotes omitted). Accordingly, a mark holder who engages in naked licensing of his mark renders the mark not valid under the Trademark Act—just as the same conduct would render the mark not valid under the common law and Lanham Act.

To avoid abandonment, then, the trademark holder who licenses his mark to third parties must retain *control* of his mark—which might include supervision of the licensee's operations, store layout, advertising, sales and merchandising, or other incidences of business. *Eva's Bridal*, 639 F3d at 790. Such control is essential because "[t]rademarks [are] . . . indications of consistent and predictable quality assured through the trademark owner's control over the use of the designation." Restatement Unfair Competition, 3d, § 33, comment *a*, p 338. By retaining control over the licensee that uses his mark, the original trademark holder will ensure that his trademark remains able "to tell shoppers what to expect—and whom to blame if a given outlet falls short," and thus retain its function as a source identifier for consumers. *Eva's Bridal*, 639 F3d at 790.

Conversely, when a trademark holder relinquishes control over his mark, and allows others to use the mark with little to no supervision, he engages in naked licensing, and the mark becomes abandoned per 15 USC § 1127(2). *Exxon Corp v Oxxford Clothes, Inc*, 109 F3d 1070, 1075 (CA 5, 1997). Naked licensing "is an '[u]ncontrolled licensing of a mark whereby the licensee can place the mark on any quality or type of goods or services,' raising 'a grave danger that the public will be deceived by such usage.'" *Doeblers' Pennsylvania Hybrids, Inc v Doebler*, 442 F3d 812, 823 (CA 3, 2006), quoting 2 McCarthy on Trademarks § 18:48. Stated another way, naked licensing also involves "allowing others to use the mark without exercising reasonable control over the nature and quality of the goods, services, or business on which the [mark] is used by the licensee." *Eva's Bridal*, 639 F3d at 789 (internal quotation marks omitted).

A mark holder who engages in naked licensing thus destroys his mark—it is no longer able to serve as a meaningful source identifier to consumers, and accordingly loses its significance as a mark—and the protections afforded to *actual* marks under the Lanham Act. *FreecycleSunnyvale v Freecycle Network*, 626 F3d 509, 516 (CA 9, 2010) (holding that naked licensing is "*inherently* deceptive and constitutes abandonment of any rights to the trademark by the licensor") (emphasis original; internal quotation marks omitted); see also 3 McCarthy on Trademarks (4th ed), § 18:48.

Plaintiff's activity in this case is a textbook example of naked licensing. Its cavalier attitude toward use of the "Movie Mania" mark is reflected in its uncontrolled licensing of the mark to two business owners over a period of six years. In 1999, plaintiff entered into a licensing agreement with CLD, and allowed CLD to use the "Movie Mania" mark in conjunction with its video-rental store. Yet plaintiff provided no standards for use of the mark, advertising, store operations, or any requirements related to the rental or sale of merchandise at the CLD-owned Movie Mania.

In 2005, plaintiff repeated these actions on a more audacious scale. After Adnan Samona purchased CLD, plaintiff allowed him use of the "Movie Mania" mark—and did not require him to sign a license agreement for such use, even as he expanded his business and used the "Movie Mania" mark at those new locations. And, again, plaintiff placed almost no restrictions on Samona's the use of the mark, nor did it set standards for his business on advertising or store operations, or outline requirements related to the rental or sale of merchandise at the Samona-owned Movie Mania. To repeat: by 2007 there were six Movie Mania stores operating in metro Detroit, and only two were owned by plaintiff. It is not possible that the "Movie Mania" mark served as an "indication[] of consistent and predictable quality" to consumers at this point—

multiple businesses used the "Movie Mania" name, and had no uniform standard of control or quality between them. Restatement Unfair Competition, 3d, § 33, p 337–338; *Eva's Bridal,* 639 F3d at 789.

Plaintiff's lax attitude toward its mark underwent a radical shift in 2010 when defendant expressed an interest in using "Movie Mania." But plaintiff's sudden discovery of responsible-trademark-holder religion seems more like a conversion of convenience than a profession of genuine faith. And, in any event, plaintiff's actions by 2010—namely, its failure to control the activities and standards of the other businesses to which it had licensed the "Movie Mania" mark—had already destroyed any function of source identification that the "Movie Mania" mark possessed. The mark is thus abandoned under 15 USC § 1127(2) and plaintiff has lost its "trademark rights against the world." *Exxon*, 109 F3d at 1075.

The trial court therefore correctly granted defendant summary disposition as to plaintiff's claim of federal trademark infringement.

B. MICHIGAN TRADEMARK ACT

Plaintiff also appeals the trial court's determination, under Michigan's Trademark Act, that it "abandoned" the "Movie Mania" mark when it engaged in naked licensing. We agree that the trial court wrongly held that naked licensing of a mark constitutes abandonment of the mark under the Trademark Act. But the trial court's ultimate ruling—that defendant is not liable for trademark infringement—is correct because, as noted, naked licensing of a mark destroys the mark's validity, and thus renders the mark not protectable as a trademark under Michigan law. We address each issue in turn.

1. ABANDONMENT

MCL 429.31(i) states that a mark is

> "abandoned" when its use has been discontinued with intent not to resume. Intent not to resume may be inferred from circumstances. Nonuse for 2 consecutive years shall be prima facie abandonment.

Here, at the time period relevant to this litigation, plaintiff continuously operated a video-rental business bearing the "Movie Mania" mark. It is thus not possible that plaintiff "abandoned" the mark under the Trademark Act's definition of that term because plaintiff never "discontinued" the mark's use. For the purposes of "abandonment" under the Trademark Act, it is irrelevant that plaintiff engaged in naked licensing, because the Trademark Act does not recognize that naked licensing constitutes abandonment. Accordingly, the trial court improperly held that naked licensing of a mark constitutes abandonment of the mark under the Trademark Act.

2. TRADEMARK INFRINGEMENT

Plaintiff's underlying Trademark Act claim, however, is trademark infringement. MCL 429.42 requires a plaintiff who claims trademark infringement to show that:

> (1) the mark he claims to hold is valid, in that it actually functions as a trademark; (2) he holds priority in the mark, i.e., he used the mark before the defendant; (3) consumers are likely to confuse the defendant's mark with his mark; and (4) defendant used the allegedly infringing mark. [*Travis*, slip op at *7 (footnotes omitted).]

If plaintiff's mark is registered with the state, "the registration is prima facie evidence that plaintiff's mark is valid, and the burden of production shifts to defendant to demonstrate that the mark is not valid." *Id*. Under the Trademark Act and at common law, trademarks are valid when they are: "(1) 'used' in connection with the sale and advertising of products or services; and (2) 'distinctive,' in that consumers understand the mark to designate goods or services as the 'product of a particular manufacturer or trader.'" *Id*. at *8, quoting *Shakespeare Co v Lippman's Tool Shop Sporting Goods Co*, 334 Mich 109, 113; 54 NW2d 268 (1952). Stated another way, to be "distinctive" and thus be a valid trademark, the trademark must serve as a "source identifier to consumers." *Travis*, slip op at *8, citing *Wal-Mart Stores, Inc v Samara Bros Inc*, 529 US 205, 212; 120 S Ct 1339; 146 L Ed 2d 182 (2000).

Here, there is no dispute that plaintiff "used" the mark "in connection with the sale and advertising" of a video-rental business. However, defendants have offered convincing evidence—plaintiff's naked licensing of the "Movie Mania" mark—that "Movie Mania" is not "distinctive" and thus not valid.

Normally, the inquiry into whether a mark is "distinctive" focuses on the "now classic test" developed by Judge Friendly in *Abercrombie & Fitch Co*[18] that sorts marks into four categories—generic, descriptive, suggestive, and arbitrary or fanciful—to determine whether they distinguish a good as coming from a particular source. *Travis*, slip op at *8–9. But here, plaintiff's conduct makes this analysis unnecessary, because its naked licensing of the "Movie Mania" mark to other video-rental business operators has destroyed whatever distinctiveness "Movie Mania" possessed. The mark is thus not valid and is not entitled to protection under the Trademark Act. As noted in section 2A, supra, plaintiffs who engage in naked licensing have *never* prevailed in a trademark-infringement suit under the common law or the Trademark Act against a defendant who uses the nakedly licensed mark for precisely this reason.

Again, when plaintiff licensed the "Movie Mania" mark to CLD in 1999 and Samona in 2005, it placed almost no restrictions on the use of the mark, nor did it make provisions for advertising, store operations, or specify any requirements related to the rental or sale of merchandise at the CLD-owned and Samona-owned Movie Manias. Because plaintiff's licensing arrangements placed little to no control or restrictions on the business operations of its licensees, it was impossible for consumers to use the "Movie Mania" mark to distinguish the videos and other merchandise on offer as coming from a particular source. *Travis*, slip op at 8–9; *Eva's Bridal*, 639 F3d at 790. Videos rented at Samona's locations might have been of a completely different quality or type than those on hand at plaintiff's locations, and consumers had no ability, on the basis of the "Movie Mania" mark alone, to tell that the videos came from

[18] *Abercrombie & Fitch Co*, 537 F2d at 9.

two separate providers. Accordingly, "Movie Mania" cannot be a valid mark because it is not distinctive, and thus does not function as a trademark: the mark does not "tell shoppers what to expect—and whom to blame if a given outlet falls short." *Eva's Bridal*, 639 F3d at 790.

Plaintiff unskillfully, and wrongly, suggests that our adoption of defendants' argument against naked licensing applies to all trademark holders who choose to license their trademarks to other parties. This confuses the general practice of licensing (which *preserves* the validity of a trademark) with plaintiff's particular conduct (which destroys the validity of a trademark).

Trademark owners are of course permitted to license their trademark and retain their trademark rights against infringers—but only if they are careful to ensure that their mark remains a source identifier to consumers.[19] This is because, as noted, a trademark, to be valid, must, in the mind of the consuming public, designate goods or services as the product of a "particular manufacturer or trader." *Shakespeare Co*, 334 Mich at 113. To ensure that a mark retains its source-identifying capacity, trademark holders that license their trademarks place strict restrictions on licensees—ranging from the physical appearance and layout of the licensees' business, to what kind of merchandise the store can carry, to frequent inspections of the licensees' physical premises and merchandise by the trademark holder.[20]

Again, plaintiff does not show that it placed any of these restrictions or exerted any sort of control on the business operations of its multiple licensees, who operated their "Movie Mania" stores almost entirely at their own discretion for over a decade. It is thus impossible that the "Movie Mania" mark could have served to "designate goods or services as the 'product of a particular manufacturer or trader'" to consumers in 2010 because, at that time, a series of completely different video-rental stores had long used that mark, each with their own set of quality standards and separate business practices. Plaintiff cannot suddenly decide to enforce its trademark rights against defendants when it has already destroyed whatever validity its "Movie Mania" trademark had through its own actions.

---

[19] "[Trademark] licensing is permissible provided the licensor retains some degree of control over the quality of the goods or services market thereunder." *Vaad L'Hafotzas Sichos, Inc v Kehot Publication Soc*, 935 F Supp 2d 595, 601 (EDNY, 2013), citing *Dawn Donut*, 267 F2d at 367. See also Restatement Unfair Competition, 3d, § 33, comments *b* and *c*, pp 339–342; and 3 McCarthy on Trademarks (4th ed), § 18:42.

[20] *Kentucky Fried Chicken Corp v Diversified Packaging Corp*, 549 F2d 368, 387 (CA 5, 1977) ("[c]ourts have long imposed upon trademark licensors a duty to oversee the quality of the licensees' products"); *General Motors Corp v Gibson Chemical and Oil Corp*, 786 F2d 105, 110 (CA 2, 1986) ("[t]he critical question in determining whether a licensing program is controlled sufficiently by the licensor to protect his mark is whether the licensees' operations are policed adequately to guarantee the quality of the products sold under the mark"); and *Eva's Bridal*, 639 F3d at 790 ("[t]he sort of supervision required for a trademark license is the sort that produces *consistent* quality") (emphasis in original).

Because the "Movie Mania" mark is not distinctive, in that it does not function as a source identifier to consumers, it is not a valid trademark. It is therefore unnecessary to discuss the other elements of trademark infringement under MCL 429.42. And though the trial court did not follow the above analysis in its holding on plaintiff's Trademark Act claim, and incorrectly held that plaintiff's naked licensing constituted abandonment under the Trademark Act, it reached the correct result when it rejected plaintiff's arguments under the statute and granted defendant summary disposition.[21]

V. CONCLUSION

Accordingly, we reject plaintiff's claims under both the Lanham Act and the Michigan Trademark Act, and affirm the trial court's grant of summary disposition to defendants pursuant to MCR 2.116(C)(10).

Affirmed.

/s/ Henry William Saad
/s/ Patrick M. Meter
/s/ Mark J. Cavanagh

[21] "A trial court's ruling may be upheld on appeal where the right result issued, albeit for the wrong reason." *Travelers Property Cas Co of America v Peaker Services, Inc*, ___ Mich App ___; ___ NW2d ___ (2014), 2014 WL 3605680, slip op at *14.