Double-Double Trademark Trouble: In-N-Out and CaliBurger’s International Burger Brawl

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INTRODUCTION

In September 2011, large, unidentified signs appeared in Shanghai’s Jing’an Temple District advertising the imminent arrival of Double-Double, Animal Style, and Protein Style burgers—specialties of the California-based chain, In-N-Out Burger.1 The signs contained

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4 In its original complaint, In-N-Out Burger noted that it owned three U.S. registrations for “DOUBLE-DOUBLE,” three US registrations for “ANIMAL,” and two U.S. registrations for “PROTEIN.” Almost all of these registrations have been in force for several decades. Pl.’s Original Compl. at 12-19, In-N-Out Burgers, Inc. v. Caliburger, LLC, No. 11-01418, 2011 WL 7038032 (C.D. Cal. filed Sept. 4, 2011) [hereinafter Pl.’s Original Compl.].


6 Surh, supra note 1. Specifically, CaliBurger was seeking to register or cancel existing registrations on these trademarks in Australia, Hong Kong, Japan, Korea, Russia, and Singapore. Pl.’s Original Compl., supra note 4, at 27.

7 Lee, supra note 5 (internal quotation marks omitted).
Burger’s trade dress. Additionally, CaliBurger’s business model mirrored In-N-Out Burger’s; both restaurants sought to distinguish themselves from other burger chains by promoting its use of fresh, quality ingredients, never frozen beef patties, and hand-sliced French fries.

Even without considering CaliBurger’s trademark registrations, the pronounced similarities between the two restaurants made it clear to at least some observers that CaliBurger was modeled after In-N-Out Burger. Indeed, Jonathan Wong, a California native and CaliBurger chef, has admitted that CaliBurger was modeled after In-N-Out Burger. One food blogger went even further and described CaliBurger as a “one hundred percent rip off” of In-N-Out Burger.

It might seem that CaliBurger’s blatant copying could not possibly cut legal mustard, but looking under the bun shows the truth to be much greasier. In-N-Out Burger certainly never intended to sesame cede its relished rights, but the Chinese and international trademark regimes left it playing ketchup. Exploring all the issues sandwiched within this French-fried fiasco gives important insights into the global trademark system and how businesses can beef up their protections to avoid getting grilled in this kind of pickle.

This comment seeks to use this dispute as a case study on the potential threat that otherwise zealously protective brand owners might overlook because they currently lack presence in China. Moreover, this comment will show that this particular threat does not—as is sometimes supposed—come from a lack of law in China but rather from the ways in which would-be competitors can use Chinese and international legal structures to legally take hold of companies’ cherished brands.

To make these points, Part I will first lay the background for analysis by describing the radically different expansion theories held by In-N-Out Burger and CaliBurger, In-N-Out Burger’s aggressive litigation

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8 Pl.’s Am. Compl., at 33; In-N-Out Burgers, Inc. v. Caliburger, LLC, No. 11-01418, 2011 WL 6800138 (C.D. Cal. filed Nov. 14, 2011) [hereinafter Pl.’s Am. Compl.]. These designs could be seen on CaliBurger’s former website. CaliBurger Bringing “Patented” In-N-Out Knock-Offs to Shanghai This Fall, SHANGHAIIST, http://shanghaiist.com/2011/10/26/caliburger bringing patented in-n-o.php (last visited Nov. 9, 2012) [hereinafter “Patented” Knock-Offs]. For an explanation of changes to CaliBurger’s décor and website, see infra ÉPILOGUE.


10 Tsu & Pierson, supra note 2.

11 Lee, supra note 5. Despite these similarities, CaliBurger does host some notable differences from its inspiration, including California wines, bourbon spiked shakes, and leggy Western models or CaliBurger girls. Surh, supra note 1.

12 The author hopes that readers do not find this passage to be too cheesy.
of its intellectual property rights ("IPR’s") in the United States, and the current intellectual property ("IP") landscape in China. With this foundation in place, Part II will briefly explain the lawsuit In-N-Out Burger brought in America to try and enforce its American trademarks half a world away. Part III will then outline the various international and Chinese protections available to trademark holders such as In-N-Out Burger and explain why these protections were unable to assist the company in its dispute with CaliBurger. Finally, Part IV will use the preceding analysis to offer practical suggestions that brand owners can take to protect their rights in and from the Chinese marketplace.

I. BACKGROUND

A. Expansion Strategies

Although In-N-Out Burger is extremely popular and has a cult-like following, it has carefully controlled expansion since its founding in 1948. In-N-Out Burger only expanded beyond California for the first time in 1992, when it opened a store in Las Vegas, “which remained its only out-of-state location until 2000.” Since that time, In-N-Out Burger has carefully expanded into other states and now has 277 locations across California, Nevada, Arizona, Utah, and Texas. In-N-Out Burger has stated that its careful growth strategy is designed not only to ensure consistent quality in its restaurants, but also to protect the integrity of its reputation and trademarks. Despite its continued growth, In-N-Out Burger has not opened or announced plans for any stores outside the United States.

Of the many things CaliBurger copied from In-N-Out Burger, its growth strategy was certainly not one of them. Despite only opening its first restaurant in 2011, CaliBurger is already plotting dramatic international expansion. It has plans for a second store in China, as well as new locations in Seoul, Taipei, and Hong Kong. Although CaliBurger’s plans have thus far been limited to East Asia, growth beyond the area is entirely possible, and the company identifies its target market as Asia, Russia, and Eastern Europe. Furthermore, based on statements it

\[\text{\footnotesize\[13\text{ Surh, supra note 1.}\}\]

\[\text{\footnotesize\[14\text{ Tsu & Pierson, supra note 2.}\}\]

\[\text{\footnotesize\[15\text{ Surh, supra note 1.}\}\]

\[\text{\footnotesize\[16\text{ Pl.’s Opp’n to Def.’s Mot. to Dismiss at I(C), In-N-Out Burgers, Inc. v. CaliBurger, LLC, No. 11-01418, 2011 WL 5882638 (C.D. Cal. filed Oct. 31, 2011) [hereinafter Pl.’s Opp’n to Def.’s Mot. to Dismiss].}\}\]

\[\text{\footnotesize\[17\text{ See Surh, supra note 1.}\}\]

\[\text{\footnotesize\[18\text{ Tsu & Pierson, supra note 2.}\}\]

\[\text{\footnotesize\[19\text{ CaliBurger, TWITTER https://twitter.com/CaliBurgerAsia (last visited Nov. 12, 2012). CaliBurger’s original website has been altered to remove such references. infra}\]\]}
collected, In-N-Out Burger claimed that CaliBurger planned to franchise and open hundreds of restaurants in China alone.\textsuperscript{20}

B. \textit{In-N-Out Burger’s IP History}

Although its clone in Shanghai might have taken the company by surprise, In-N-Out Burger is no stranger to litigating any perceived threat to its IP. Karl Van Fleet, Vice President during the CaliBurger dispute, has stated that In-N-Out Burger has worked since its inception to develop a unique look and feel, and that it works vigorously to defend its trademarks and trade-dresses against potential infringers.\textsuperscript{21} Additionally, In-N-Out Burger has stated, “[w]e will vigorously defend our trademarks and trade-dress against any and all copycats and imitators.”\textsuperscript{22} To that end, the company has taken action and brought numerous lawsuits within the United States over similar names, products, presentations, designs, and menus.

Informative in its dispute with CaliBurger, In-N-Out Burger has targeted violators far outside of its traditional market of California and the American Southwest. Most recently in 2011, In-N-Out filed an infringement lawsuit against Grab-N-Go, a Maryland restaurant whose similar name, logo, and menu In-N-Out Burger claimed would lead the public to believe the two restaurants were related.\textsuperscript{23} Additionally, In-N-Out Burger also threatened legal action against Burger Express, an Idaho restaurant, because of its similar logo and menu design.\textsuperscript{24} In that case, In-N-Out Burger sent a letter to Burger Express stating that there was no doubt that the restaurant was modeled on In-N-Out and telling the owner to eliminate the similarities or face legal action.\textsuperscript{25} Finally, these disputes have not been limited only to other restaurants. In 2004, In-N-Out Burger

\begin{footnotesize}
\textsuperscript{20} Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.

\textsuperscript{21} Audrey Dutton, \textit{In-N-Out Has Beef with Boise’s Burger Express}, IDAHO STATESMAN, July 24, 2011.


\textsuperscript{25} Dutton, supra note 21.
\end{footnotesize}
complained to a Louisiana convenience store and gas station named In-N-Out Discount Market. The two reached an agreement whereby In-N-Out Burger would not sue so long as the Louisiana store agreed not to use any variation or combination of the individual words “IN” or “OUT” in its business.26

The threat of infringement also seems to have previously influenced In-N-Out Burger’s growth plans. Specifically, in 2007, In-N-Out Burger filed a trademark infringement suit against Utah burger restaurant, Chadders, over the restaurant’s building, menu, and food presentation.27 Chadders had been described as the closest thing to In-N-Out Burger in Utah, and customers had even sent emails to In-N-Out Burger asking if the two restaurants were related.28 The two restaurants settled their case in October 2007, soon after the issuance of a temporary restraining order that prohibited Chadders from selling, advertising, and accepting orders using trademarked In-N-Out burger names.29 Then, in early 2009, In-N-Out Burger announced plans to open locations in Utah, where it had not previously operated.30 Furthermore, one of its two planned locations was in very close proximity to Chadders.31 Chadders has gone out of business since In-N-Out Burger opened in Utah.32

C. Chinese IP Landscape

In-N-Out Burger has been aggressive and largely successful in defending its trademarks within America, but CaliBurger’s activities occurred in China, where the IP landscape and legal system are often radically different from those in the United States. Understanding the Chinese system historically, practically, and legally helps explain why it was not nearly as easy for In-N-Out Burger to defend its perceived rights against CaliBurger’s actions.

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28 Butterfield, supra note 22.


31 Id.

1. Historical Development of the Trademark

“The concept of trademark in China can be traced back as early as the Northern Zhou Dynasty (556-580 A.D.),” although China did not enact its first modern trademark law until 1904, towards the end of the Qing Dynasty. The Republic of China also enacted a trademark law in 1923, but this and all other laws from the Republican period were abolished upon the founding of the People’s Republic of China in 1949. Upon its founding, the modern Chinese state was based on the Soviet system, which emphasized the collective nature of ideas and only reluctantly provided limited protection of IPRs as effective means to state ends. Even these limited protections, however, were completely obliterated during the Cultural Revolution.

True, IP protection only began in 1979, as a means to attract foreign investment as a part of China’s “Open Door” policy. Although initial efforts took time to sink in, the early need for foreign investment and know-how and the later need to protect domestic innovation has led to the rapid and solid development of China’s IP system. Today, “China’s IP laws are substantively some of the most comprehensive in the world.”

36 Wei Shi, The Paradox of Confucian Determinism: Tracking the Root Causes of Intellectual Property Rights Problems in China, 7 J. MARSHALL REV. INTELL. PROP. L. 454, 461-62 (2008). Because of the collectivist origins of the Chinese state, the modern IP system has been called “a square peg in a round hole” and “more of a wish list for foreign investors than a realistic and effective [IP enforcement] system.” Id. at 462 (citing Scott J. Palmer, An Identity Crisis: Regime Legitimacy and the Politics of Intellectual Property Rights in China, 8 IND. J. GLOBAL LEGAL STUD. 449, 450 (2001)).
38 JIANFU CHEN, supra note 35, at 565-66.
39 Even as late as 1981, “China declared that all products of technological innovation and invention were the common heritage of mankind.” Id. at 565.
40 Id.
2. Modern Trademark Law

In line with the development of its IP system, China adopted its first modern Trademark Law in 1982, which it amended in 1993 and 2001.\(^{42}\) The most recent amendment to the Trademark Law was completed to meet China’s obligations after joining the WTO.\(^{43}\) China’s trademark protections now meet international standards mandated by the WTO.\(^{44}\)

In September 2011, China released drafts of the third amendment to its Trademark Law for public comment.\(^{45}\) This amendment “is listed as [a] top category item for 2012 State Council legislative work” and “is expected to be submitted to the Standing Committee of the National People’s Congress soon.”\(^{46}\) Although the majority of the law’s text remains unchanged, the new amendment addresses some notable concerns of foreign trademark holders, most notably bad faith registration,\(^{47}\) which will be discussed in Section III(C).

The Trademark Law allows the registration of any visible sign that can be used to distinguish the goods of one entity from another.\(^{48}\) According to its aims, the law seeks to both protect consumers from

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\(^{44}\) Alexis Weissberger, Note, Is Fame Alone Sufficient to Create Priority Rights: An International Perspective on the Viability of the Famous/Well-Known Marks Doctrine, 24 CARDOZO ARTS & ENT. L.J. 739, 771 (2006); Chi Keung Kwong, Sit Fung Kwong & Shum, Well-Known Mark Protection in China, Hong Kong, Macau and Taiwan, WORLD TRADEMARK LAW REPORT (July 4, 2004), http://www.worldtrademarkreview.com/daily/detail.aspx?g=8ef0045f-dfee-4393-a31e-7f34579e295f&q=Chi+Keung+Kwong#search=%22Chi+Keung+Kwong%22.


\(^{48}\) Trademark Law, supra note 42, art. 8. This can include “any work, design, letter of the alphabet, numeral, three-dimensional symbol and color combination, or any combination of the above . . . .” Id.
confusion and to uphold the trademark as a property right. To accomplish these aims, the law grants owners of registered trademarks the exclusive right to use their marks and multiple means to halt any infringement.

3. Infringement and Other Problems

The laws as they are written and the situation on the ground, however, can sometimes be markedly different. "Many consider China to be a land of IP free for all," where not being copied can be an even worse sign than being copied. There is support for this idea. Every year in China, U.S. businesses alone lose as much as two billion dollars to piracy. Additionally, the U.S. International Trade Commission has reported that U.S. companies operating in China “report losses of approximately 48.2 billion [dollars] in sales, royalties, or licensing fees in 2009 as a result of intellectual property infringements in China.” Experts have estimated that anywhere from ten to thirty percent of China’s gross domestic product may come from piracy and counterfeiting, and even the Chinese government has gone on record admitting that an aggregate ratio of counterfeit goods to legitimate products is two to one.

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49 Lau, Niemi & Wu, supra note 43, at 443. The Trademark Law encourages businesses to guarantee the quality of their goods and the credibility of their marks “to protect the interests of consumers, producers[,] and dealers . . . .” Trademark Law, supra note 42 note 42, art. 1.

50 Trademark Law, supra note 42, art. 3.


55 Id. at 342 (citing ANDREW C. MERTHA, THE POLITICS OF PIRACY: INTELLECTUAL PROPERTY IN CONTEMPORARY CHINA 167 (2005)).
Unfortunately, problems within the Chinese government have often prevented such piracy from being properly addressed. Even though private citizens typically carry out IP theft, experts have noted that it is encouraged by government policy.\textsuperscript{56} Additionally, some Chinese leaders oppose the IP system entirely and believe that it serves as an exploitive means to prevent China from acquiring the technology and other resources necessary for continued economic growth.\textsuperscript{57} Finally, problems within China’s IP administrative structure, such as backdoor political administration, often frustrate effective enforcement when piracy does occur.\textsuperscript{58}

Pirates tend to target items that are easy to reproduce, turn around, and sell—making trademarks a prime target.\textsuperscript{59} “Even large, multinational companies operating in China have found imitators hard to shake,” and foreign restaurant chains such as In-N-Out Burger have been especially prone to copycats. Starbox Coffee,\textsuperscript{60} Dairy Fairy, Pizza Huh, Jambo Juice, and OFC—Obama Fried Chicken—are just a few examples of the legions of look-alikes that have sprung up throughout China.\textsuperscript{61} Another relevant example is Saturday’s, a Chinese restaurant that opened immediately next door to Beijing’s original TGI Friday’s, whose décor and menu closely resembled that of the American chain.\textsuperscript{62} Based on such occurrences, Dairy Queen, which has operated in China for more than twenty years and


\textsuperscript{57} Shi, supra note 36, at 462.

\textsuperscript{58} Id. at 464, 466. The author also cites cutbacks in IP administrative agencies and resulting backlogs as a major problem; “as of early 2005, China’s Trademark Office, which had a backlog of 20,000 cases of trademark dispute, was still dealing with complaints filed in 1999.” Id. at 465.

\textsuperscript{59} Dickinson, supra note 56. Other items include software, simple manufactured items, DVDs, CDs, books, and magazines. Id.

\textsuperscript{60} Tsu & Pierson, supra note 2 (highlighting this problem by discussing photos of a fake Apple store in southern Yunnan province that went viral on the Internet in 2011).

\textsuperscript{61} Starbucks has been frequently imitated, with variants as outrageous as Starf**kks having been spotted. Scott Kronick, The Lighter Side of China: Brands and Their Copies, THEBEIJINGER (Jul 4, 2012 10:00 AM), http://www.thebeijinger.com/blog/2012/07/04/The-Lighter-Side-of-China-Brands-and-Their-Copies.

\textsuperscript{62} Id.; Tsu & Pierson, supra note 2. For more examples and pictures of counterfeit stores in China, see Vivian Giang, China Also Fakes These Stores: Disney, Nike, D&G, McDonald’s, Starbucks and More, BUS. INSIDER (Aug. 1, 2011, 5:00 PM), http://www.businessinsider.com/china-fake-stores-2011-8?op=1.

\textsuperscript{63} Kronick, supra note 61.
maintains 500 locations in the region, has stressed a need for restaurants to be vigilant against imitators.  

Not only are imitation stores and restaurants proliferating, they are becoming increasingly sophisticated, copying small details and going far beyond the simple fakes that have been available in China for decades. For example, a counterfeit Apple store in Kunming was so convincing that its employees genuinely believed they worked for Apple.

4. Positive IP Trends

Despite these troubling trends, there have been positive developments within the Chinese IP system. One development is that increased domestic innovation has led to greater domestic calls for IPR protection. Along the same lines, “more and more Chinese enterprises have realized that intellectual property provides some of the most critical, competitive instruments and marketing strategies available to them.”

There is also evidence that Chinese citizens and businesses are making greater use of the IP system. In 2011, nearly 600,000 trademarks were filed in China, three times more than the number filed in the United States—the closest runner-up. The use of courts and IP lawsuits has also risen. In 1992, China established specialized IP courts, which are now acknowledged as fast and effective.

More importantly, major Chinese IP
courts are generally acknowledged as fair, granting favorable rulings for both Chinese and foreign parties.\textsuperscript{71} Within these and other courts from 2002 to 2011, the number of civil trademark disputes grew at an average of 39.8 percent every year.\textsuperscript{72} Rights holders have also enthusiastically utilized administrative enforcement action, bringing 68,836 reported administrative trademark enforcement actions in 2011 alone, 17,022 of which were taken on behalf of foreign parties.\textsuperscript{73}

There is also evidence that China can provide effective enforcement of IPRs when it wishes to. For example, in order to secure investment in biotechnology, China has greatly improved its IP protection for pharmaceuticals in recent years.\textsuperscript{74} Effective enforcement can also be seen in the special IPR campaign China held from October 2010 through March 2011, during which “relevant authorities handled 146,000 cases that were worth $4.76 billion.”\textsuperscript{75} Other, more anecdotal, evidence includes the disappearance of pirated items at Beijing’s notorious Yashow Market while the country was in the midst of negotiations with the World Intellectual Property Organization (“WIPO”), and the difficulty of finding counterfeit Olympic goods prior to China’s all-important 2008 summer games.\textsuperscript{76}

Most significantly, experts have noted that China does offer good trademark protection so long as businesses have registered in China.\textsuperscript{77} In summary, even though significant infringement and other problems still exist, experts have acknowledged that Chinese IPR protection is improving.

\textsuperscript{51.} Anthony C. Chen, \textit{supra} note 51. For example, in 2009, a Beijing court granted a German company ¥ 20 million in damages against Chinese bus manufacturers that infringed its patent. And, in 2010, “a Shanghai court granted Microsoft ¥ 2.17 million in damages against a Chinese insurance company for copyright infringement.” \textit{Id.}

\textsuperscript{72} \textit{What Has Been the Impact of the Trademark Law on Trademark Litigation}, CHINA IPR (Oct. 19, 2012), http://chinaipr.com/2012/10/19/what-has-been-the-impact-of-the-trademark-law-on-trademark-litigation/.

\textsuperscript{73} \textit{Id.}

\textsuperscript{74} Schiappacasse, \textit{supra} note 41, at 184.


\textsuperscript{76} Kronick, \textit{supra} note 61.

\textsuperscript{77} Dan Harris, \textit{China DOES Have IPR Protection}, CHINA L. BLOG (May 1, 2007), http://www.chinalawblog.com/2007/05/china_does_have_ipr_protection.html. The author specifically notes that China offers effective protection for registered trademarks, patents, and trade secrets—the areas most relevant to most foreign businesses in China. \textit{Id.}
II. THE AMERICAN DISPUTE

Returning to the burger business, in September 2011, In-N-Out Burger filed suit against CaliBurger in the U.S. District Court in Santa Ana. Because this comment primarily focuses on the implications of this dispute on the Chinese and international trademark regimes, the following is only a rough outline of the issues raised by the parties in their American dispute.

The main issue in the case was whether the U.S. District Court had jurisdiction to apply the Lanham Act, America’s primary law on trademarks, extraterritorially to CaliBurger’s actions. Both sides noted that when determining whether to apply the Lanham Act extraterritorially, the Ninth Circuit uses the Timberlane test, which requires a plaintiff to show that: (1) the alleged violations had some effect on American foreign commerce; (2) said effect was great enough to represent a cognizable injury under the Lanham Act; and (3) the interests of and link to American commerce are strong enough in relation to those of other nations.

Before explicitly addressing the three Timberlane factors, CaliBurger first argued that its commerce was wholly foreign, and thus that the Lanham Act could not be invoked against it. Among its other arguments, In-N-Out Burger countericted this claim by arguing that although CaliBurger’s business activities occurred abroad, they were planned and directed from the United States.

After this argument, the two sides then turned to the application of the three Timberlane factors. With regard to the first two factors of whether its actions had an effect on American foreign commerce that constituted a cognizable injury, CaliBurger disputed In-N-Out Burger’s claims of damages or irreparable harm, noting that the plaintiff provided very little support to substantiate any claim of monetary or other damages. In response, In-N-Out Burger argued that the effect on

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78 Pl.’s Original Compl., supra note 4. In-N-Out Burger alleged federal trademark infringement, federal trademark counterfeiting, federal unfair competition, statutory unfair competition, common law unfair competition, common law trademark infringement, and intentional interference with economic advantage. Based on information provided during discovery, In-N-Out Burger later added a claim of federal trade dress infringement. Pl.’s Am. Compl., supra note 8.
79 Pl.’s Am. Compl., supra note 8; Def.’s Notice of Mot. and Mot. to Dismiss Compl., In-N-Out Burgers, Inc. v. Caliburger, LLC, No. 11-01418, 2011 WL 5882634 (C.D. Cal. filed Sept. 4, 2011) (citing Timberlane Lumber Co. v. Bank of America, 549 F.2d 597 613-15 (9th Cir. 1976) (as modified) [hereinafter Def.’s Notice of Mot. and Mot. to Dismiss Compl.]. CaliBurger moved to dismiss the complaint pursuant to FRCP 12(b)(1) and 12(b)(6). Id.
80 Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79.
81 Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.
82 Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79.
commerce under the *Timberlane* test could be indirect, potential, and reputational.\textsuperscript{83} In-N-Out Burger then claimed that its projected damage met this bar, as negative experiences formed at CaliBurger’s Shanghai store would impact the chain’s reputation and result in lost business at In-N-Out Burger’s U.S. restaurants.\textsuperscript{84} It further justified this threat by noting increasing travel between the United States and China.\textsuperscript{85}

Although the third prong of the *Timberlane* test has seven distinct subfactors,\textsuperscript{86} each of which was debated by both sides,\textsuperscript{87} the main issue considering them all together was whether the interests of U.S. commerce justified punishing CaliBurger for actions it had taken legally in foreign nations. As CaliBurger noted, its trademark registrations and challenges to In-N-Out Burger’s existing foreign trademarks\textsuperscript{88} were all conducted pursuant to the laws of the countries in question.\textsuperscript{89} CaliBurger claimed that “In-N-Out seeks a worldwide injunction that would in essence prohibit Defendants from complying with the trademark registration or cancellation procedures established under foreign law.”\textsuperscript{90} To counter this argument, In-N-Out Burger contended that CaliBurger’s legal actions were part of a larger illegal scheme that justified asserting American judicial interests.\textsuperscript{91}

It is important to note that In-N-Out Burger usually would not have had a right to bring this case before an American court. In fact, the company was able to do so only because “CaliBurger was an American company, registered to an address in Diamond Bar, California.”\textsuperscript{92}

\textsuperscript{83} Pl.’s Opp’n to Def.’s Mot. to Dismiss, *supra* note 16.
\textsuperscript{84} Id.
\textsuperscript{85} Id.
\textsuperscript{86} The seven subfactors include “[1] the degree of conflict with foreign law or policy, [2] the nationality or allegiance of the parties and the locations or principal places of business of corporations, [3] the extent to which enforcement by either state can be expected to achieve compliance, [4] the relative significance of effects on the United States as compared with those elsewhere, [5] the extent to which there is explicit purpose to harm or affect American commerce, [6] the foreseeability of such effect, [7] and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad.” *Timberlane*, 549 F.2d at 614.
\textsuperscript{87} Def.’s Notice of Mot. and Mot. to Dismiss Compl., *supra* note 79; Pl.’s Opp’n to Def.’s Mot. to Dismiss, *supra* note 16
\textsuperscript{88} In-N-Out Burger owned registrations for Double-Double in Australia, Hong Kong, and Japan, none of which it actively used and all of which CaliBurger was seeking to cancel at the time of the lawsuit. Pl.’s Original Compl., *supra* note 4.
\textsuperscript{89} Def.’s Notice of Mot. and Mot. to Dismiss Compl., *supra* note 79.
\textsuperscript{90} Id.
\textsuperscript{91} Pl.’s Opp’n to Def.’s Mot. to Dismiss, *supra* note 16.
\textsuperscript{92} Surh, *supra* note 1. Specifically, CaliBurger was registered at 23644 Maple Springs Drive, Diamond Bar, California 91765. Pl.’s Original Compl., *supra* note 4.
Specifically, CaliBurger was founded as a California-based Delaware Limited Liability Company on February 9, 2011. After raising capital within the United States, CaliBurger dissolved its American company and opened another CaliBurger entity in the Cayman Islands on April 19, 2011. It informed In-N-Out Burger of these events on September 16, 2011. Despite reforming in the Cayman Islands, CaliBurger retained its California headquarters, which gave In-N-Out a narrow foothold to bring suit. Unfortunately, even this foothold did not seem to give In-N-Out Burger a tremendous amount of leverage. In late January 2012, before all these issues could be decided, the parties reached a confidential settlement. Although the exact terms of the settlement are unknown, CaliBurger agreed to alter its menu and décor as a part of the agreement.

For example, “CaliBurger changed the name of its two patty burger [from Double-Double to] Cali Double, its lettuce wrapped burger [from Protein Style] to LC style, and CaliBurger now refers to its Animal Style fries as Wild Style.” Although In-N-Out Burger’s actions did force some changes from CaliBurger, commentators have noted that these and other changes mandated by the settlement are very modest in scope. Additionally, some commentators have speculated that CaliBurger only backed off and made these modest changes after receiving a payoff from In-N-Out Burger. This payment and the small scale of these changes no

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93 Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.
94 Id.
95 Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79. In-N-Out Burger claimed that CaliBurger’s flight to the Cayman Islands was an attempt to shield assets and frustrate discovery, although it is important to note that CaliBurger’s actions occurred before In-N-Out Burger brought suit. Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.
96 Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.
97 Surh, supra note 1. Had the case not settled, the two parties would have been in litigation for months; discovery was not slated to close until July 27, 2012, and trial was not set to begin until April 9, 2013. Rule 26(f) Report of the Parties’ Planning Meeting, In-N-Out Burgers, Inc. v. Caliburger, LLC, 11-01418, 2011 WL 7038032 (C.D. Cal., Dec. 5, 2011).
98 Tsu & Pierson, supra note 2.
99 Id. (internal quotation marks omitted).
doubt reflect the lack of relief available to In-N-Out Burger under the circumstances.\textsuperscript{102}

III. THE INTERNATIONAL TRADEMARK REGIME AND DOMESTIC DANGERS

If not for CaliBurger’s California office, In-N-Out Burger would not have had any realistic domestic remedies against CaliBurger’s allegedly infringing activities.\textsuperscript{103} Furthermore, an analysis of Chinese and international trademark law shows that In-N-Out Burger’s other options were very limited.\textsuperscript{104} This lack of viable options should give pause to American companies that contemplate the possibility that their imitators might not be so generous as to maintain American headquarters.

Before discussing this dearth of options, it is important to note that China has joined several international agreements on IP protection, each of which supplements China’s own legal trademark protections. Not only do these international protections supplement Chinese law, they can arguably be directly applied by Chinese courts and are technically superior in force to domestic law.\textsuperscript{105} In 1985, China amended Article 142 of its General Principles of the Civil Law so that when national law differs from international treaties to which China is a party, the provisions of the treaty control.\textsuperscript{106} Unfortunately, these international protections and corresponding Chinese law would not have helped In-N-Out Burger halt CaliBurger’s actions in China.

A. Territoriality & the Madrid Agreement

Trademarks are normally independent or territorial, meaning that recognition in one country does not lead to any special rights in other countries.\textsuperscript{107} In other words, trademark owners must register their trademarks in every country for which they wish to receive protection.\textsuperscript{108} CaliBurger noted this fact when it stated that the “foundational principle

\begin{itemize}
  \item \textsuperscript{102} Redux, supra note 100.
  \item \textsuperscript{103} Id.
  \item \textsuperscript{104} Id.
  \item \textsuperscript{105} Weissberger, supra note 44, at 772.
  \item \textsuperscript{108} Daniel K. Chow & Edward Lee, INTERNATIONAL INTELLECTUAL PROPERTY: PROBLEMS, CASES, AND MATERIALS 478 (2006).
\end{itemize}
of trademark law is territoriality: the trademark laws of one country generally do not apply within the borders of another.\footnote{Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79.} Due to trademark independence, In-N-Out Burger’s American trademarks have no force in the Chinese market.

International law, however, provides some important exceptions to territoriality. The first such exception is contained within the Madrid System for the International Registration of Marks (“Madrid System”), which codifies the international trademark regime.\footnote{Madrid System for the International Registration of Marks, WIPO, http://www.wipo.int/madrid/en/ (last visited July 28, 2012).} Under the agreements of the Madrid System, when a business registers a trademark in a member country, it can “designate other signatory countries in which [it] would like to extend protection of that mark.”\footnote{Redux, supra note 100. The Paris Convention for the Protection of Industrial Property first established international trademark registration rights through the doctrine of priority, which allows an applicant to use its first filing date from one party state as the effective filing date in other party states, so long as the subsequent applications are within six months of the original. The Paris Convention for the Protection of Industrial Property (1883), WIPO, http://www.wipo.int/treaties/en/ip/paris/summary_paris.html (last visited Oct. 9, 2012).} China became party to the Madrid system on July 4, 1989,\footnote{Madrid Agreement (Marks): Contracting Parties, ABOUT WIPO, http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=21 (last visited Apr. 27, 2012).} and in 1995, China “became a member of the Madrid Protocol relating to the international registration of trademarks.”\footnote{Campbell & Pecht, supra note 34, at 73 (citing Robert H. Hu, International Legal Protection of Trademarks in China, 13 MARQ. INTELL. PROP. L. REV. 69, 83 (2009)).} This protection, however, is irrelevant for In-N-Out Burger because it did not register its trademarks with the World Intellectual Property Organization or extend its trademark protection to China.\footnote{Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79.}

**B. First to Register & Well-Known Marks\footnote{Although the terms “well-known” and “famous” are sometimes used interchangeably in relation to trademarks, they represent two distinct classes. Designation as a famous mark provides greater protection but is more difficult to establish. Specifically, famous marks must “have a higher degree of reputation resulting from enormous amounts of investment and effort,” while well-known marks only require “a considerable degree of recognition within a relevant sector of the consuming public.” Breann M. Hill, Comment, Achieving Protection of the Well-Know Mark in China: Is There a Lasting Solution, 34 U. DAYTON L. REV. 281, 284-85 (2009).}**

Like most civil law countries, China’s trademark regime is a first
to register system, meaning that the first party to file for registration will become the trademark’s valid owner, even if it was not the first to use the trademark in question.\textsuperscript{116} As part of this first to register principle, China does not require intent to use a trademark—ownership simply goes to the first to register,\textsuperscript{117} and registration is viewed as prima facie evidence of validity.\textsuperscript{118}

The primary protection under international law to overcome territoriality and the first-to-register system is the well-known marks doctrine, which is codified in Article 6bis of the Paris Convention for the Protection of Industrial Property (“Paris Convention”).\textsuperscript{119} This doctrine states that member countries of the Paris Convention should refuse or cancel the registration of a mark that is well known in their country, whether or not it is registered or even used there.\textsuperscript{120}

The protection of well-known but unregistered trademarks is justified by the belief that the owner of a trademark should enjoy some rights when its actions have caused its mark to acquire goodwill in another country.\textsuperscript{121} Additionally, if the public is familiar with a trademark, the registration or use of a similar trademark can confuse or mislead the public, which defeats the trademark’s consumer protection and information functions.\textsuperscript{122}

The importance of the well-known marks doctrine has grown in recent years, with multilateral trademark rules providing “increased attention to protection for well-known trademarks . . .”.\textsuperscript{123} Despite the importance of this doctrine in international trademark law, the definition


\textsuperscript{117} Surh, supra note 1.

\textsuperscript{118} Intellectual Property Rights: Trademark, supra note 116.

\textsuperscript{119} Paris Convention: Contracting Parties, ABOUT WIPO, http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=2 (last visited Oct. 5, 2012). Agreement On Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) also addresses well-known marks, explicitly expanding protection to the use of well-known marks to dissimilar classes of goods. Hill, supra note 115, at 286. This provision is currently not fully met by Chinese law, which imposes different standards of well-known trademarks depending on whether they are used on similar or different classes of goods. Trademark Law, supra note 42, art. 13. This additional protection and the discrepancy in Chinese law are not important to the current discussion, however, because CaliBurger’s trademark use was on similar goods.

\textsuperscript{120} Paris Summary, supra note 107, at 356.

\textsuperscript{121} Id.

\textsuperscript{122} Id.

\textsuperscript{123} Id. at 353 (internal quotations marks omitted).
of a well-known mark is left to each country, and the Paris Convention provides little guidance on the determination.\textsuperscript{124}

Chinese law also codifies the well-known marks doctrine. According to Article 9 of the Trademark Law, trademark registrations may not conflict “with the legitimate rights obtained by others earlier,”\textsuperscript{125} and according to Article 13, the registration of a trademark that is a copy, translation, or imitation of a well-known mark must be refused.\textsuperscript{126} Article 31 also stipulates that “[n]o applicant for trademark application may infringe upon another person’s existing prior rights, nor may he, by illegitimate means, rush to register a trademark that is already in use by another person and has certain influence.”\textsuperscript{127} Additionally, the Unfair Competition Law prohibits forging or counterfeiting “famous-and-excellent marks.”\textsuperscript{128} Although China originally allowed only registered marks to gain well-known status, it now extends the protection to unregistered trademarks.\textsuperscript{129}

If a party believes its trademark is well known and that another party has registered in violation of its rights, it may submit evidence and ask for a determination from the Trademark Office or Trademark Review and Adjudication Board.\textsuperscript{130} The law provides presumptive well-known trademark owners a five-year window to request cancellation of an infringing mark; when a trademark is registered with ill will, the five-year period no longer applies.\textsuperscript{131} If a trademark is deemed well known, its owner can request that the infringing party be prevented from using the mark and that all infringing materials be destroyed.\textsuperscript{132}

China’s Trademark Law does not provide an exact definition for well-known trademarks, only a list of factors to be considered in the determination. These factors, listed in Article 14, are: (1) the mark’s

\begin{footnotesize}
\item[124] Id. at 363.
\item[125] Trademark Law, supra note 42, art. 9.
\item[126] Id. art. 13.
\item[127] Id. art. 31.
\item[129] Weissberger, supra note 44, at 772.
\item[131] Trademark Law, supra note 42, art. 41.
\item[132] Trademark Implementation, supra note 130, art. 45.
\end{footnotesize}
degree of public recognition; (2) the duration of the mark’s use; (3) the
duration, extent, and geographical area of advertising for the mark; (4) the
mark’s records of protection as well-known trademark; and (5) any other
relevant factors.133 The Provisions on the Determination and Protection on
Well-Known Trade Marks, issued on June 1, 2003, expand upon this list
and define a well-known trademark as one “that is widely known to the
relevant sectors of the public and enjoys a relatively high reputation in
China.”134 Within the provisions, “relevant public” includes “consumers
using goods or services carrying the trademark, proprietors producing such
goods or providing such services, and sellers and other persons involved in
sales activities.”135

Unfortunately, as litigation concerning famous marks has
skyrocketed over the past decade,136 Chinese courts have shown
considerable inconsistency in applying these provisions. In applying
Article 14’s five factors, some courts have required plaintiffs to prove
every factor, while others have stated that only one or two is sufficient.137
Additionally, courts have shown radical variation on the geographical area
that a well-known mark’s reputation should permeate.138 This problem has
been confounded by the fact that Chinese courts do not recognize precedent, and China has more than 400 courts at or above the
intermediate level with jurisdiction over civil trademark disputes.139

The meaning and enforcement of Article 31, which forbids
trademark applications from infringing existing rights, has also proven
very unclear.140 This may be due to the vague nature of the article, which
currently only provides that applicants should not use “improper means”
to register a mark used by another with an existing reputation.141

In order to cut through some of this confusion, the Supreme

133 Trademark Law, supra note 42, art. 14.
134 Hill, supra note 115, at 290.
136 “[S]tatistics uncovered by a judge in the Intellectual Property Chamber of the
Supreme People’s Court suggested that the total number of civil cases involving the
determination of well-known marks was three from 2001 to 2003, but soared to twenty-
Zhang, supra note 68, at 963 (citing Junli Xia, Guanyu Chiming Shangbiao Sifa Baohu
Jiazhi Quxiang ji Zhidu Shezhi de Sikao [Reflection on the Underlying Doctrine for
Protection of Well-Known Marks], 12 FALÜ SHIYONG 2, 7 (2007)).
137 Zhang, supra note 68, at 965-66.
138 Id. at 966.
139 Id. at 960-61.
140 Campbell & Pecht, supra note 34, at 87.
141 Deng et al., supra note 45, at 518 (citing Trademark Law, supra note 42, art. 31).
People’s Court has taken several steps to promote consistency in cases concerning well-known trademark determination. First, the Court began to release guiding cases in the field and also required high courts to submit their decisions in such cases for recordation.\(^{142}\) More importantly, the Court released a draft “Interpretation on Issues Regarding the Application of Law in Civil Cases Involving Determination and Protection of Well-known Marks” (“Interpretation”) for public review on November 11, 2008.\(^{143}\) The Interpretation stipulated that courts should balance the factors listed in Article 14, and that one factor can be enough to show well-known status if it is strong enough.\(^{144}\) The Interpretation also stated that a well-known trademark should be recognized among a high percentage of consumers in an area covering a “substantial part” of China, although it failed to define this term.\(^{145}\) Although the Interpretation clarified many issues, it is not perfect and it is possible that it may be a violation of the Chinese Constitution, which grants no legislating power to the Supreme People’s Court.\(^{146}\)

CaliBurger’s initial advertisement created confusion among at least some of its viewers, and its failure to identify itself on its posters seemed designed to create confusion. That said, it seems very unlikely that In-N-Out, much less its burger trademarks, would have qualified for protection as well-known trademarks. In-N-Out Burger is a regional American chain and, prior to its dispute with CaliBurger, had never conducted any activities in China or ever promoted its trademarks there.

The importance of promoting trademarks is illustrated by the Sotheby’s case. Sotheby’s Auction House opened a Hong Kong branch in


\(^{144}\) Zhang, supra note 68, at 973.

\(^{145}\) Id.

\(^{146}\) Id. “The National People’s Congress and its Standing Committee exercise the legislative power of the state.” XIANFA art. 58, § 1 (1982) (China).
1974 and began marketing in China in 1988 under its English name and its Chinese name. Sotheby’s registered its English trademark and its trademark using traditional characters in China in 1995; in 2006 it filed an application for a trademark of its simplified Chinese name (苏富比).\footnote{Lau, Niemi, & Wu, \textit{supra} note 43, at 444.} Clearly hoping to take advantage of Sotheby’s reputation, a local auctioneer adopted similarly sounding English words, Sichuan Softbill . . . and the same Chinese characters, 四川苏富比拍卖 for its name.”\footnote{\textit{Id.}, at 445 (internal quotation marks omitted).} Even though China’s Auction Law and Law on the Protection of Cultural Relics prevented Sotheby’s from ever making commercial use of its marks in China, the Beijing Higher People’s Court found that the mark had achieved a great reputation “through its advertisements, exhibitions, and charity and was thus entitled to protection as a famous mark.\footnote{\textit{Id.} at 441 (citing Sichuan Softbill Auction Ltd. v. Sotheby’s Auction, No. 324 (Beijing Higher People’s Ct., Aug., 2008), available at www.flssw.com/caipanwenshu/info/1837429/).} In-N-Out Burger’s failure to ever promote itself in the Chinese market, however, would render it almost impossible for the restaurant to receive a similar verdict.

Beyond its failure to promote its trademarks in the Chinese market, it is unlikely that In-N-Out Burger and its trademarks were recognizable to the Chinese public, despite claims made by the chain in its American lawsuit.\footnote{Among its claims supporting the well-known profile of its burger trademarks, In-N-Out Burger noted that “over 750,000 Chinese people visited its website from June 2006 through June 2011,” “many foreign travelers eat at the In-N-Out restaurant near LAX airport,” and that half of all Chinese travelers in America visit the chain’s home state of California. Pl.’s Opp’n to Def.’s Mot. to Dismiss, \textit{supra} note 16.} Indeed, CaliBurger’s actions were targeted specifically at Shanghai’s expatriate community—its advertisements were all published in English\footnote{\textit{Id.}} and its owners selected locations based on areas with a high concentration of foreigners.\footnote{Edward Eng, \textit{In-N-Out Cloned, Smart Moves?}, GETCHEE (Jan. 11, 2012), http://blog.getchee.com/?p=3319.}

Finally, several recent disputes involving international businesses make it seem very unlikely that In-N-Out Burger could have met the very high bar for proving well-known trademark status. Both Hermes International and Chivas Brothers recently failed in attempts to stop Chinese companies from using their trademarks.\footnote{Pierson, \textit{supra} note 69.} Furthermore, very few trademarks have actually met China’s standards, and some of the
trademarks that have—Disney, Wal-Mart, Pioneer, and Barbie—show the high degree of recognition necessary.154

C. Trademark Squatting

The difficulty of establishing well-known status, coupled with territoriality and China’s first to register system, has left foreign businesses extremely vulnerable to bad faith trademark registrations.155 Bad faith registration or “trademark squatting” occurs when an individual preemptively registers a foreign brand owner’s trademark that she deems well-known or likely to enter the Chinese market.156 Squatters sometimes use the trademark in connection with the sale of counterfeit goods or in an effort to transfer goodwill acquired by the original trademark to their own products.157 More often, however, squatters register trademarks to sell back to foreign holders at inflated rates.158 This tactic is highly successful, and Mark Cohen, a former U.S. intellectual property attaché at the Beijing embassy, has stated that foreign companies often give in and pay the Chinese holder.159

It seems likely that CaliBurger sought to employ both tactics in its registration of In-N-Out Burger’s American trademarks. In-N-Out Burger specifically claimed that its doppelganger was seeking to “capitalize on and take unfair advantage of In-N-Out's valuable goodwill and reputation.”160 It also seems likely that CaliBurger was seeking a pay out from In-N-Out Burger, which is supported by claims that CaliBurger received a paid settlement for altering its trademarks.161 Indeed, this motivation seems more likely. In-N-Out Burger’s trademarks were not well known enough among the Chinese public to provide it any significant

154 Hill, supra note 115, at 290.


156 John Du, Observations on Doing Business in China, 1897 PLI/Corp 195, 204 (2011). Trademark squatters typically register popular foreign brand names, although more sophisticated trademark squatters scour foreign business registrations within China, especially its cities, and register names they determine to be trademarks of the foreign businesses. Id.

157 Campbell & Pecht, supra note 34, at 87.

158 Pierson, supra note 69. Trademark squatting is similar to so-called cybersquatting, where individuals preemptively registered domain names and exhorted large sums of money out of interested corporations. Parija Bhatnagar, China: Your Company Name May Not Be Yours, CNNMONEY.COM (Mar. 7, 2006), http://money.cnn.com/2006/03/07/news/international/trademark_squatting/.

159 Pierson, supra note 69.

160 Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.

161 Geofferson, supra note 101.
goodwill, and many expatriates who did recognize the trademarks expressed hostility rather than goodwill at CaliBurger’s use.\(^{162}\)

Whatever the purpose, bad faith registrations can be extremely dangerous for trademark holders such as In-N-Out Burger. Under China’s first to register principle, CaliBurger became the rightful owner of the burger trademarks when it registered them in China. In addition to being the legitimate owner of the trademarks, CaliBurger’s registration gave it the ability to prevent anyone else—including In-N-Out Burger—from using these marks in the Chinese market.\(^{163}\) Therefore, In-N-Out Burger would have been liable for infringement had it attempted to sell its burgers in China,\(^ {164}\) and CaliBurger would have had multiple means of halting and punishing such behavior.\(^{165}\) Specifically, CaliBurger would have the right to bring suit in the People’s Court or to have the administrative department for industry and commerce investigate.\(^{166}\) Any finding of infringement could force an immediate halt on activity, destruction of all infringing goods and manufacturing tools, fines, damages, and possible criminal penalties.\(^ {167}\) Therefore, not only would In-N-Out Burger lose the right to its trademarks, it could also be liable to CaliBurger if it tried to exert rights over them in China.

Although trademark squatting is certainly not specific to China,\(^ {168}\) former attaché Cohen has stated that the Chinese trademark system provides numerous opportunities for such behavior.\(^ {169}\) As a result, trademark squatting has been a long-standing problem for numerous international companies and brand owners.\(^ {170}\) Some notable recent examples of names that have fallen victim to trademark squatting in China include Kardashian, J. Crew, Justin Bieber, Angry Birds, Oprah Winfrey, and Facebook.\(^ {171}\) Finally, although not an actual case of squatting, the

\(^{162}\) Lee, *supra* note 5.

\(^{163}\) Pierson, *supra* note 69.

\(^{164}\) Using an identical or similar trademark without the owner’s consent constitutes infringement of exclusive trademark rights. *Trademark Law, supra* note 42, art. 52(1).

\(^{165}\) See, e.g., *id.*, arts. 56-57, 59.

\(^{166}\) *Id.*, arts. 53.

\(^{167}\) *Id.*, arts. 53-54, 56, 59.

\(^{168}\) Bhatnagar, *supra* note 158.

\(^{169}\) Pierson, *supra* note 69.

\(^{170}\) Campbell & Pecht, *supra* note 34, at 78. Chinese brand owners have also been long-standing targets of trademark squatters. Deng et al., *supra* note 45, at 518.

\(^{171}\) Pierson, *supra* note 69 (noting that Facebook has been registered for multiple purposes, despite the fact that the social networking site is blocked in China).
recent dispute between Apple and Proview over the “IPAD” trademark has drawn attention to this problem.\footnote{In that case, Proview legitimately owned and used the “IPAD” trademark on its own goods before the development of Apple’s product. Later on, however, Proview demanded 1.6 billion dollars from Apple after Chinese courts declared that Proview was still the legitimate owner of the Chinese trademark. Zach Whittaker, \textit{Apple Seeks Settlement to End Proview ‘Ipad’ Dispute}, ZDNET (May 7, 2012), http://www.zdnet.com/blog/btl/apple-seeks-settlement-to-end-proview-ipad-trademark-dispute/76281.}

As the difficulty of applying the well-known marks doctrine demonstrates, proving that a trademark is too well known to have been registered in good faith is extremely difficult.\footnote{Bhatnagar, \textit{supra} note 158.} Therefore, despite the prevalence of trademark squatting, the problem has proliferated, and authorities have been lax in tackling this problem.\footnote{Deng et al., \textit{supra} note 45, at 518 (citing Trademark Law, \textit{supra} note 42, art. 31).} There is evidence, however, that China is taking more aggressive action to curb bad faith filings. During the U.S.-China Joint Commission on Commerce and Trade, both sides agreed to continue to prevent bad faith registrations and make it easier to combat them when they occur.\footnote{Deng et al., \textit{supra} note 45, at 518 n.8 (2012) ((citing \textit{OFFICE OF THE U.S. TRADE REPRESENTATIVE, 22ND US-CHINA JOINT COMMISSION ON COMMERCE AND TRADE OUTCOMES} (Nov. 2011), \textit{available} at http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/2011-us-china-joint-commission-commerce-and-trade-outou)).} Trademark squatting has also drawn strong attention from the Supreme People’s Court, which has called for full utilization of the current law in order to cut back against bad faith filings and encourage local judges to find against trademark squatters.\footnote{Deng et al., \textit{supra} note 45, at 518 (citing \textit{Zuigao Fa: Jiada E’zhi E’yi Qiangzhu Shangbiao Chengzhii Lidu} (最高法：加大遏制恶意抢注商标惩治力度) [\textit{Supreme People’s Court: Increasing Intensity of Curbing Activities of Bad Faith Trademark Squatting}], \textit{NEWS.QQ.COM} (Nov. 28, 2011), http://news.qq.com/a/20111128/001082.htm (in Chinese)).} Finally, the most recent draft of an amendment to the Trademark Law clarifies the law surrounding bad faith registrations:

[I]f an applicant tries to register a trademark similar to an earlier mark for similar goods, and the applicant is aware of the existence of the earlier mark due to prior dealings with the brand owner, a geographical closeness, or any other relationship, then the Trademark Office must refuse to register the mark. Moreover, if an applicant copies a distinctive mark with a reputation, causing confusion, the
Trademark Office must also reject the application. These actions represent a strong drive against trademark squatting, although time will tell how effective they ultimately prove to be.

D. Loss of Control & Forced Market Entry

In the modern global economy, trademarks are enormously valuable business assets. As such, companies are extremely diligent in controlling “every facet of how their brands are presented to the public.” In-N-Out Burger certainly operates under this principle, as its meticulous quality control and aggressive IP litigation demonstrate. By hijacking these assets, imitators and trademark squatters pose an enormous risk of tarnishing a company’s painstakingly developed reputation, as In-N-Out Burger noted in its U.S.-based court case. The risk of losing control of a trademark or having it tarnished is especially poignant in China. Chinese consumers are becoming increasingly brand-conscious, and many consider China to be the “last great commercial frontier.”

China is now the world’s second-largest economy, and the Chinese Academy of Social Sciences has projected that retail spending will reach 27.4 trillion yuan (4.3 trillion dollars) by 2015. For these reasons, “[e]ven companies with no plans to expand into China may find the world’s most populated country hard to ignore.”

In-N-Out Burger’s experience clearly demonstrates that a company does not even have to operate in the Chinese market to be potentially threatened there. For example, Chinese companies can buy a product in the United States and then reproduce it in China, or they can simply copy directly from the company website. Moreover, an international venture

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177 Deng et al., supra note 45, at 518; Zhong, supra note 47.
178 Daniel Chow, supra 155, at 100.
179 Id.
180 See supra section I.B.
181 Pl.’s Opp’n to Def.’s Mot. to Dismiss, supra note 16.
182 Burkitt & Chao, supra note 65.
184 Burkitt & Chao, supra note 65.
185 Surh, supra note 1.
187 “One of the foremost experts on China counterfeiting talks of how more than half of all Chinese counterfeits are done simply by copying a design straight off a
such as CaliBurger can easily research all relevant aspects of a company in its host nation and reproduce them in China.

When threatened by aggressive challengers in China, many companies feel compelled to accelerate growth into China in order to break into the market and shape impressions of their brand before counterfeitors can. Although such an accelerated market entry can be dangerous, “some companies decide that damage to a brand name by an imposter outweigh the risks . . . .” Furthermore, some experts have noted that counterfeits tend to flourish in the absence of genuine goods, and that “going into China can sometimes be the best way to put a damper on counterfeiting.”

In-N-Out Burger officially stands by its strategy of controlled growth, and there is no indication that the company plans to expand to the East coast, much less East Asia. In-N-Out Burger claimed that its trademark registrations in countries such as Australia, Hong Kong, and Japan demonstrated a probability of foreign expansion. CaliBurger’s attorneys, however, seriously called this claim into question. That said, there is some evidence that indicates that In-N-Out’s run-in with CaliBurger has encouraged it to take a more proactive approach towards China and the broader world.

Most notably, in the midst of the legal battle between the two companies, In-N-Out Burger responded by holding a first of its kind one-day pop-up event in Shanghai, flying in chefs and ingredients from its base in California. While this event could simply be viewed as a publicity stunt to counter CaliBurger’s opening, there are several indications that it might have been more. First, during the promotion, In-N-Out Burger specifically avoided marketing to expatriates, hoping to gauge local interest in its product. Second, the owner of the venue hosting the event specifically described it as “soft market research.”

\[^{188}\text{Surh, supra note 1.}\]
\[^{189}\text{Id.}\]
\[^{190}\text{Harris, supra note 186.}\]
\[^{191}\text{Surh, supra note 1.}\]
\[^{192}\text{Pl.’s Original Compl., supra note 4.}\]
\[^{193}\text{Def.’s Notice of Mot. and Mot. to Dismiss Compl., supra note 79.}\]
\[^{194}\text{Robyn Lee, First Look at In-N-Out Clone CaliBurger in Shanghai, SERIOUS EATS (Dec. 13, 2011, 1:00 PM), http://aht.seriouseats.com/archives/2011/12/first-look-at-in-n-out-clone-caliburger-in-shanghai.html. While In-N-Out Burger’s desire to use the freshest possible ingredients might hinder foreign expansion, CaliBurger may have done the chain a favor by proving that this paradigm is possible in China.}\]
\[^{195}\text{Id.}\]
\[^{196}\text{Lee, supra note 5. According to the author, soft market research refers to any}\]
Third, even after the resolution of the CaliBurger dispute, In-N-Out Burger held similar events in Tokyo, Sydney, and Seoul.\footnote{Robyn Lee, \textit{Dear AHT: In-N-Out in Tokyo for a One-day Pop-up Event}, \textsc{Serious Eats} (Mar. 28, 2012, 3:45 PM), http://aht.seriouseats.com/archives/2012/03/dear-aht-in-n-out-in-tokyo-for-a-one-day-pop-up-event.html; Robyn Lee, \textit{Yesterday, In-N-Out in Sydney for One-day Pop-up Event}, \textsc{Serious Eats} (Jan. 24, 2012, 12:00 PM), http://aht.seriouseats.com/archives/2012/01/yesterday-in-n-out-in-sydney-for-one-day-pop-up-event.html [hereinafter Sydney]; \textit{In-N-Out in Seoul Korea}, \textsc{SeoulGrub}, (Mar. 21, 2012), http://www.seoulgrub.com/2012/03/21/in-n-out-in-seoul-korea/.) Finally, when describing these events, a company representative stated that although In-N-Out Burger has no immediate expansion plans, the events were intended to promote and expand the brand globally and evaluate possible future expansion.\footnote{Sydney, \textit{supra} note 198.}

Put together, these factors indicate that In-N-Out Burger, like many other businesses under pressure by Chinese imitators, might at least be contemplating looking beyond its borders. At the very least, it shows that In-N-Out is trying to raise the profile of its trademarks and assert greater control over them in the Chinese and Asian markets. Additionally, such pop-up activities have the benefit of protecting In-N-Out Burger’s trademark registrations less vulnerable to possible future challenges in these nations.

\section*{IV. Lessons for Businesses}

CaliBurger was not a small-scale, shoddy pirating scheme. It raised millions of dollars in capital to carry out its plans and simultaneously executed trademark applications and challenges in several nations.\footnote{Pl.’s Opp’n to Def.’s Mot. to Dismiss, \textit{supra} note 16.} Unlike most similar operations, CaliBurger was an American corporation. Moreover, there is evidence that its founders knew the exact legal ramifications of their actions. All four held degrees from California law schools, and two were experienced in IP work.\footnote{Suhr, \textit{supra} note 1.} Finally, CaliBurger seems to have been largely successful in its showdown over In-N-Out Burger’s cherished IP. As of this writing, CaliBurger remains in operation. It was only forced to make minimal changes to its burger names, and it likely received a payment from In-N-Out Burger.

Commentators have noted that similar activities by American and international companies are on the rise.\footnote{Eng, \textit{supra} note 152.} Faced with the possibility of sophisticated threats from both inside and beyond China, what can businesses do to keep from being ham-burgled?

informal activity used to gauge the interest of consumers in a product or service.
A. Register and Enforce Your Trademarks!

The first lesson from In-N-Out Burger’s dispute with CaliBurger is that companies should immediately register their trademarks in China. Based on China’s poor reputation for IPR enforcement, many businesses do not even bother to apply for trademark protection because they deem it hopeless and not worth the time and money. Additionally, some businesses fail to register because they lack understanding of the international trademark system. According to the United States Patent and Trademark Office, “[o]nly [fifteen percent] of small companies that do business overseas realize that [U.S.] patents and trademarks protect them only within the [United States] . . . .” As noted supra, China offers effective enforcement for registered trademarks, and not registering creates the risk that your trademark will be taken hostage. Therefore, failure to register has been identified as “the most serious IP problem for foreign business in China.”

Some experts have even advocated that all major businesses apply for Chinese trademark registration, even those with no interests in Asia, like In-N-Out Burger. These experts have noted that trademark registration in China is relatively cheap and easy—almost certainly less than what In-N-Out Burger ultimately paid in its quarrel with CaliBurger. Moreover, as the Chinese system does not require use, even a company that is not ready to enter China or that has no plans whatsoever to enter China can still quickly register and preempt potential squatters. Although it is true that the Trademark Law allows a trademark to be canceled if it is not used for three consecutive years, the registration process alone can take eighteen to twenty-four months or longer. Therefore, a registration may ultimately provide the applicant five years of safety before it has to use its mark or risk cancellation.

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202 Harris, supra note 77; Anthony C. Chen, supra note 51.
203 Chu, supra note 64; Du, supra note 156, at 204.
204 Harris, supra note 77.
205 Bhatnagar, supra note 158.
206 Anthony C. Chen, supra note 51 (describing the failure to register IP as a gift given by foreign companies to those who would, without threat of real consequences, infringe this property).
207 Bhatnagar, supra note 158.
208 Id.
209 Campbell & Pecht, supra note 34, at 87.
210 Trademark Law, supra note 42, art. 44.
212 Campbell & Pecht, supra note 34, at 87-88.
In addition to registering their trademark name in English, it is also essential that companies simultaneously register a Chinese name for their trademark. The importance of this action is demonstrated by Pfizer’s experience with its Viagra trademark in China. When it was first publicized internationally, the Chinese media gave Viagra the Chinese name Weige (伟哥), a homophone for Viagra meaning “great older brother.” The Chinese public became familiar with this name, which was then registered by Viamen, a Chinese company. Although Pfizer subsequently registered a Chinese trademark for Viagra, this trademark has not been nearly as successful as the Weige mark. Additionally, despite its vast financial and legal resources, Pfizer has failed in all its attempts to gain ownership of the Weige mark and stop Viamen and others from using it. This failure has taken an enormous financial toll on Pfizer. “[C]ounterfeits with the Weige trademark now account for seventy to eighty percent of all erectile dysfunction drugs in China,” resulting in astronomical losses for Pfizer.

Once companies register their trademarks, they must continue to take strong offensive and defensive action to protect them. Specifically, experts have recommended carefully researching the IP landscape and conducting due diligence to identify infringers. When infringers are found, companies should then use China’s increasingly powerful IP enforcement system to vigorously prosecute them.

B. Promote Your Trademarks!

The second lesson from In-N-Out Burger’s dispute with CaliBurger is that businesses wishing to protect their trademarks should undertake advertisements and other activities designed to boost awareness of the marks among the Chinese public. The Sotheby’s case demonstrates that Chinese courts are willing to extend well-known status to marks that have been advertised and promoted in China, even if the marks are not and will not be used in the country. Furthermore, as

213 Daniel Chow, supra 155, at 100.

214 Id. at 84.

215 Id. at 101 (emphasis added). The estimated value for counterfeit Viagra is estimated at over 240 million dollars, while sales of Viagra under Pfizer’s legitimate trademark in 2004 were only worth 12.1 million dollars. Id

216 Surh, supra note 1.

217 Anthony C. Chen, supra note 51; Surh, supra note 1.


220 Id.
commentators have stated, “in actual practice, the courts appear to focus primarily on the trademark owners’ promotion and use of their marks within China.”

Although In-N-Out Burger had no presence in China prior to its dispute with CaliBurger, its pop-up events show that it is already beginning to take this advice to heart. These events should not only help In-N-Out Burger control its brand, but they should also build consumer awareness and provide at least some ammunition to try and establish well-known mark status among the Chinese public.

In addition to protecting IP rights, these actions can also position companies to better compete in the Chinese market if they choose to enter it. Experts have noted that actively building and leveraging IP rights in China provides numerous opportunities for foreign business to expand their Chinese market share. Conversely, companies unprepared to pursue their IP rights in China stand at a marked disadvantage.

The fact that In-N-Out Burger does not plan to expand into China makes these lessons no less illuminating. Even if In-N-Out Burger does not ever move into China, it is unlikely that it wishes to compromise and provide—for free—the trademarks and the goodwill it has spent decades investing into them. Eventually businesses will have to decide whether the cost of registration and promotion in China outweighs the danger of forfeiting their IP rights. Given the difficulty the Chinese system imposes on reclaiming trademarks registered by another, and the possibility of losing control over cherished trademarks within the world’s second largest economy, it seems clear what most businesses will decide.

V. CONCLUSION

China’s problems with piracy are well known. The most troubling aspect of the dispute between In-N-Out and CaliBurger, however, is not that the Chinese system cannot be effectively used. The exact opposite is true—the system can be used, and it can be used against trademark holders.

CaliBurger did not seek to skirt China’s IP law; rather, its plan depended on actively exploiting this system. It took refuge under territoriality, China’s first-to-register system, and the difficulty of proving bad faith registration. With no presence in China and absolutely no plans to establish such a presence, In-N-Out was taken by surprise and left with no effective avenue to challenge CaliBurger’s actions. Under the shield provided by the Chinese system, CaliBurger was able to take control of In-N-Out most prized and zealously guarded assets, and even In-N-Out Burger’s most aggressive actions ultimately provided little relief.

Despite Chinese IP initiatives and advances, it is likely that such attacks will continue. In fact, CaliBurger’s actions show that such attacks

221 Id. at 447.
222 Anthony C. Chen, supra note 51.
are becoming increasingly sophisticated. The restaurant’s founders were well funded, legally astute, eager for exponential growth, and capable of conducting activities from abroad across several different nations. Such a challenger presents a real threat to any business’ prized trademark assets, even without considering the harm it could do in China’s massive and ever-growing market.

Ultimately, the battle between these burger behemoths shows that trademark holders—even those with no actual interest in the Chinese market—must be willing to register and promote their trademarks in China. In this way they can take up the shield provided by the Chinese system before attackers can use it to hold their trademarks over the grill.

**Epilogue**

On November 10, 2012, the author visited CaliBurger in Shanghai. While finding it, the author discovered that the restaurant had moved to a much smaller location. The décor of CaliBurger’s new location no longer contained the grey and black tile common to In-N-Out Burger restaurants. In addition to the change in location and decor, the author discovered that many of the unique menu items originally advertised as CaliBurger specialties, such as California wines and bourbon spiked shakes, were no longer offered. Other items such as chicken and fish sandwiches, however, had been added to the menu.

These changes were all reflected in CaliBurger’s website, which was radically altered and simplified in the time between the beginning of the author’s inquiry and his visit to the restaurant itself. Most notably, the above specialty menu items were no longer listed, never-frozen beef and fresh-cut French fries were no longer explicitly highlighted, links to stories concerning CaliBurger’s dispute with In-N-Out Burger had been removed, plans for dramatic international expansion were no longer discussed, and all references to the “CaliBurger Girls” had been dropped. Furthermore, the address of the website itself was changed from www.caliburger.asia to www.caliburger.cn, and all links to the original website content were either broken or redirected to the revised website.

Although it is impossible to know the exact reasons behind these developments, they seem to indicate that CaliBurger might have faced difficulty achieving its initial development goals and is adjusting its business model. Even if this is the case, however, it does not change the necessity for businesses to be conscious of and take effective protections

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225 Id.
against potential threats in the Chinese market. Trademarks are too important to brand-protective companies such as In-N-Out to gamble on whether would-be free riders can effectively co-opt and market those trademarks.