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Basics Track: FRANCHISOR'S INTELLECTUAL PROPERTY AND HOW TO PROTECT IT.

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I. INTRODUCTION

Intellectual property (or “IP”) is *exciting*. This is not something that can be said about every area of law. New technology has only increased the prevalence of IP in society, culture, and everyday life. As new Hollywood hitters such as Netflix and the recently-anointed “richest man in history”¹ (Amazon.com Founder Jeff Bezos) can easily attest, technology has made it possible for (a) certain IP-driven industries to welcome new players to the table, and (b) IP creators and owners to quickly set up, market and commence distributing their works or products that are oft times protected under one (1) or more categories.

While IP arguably has that certain “cool factor” across all industries, franchising is one of the few areas of the law that is both statutorily and practically linked to a trademark and certain other intangible property in everyday life and everyday legal representation. That this paper sets out to discuss. Despite the unavoidable collision of IP law and franchising, many franchise lawyers shy away from what they consider to be “IP-Related Issues” other than updating Items 13 and 14 of the client’s franchise disclosure document (or “FDD”) each year.

In hope of combatting some of the common fears associated with tackling IP issues, this paper largely focuses on the ways that counsel (whether in-house or outside) can protect a franchisor’s IP. Of course, we will also provide a brief “primer” on the different kinds of IP and corresponding criteria, rights and remedies associated with the same. But the primary goal of this paper is to arm counsel (or whomever is managing franchisor’s IP portfolio) so that he or she is prepared to handle many of the common IP-related issues and disputes that a franchisor might encounter.

Certain IP, namely trademarks and the “proprietary information” comprising a given franchisor’s proprietary system of operations (a “System”), are typically of greater importance in the context of franchising than other kinds of IP that are more model specific (such as patents), and the content and instruction set forth in this paper has been weighted accordingly to spend more time discussing the kinds of IP that are prevalent amongst most franchisors.

With that in mind, this paper first explains the primary categories of IP, along with (a) examples of each kind of IP protected, (b) the eligibility requirements for each kind of IP to be protected under applicable law, and (c) the protections that are afforded your franchisor client in connection with each kind of eligible IP it owns or otherwise licenses as part of its franchise offering.

From there, the goal is to provide a breakdown the scope of legal work that franchise counsel should be prepared to undertake on behalf of a franchisor client to ensure franchisor’s intellectual property rights are adequately protected, as well as properly disclosed or otherwise addressed in its FDD and other franchise-related legal documents, into the following “stages” that counsel will encounter when representing a franchisor over what will hopefully be a long and trusted client relationship:

- (i) the initial evaluation and organization of a franchisor’s IP portfolio when onboarding or otherwise;
- (ii) taking “Proactive Protection” measures designed to maximize the franchisor’s scope and level of protection with respect to that IP which is important to the franchise concept, as well as ensuring that such IP is properly disclosed or otherwise accounted for in the franchisor’s FDD and other legal documents associated with the franchise offering, on a *proactive* basis to the extent possible;
- (iii) undertaking “Reactive Protection” – much of which relies upon the Proactive Protection measures above – necessary to address any (a) actual or threatened infringement, challenge or violation of the franchisor’s IP rights, or (b) other situations where franchisor’s IP might be at risk.

As you read this paper, there are two (2) things we would like to mention at the outset. First, we wrote this paper with the adage “An ounce of Prevention is worth a pound of Cure” in mind, with a strong practical focus on the initial and other proactive methods that franchise counsel – whether outside or in-house – should be considering.

With regards to the “in-house” vs. “outside” counsel distinction, this paper’s references to “franchisor counsel” and “client” is not in any way meant to give the impression that the same legal analysis, evaluations and methods set forth below will not equally serve in-house counsel when protecting its franchisor “employer” rather than its “client”.

II. OVERVIEW OF RELEVANT INTELLECTUAL PROPERTY AND LEGAL FRAMEWORK FOR ASSOCIATED RIGHTS

Despite intellectual property being at the very core of franchising, many franchise attorneys shy away from certain IP work. For some, that may be because they are at a larger firm that has an intellectual property department to route such matters too, but for others the reluctance to take on such work is often rooted in a fear that their lack of the statutory and other legal framework may impede their ability to counsel the client effectively. In smaller and mid-size firms, this can mean referring the IP-related work to another firm – which is not ideal from a short-term and potentially long-term business perspective (as this other firm could ultimately take on all of the client’s work).

The goal of this Section is to navigate the complex statutes and other law surrounding the primary types of intellectual property from a “5,000 foot view,” while recognizing that the complexity of this legal framework. While we take a deeper dive from time to time on subject matter and issues that we believe are of particular importance to counsel when establishing and/or defending his or her franchisor client, the primary purpose of this Section is to provide an overall picture of the different IP categories and how they are protected.

To accomplish this, we aim to provide a succinct discussion on the following points with respect to the four (4) primary categories of intellectual property, (namely, trademarks, copyrights, trade secrets (and other proprietary information and patents): (i) what the IP protects and examples of such IP; (ii) the primary statute or other law that affords the IP protection; (iii) when and how the ownership in the IP originates; and (iv) degrees of protection that can be sought regarding the IP and an overview of how that affects the scope of protection it is afforded.

A. TRADEMARKS

It is difficult to overstate the importance of trademarks to franchising, given the FTC's definition of a "franchise" under its Amended Rule on Franchising (the "Rule") specifically provides that the licensing of a mark is one (1) of just three (3) criteria that must be involved in order for a contract or other business arrangement to constitute a "franchise" under federal law². It is also arguably the most straightforward element of the FTC's "franchise test," given the various complexities and disparities amongst state interpretations that often come into play when analyzing whether the other two (2) elements of a franchise – payment of a "franchise fee" and provision of marketing support or supervision – are present.

Accordingly, it is not surprising that franchisor's need to protect its trademark portfolio permeates various important (and often times, franchise-specific) issues regardless of where a franchisor is in its lifecycle. This Section touches on some of these issues, while also describing the fundamental aspects of (i) what is protected by trademark law, (ii) the criteria for a trademark to be eligible for protection under applicable law, and (iii) the protection(s) trademark law affords to the mark's owner and potential limitations on protection.

i. What Does Trademark Protect?

Most people traditionally associate trademark protection with a word, phrase and/or logo (design mark) that is used to identify the source of a particular line of products³, chain of retail or restaurant locations⁴ and/or other line of services⁵. While the foregoing are indeed protected by trademark law, so are slogans, certain names (but not necessarily surnames), the shape of a product's container (provided it is not functional)⁶, and even at times a particular scent or music jingle (or other series of notes).⁷

The Lanham Act purposefully describes the universe of things that can qualify as a trademark in the broadest of terms⁸, defining trademarks to include "any word, name, symbol, or device, or any combination thereof."⁹ In *Qualitex*, the U.S. Supreme Court reasoned that "Since human beings might use as a 'symbol' or 'device' almost anything at all that is capable of carrying meaning, this language, read literally, is not restrictive." Over the years, federal courts, the USPTO, and Trademark Trial and Appeal Board (or "TTAB") – the USPTO's appellate authority¹⁰ – have found everything from a particular bottle shape to the scent of sewing thread to a particular identifying sound or jingle to qualify as trademarks or service marks.¹¹

Below is an overview of the various kind of items that can constitute a trademark, as well as general and franchise-specific examples of the same. Any of the following items that your client might seek to use and/or register as a trademark will be referred to collectively as a “Mark” for purposes of this paper:

Trademark Type	Franchise-Specific Examples
Word Mark	McDONALD'S
Logo Mark	
Slogan or Tagline Mark	I'M LOVIN' IT
Sound Mark	“A B C E D” notes played in succession (think: dada da da daaaaah)
Combination Mark	

Trademarks are marks that are tied to a product, whereas “service marks” serve to identify and distinguishes the services provided by a given business. Both kinds of marks are often part of a franchisor’s IP portfolio.

Please note that a given Mark, depending on type, may also be entitled to copyright or other kind(s) of IP protection described in this paper. By way of example, Combination Marks such as the Combination Mark noted above used in connection with the brand is also above may also be protectable by copyright.¹²

ii. Eligibility for Trademark Protection under Applicable Law

In 1946, Congress passed the Lanham Act.¹³ The Lanham Act defines federal trademark protection and trademark registration rules. The Lanham Act grants the United States Patent and Trademark Office (“USPTO”) administrative authority over trademark registration. More recent developments in U.S. trademark law include the adoption of the Federal Trademark Dilution Act of 1995¹⁴, the 1999 Anti-cybersquatting Consumer Protection Act¹⁵, and the Trademark Dilution Revision Act of 2006.¹⁶

The reason the trademark law goes hand in hand with franchising from a practical perspective is because the former is designed to protect the goodwill associated with a client’s Mark and at the same time help the average purchasing public to identify the source of the things they purchase. As the U.S. Supreme Court opined in 1995:

In principle, trademark law, by preventing others from copying a source-identifying mark, reduces the customer’s costs of shopping and making purchasing decisions, for it quickly and easily assures a potential customer

that this item—the item with this mark—is made by the same producer as other similarly marked items that he or she liked (or disliked) in the past. At the same time, the law helps assure a producer that it (and not an imitating competitor) will reap the financial, reputation-related rewards associated with a desirable product. The law thereby encourages the production of quality products and simultaneously discourages those who hope to sell inferior products by capitalizing on a consumer's inability quickly to evaluate the quality of an item offered for sale.¹⁷

For a given Mark to be eligible for trademark protection in the United States, that Mark must be: (1) distinctive¹⁸ or capable of acquiring distinctiveness¹⁹ with respect to the goods and/or services that franchisor uses (or intends to use) the Mark in connection with; and (2) used in U.S. commerce in connection with those goods and services²⁰, except in very specific situations.²¹

1. Distinctiveness of a Mark

Under the Lanham Act, it is the ability of a Mark to identify and distinguish the source of a given product or services that permits it to serve the basic purposes of trademark law.²² Importantly, the “ontological status” of the Mark, whether that is a color, shape, fragrance, word, sign/insignia or any combination thereof, should not be dispositive²³ or even heavily factored into the analysis of whether a Mark is “source-distinguishing” and therefore eligible for protection if used in commerce as described below.

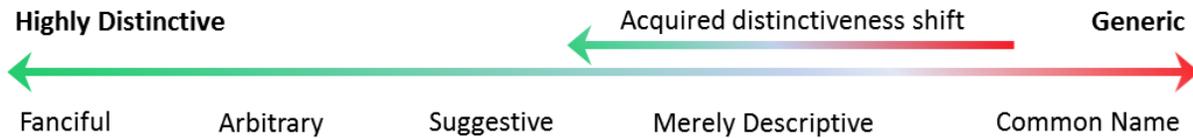
Because the Lanham Act surprisingly does not define the term “distinctiveness”²⁴, counsel must have a strong grasp of the arguments and legal precedent involved in making this determination for franchisor’s Mark(s) given the various situations where it will come into play when undertaking many of the “Proactive” and “Reactive” protection measures described below.

2. Spectrum of Distinctiveness and Trademark Continuum

One of the first proposals to conceptualize “distinctiveness” was made by Judge Friendly of the Second Circuit Court of Appeals in 1976 when he suggested that all Marks could be broken down into five (5) categories, namely, generic, descriptive, suggestive, arbitrary and fanciful.²⁵ These categories still serve as the primary base points along what most commentators and courts refer to today as the “Trademark Continuum,” an illustration of which is set forth below, and which is used to determine the relative strength of a Mark and whether it is eligible for protection under the Lanham Act.

Distinctiveness / Descriptiveness Continuum

(from TMEP § 1209.01)



The Continuum above can be understood in connection with the following general legal principles originally offered by Judge Friendly and expounded upon and refined by courts and the Trademark Trial and Appeal Board (“TTAB”), which is the administrative board that handles *ex-parte* appeals of USPTO decisions and adversarial proceedings to oppose or cancel a Mark’s federal registration (as discussed more fully below):

- Generic Marks are not entitled to protection under any circumstances,²⁶ and certain Marks may become generic over time if they are not properly monitored, controlled and/or enforced.²⁷
- Descriptive Marks are not entitled to protection unless they have acquired “secondary meaning” with respect to the goods/services provided under that Mark.
- The two (2) principles above can apply to certain terms or components of a given Mark that are generic or descriptive, with the USPTO having the authority to require that the Mark owner to “disclaim” any exclusive right to use the generic or descriptive component(s) of the Mark (apart from contexts in which the term is used as part of the Mark as a whole) as a condition to approving a Mark’s application for federal registration²⁸. By way of example, a franchisor may be required to disclaim the term “Burritos” or “Brewery” if these kinds of generic terms appear in a Mark they are applying to register with the USPTO – but franchisor will still have the exclusive right to use such terms as part of their entire mark (*e.g.*, BUBBAKOO’S BURRITOS, LUMBERJACKS BREWING).²⁹
- The last three (3) categories of Marks in the Trademark Continuum – suggestive, arbitrary and fanciful – are “inherently distinctive” and therefore always eligible for registration and protection under trademark law³⁰.
 - o Fanciful Marks are typically “coined” or made-up words “invented solely to function as a trademark”.³¹ Primary examples include KODAK film and CLOROX bleach.³²
 - o Arbitrary Marks consist of common words in our language that have nothing to do with the goods or services provided under that Mark³³. Examples include CAMEL cigarettes and BLACK AND WHITE scotch whiskey.³⁴

- Suggestive Marks suggest something about the products or services offered under the Mark, but require the consumer to exercise some imagination, though, or perception to determine the type of product or service sold under the Mark.³⁵ We discuss the foregoing “imagination test” a bit more in below under the heading of “Prosecuting Federal Trademark Application,” along with other tests that are commonly used to demonstrate whether a Mark is “suggestive” or “merely descriptive” (and therefore not eligible for federal trademark protection). For now, examples of suggestive Marks including TIDE laundry detergent, CITIBANK banking services and ROACH MOTEL for insect traps³⁶.

As the term “TM Continuum” suggests, the lines of demarcation between the five (5) categories above are “not always bright” and the corresponding labels are “frequently difficult to apply” when analyzing a given Mark.³⁷

With that said, the general rule regarding “distinctiveness” is that an identifying Mark is distinctive and capable of being protected if it (a) is inherently distinctive, or (b) has acquired distinctiveness through secondary meaning³⁸. When conducting whether or not a Mark falls into one of these “buckets” of distinctiveness, however, counsel must remember that the Mark’s classification is entirely dependent upon the relationship that Mark has to the product or service being provided thereunder.³⁹

Inherently Distinctive Marks

Trademark laws protect fanciful, arbitrary and suggestive Marks “because their intrinsic nature serves to identify a particular source of product or service.⁴⁰ In the minds of the average purchasing public⁴¹, these kinds of marks immediately “signal a brand or product ‘source.’”⁴²

Descriptive Marks, Secondary Meaning and Potential for Acquired Distinctiveness

Unlike inherently distinct Marks, descriptive marks directly and immediately convey something about the product or service sold under the Mark to the relevant purchasing public, which may be: (i) any essential quality, characteristic of ingredient of the product/service; (ii) the subject matter, purpose function, use, size, merit, quantity, capacity, or class of intended purchasers of the product/service; or (iii) the end effect of the product or service offered under the Mark upon the consumer/user⁴³. Such Marks do not require the purchaser to exercise any imagination to immediately understand the product or service sold under the Mark. Commonly cited examples of merely descriptive Marks include (a) PARK N’ FLY for parking lot services near an airport⁴⁴, (b) ENTREPRENEUR for magazines, computer programs and manuals for entrepreneurs⁴⁵, and (c) THE SPORTING NEWS for a weekly sports publication.⁴⁶

The descriptive category of the Trademark Continuum also includes: (i) laudatory Marks and phrases designed to describe the alleged merit of a product or service, such as THE BEST BEER IN AMERICA⁴⁷; and (ii) Marks that merely describe the geographic origin or a product (such as GEORGIA PEACHES⁴⁸) or ethnic/national community that is related to the product (such as JAPAN for telecommunication services⁴⁹). A franchisor's trade dress comprised of product designs, colors and sometimes personal names do not technically describe the attributes of the franchisor's menu items or other products/services, but they are nevertheless typically analogized to "descriptive" Marks and only given protection under the Lanham Act upon a showing of secondary meaning⁵⁰.

If the descriptive category seems a bit larger than the others, that is likely the intent under U.S. trademark law, in part, because Section 2(f) specifically provides that nothing in the Lanham Act or trademark law shall prevent certain Marks that started out as merely descriptive from becoming distinctive of the applicant's goods or services in commerce.

To accomplish this, the Mark or portion of the Mark that is descriptive must gain a secondary meaning amongst the average purchasing public.⁵¹ The crux of the secondary meaning doctrine is that the Mark comes to identify not only the goods but the source of those goods.⁵² To establish secondary meaning for a franchisor client, this means that the counsel must demonstrate that the primary significance of the term in the minds of the consuming public is not the menu item, other product or service being offered, but the franchisor/brand itself⁵³. Three basic categories of evidence may be used to establish acquired distinctiveness under §2(f) for a trademark or service mark, namely:

- *Prior Registrations* -- A claim of ownership of one (1) or more active prior registrations on the Principal Register of the same Mark for goods or services that are sufficiently similar to those identified in the pending application⁵⁴;
- *Five Years of Substantially Exclusive and Continuous Use* – A verified statement that the Mark has become distinctive of the applicant's goods or services by reason of the applicant's substantially exclusive and continuous use of the mark in commerce for the five years before the date on which the claim of distinctiveness is made⁵⁵; and
- *Other appropriate evidence* of acquired distinctiveness detailed in 37 C.F.R. §2.41(a)(3) and TMEP §§1212.06–1212.06(e)(iv)), which may include: (i) survey evidence from the relevant purchasing public demonstrating that when they see the Mark they associate it with franchisor⁵⁶; and (ii) evidence that franchisor has expended substantial amounts of time and resources over the past "X" number of years in an effort to acquire "secondary meaning" in the marketplace; (iii) the volume of sales under the Mark; and/or (iv) the length and manner of the Mark's use⁵⁷.

While we discuss the prosecution of a federal trademark application in more detail below, it is important to highlight here that the examining attorney may determine that a franchisor client's claim of (a) ownership of a prior registration(s), and/or (b) claim of five

years' substantially exclusive and continuous use in commerce, is still insufficient to establish a prima facie case of acquired distinctiveness. In that case, franchisor can attempt to submit additional evidence it deems appropriate to demonstrate "secondary meaning" or work with counsel, marketing team and other advisors to modify the Mark to make the Mark (or at least some portion of it) inherently distinctive.

By way of example, the Mark HOLIDAY INN acquired secondary meaning because the consuming public associates that term with a particular provider of hotel services, and not with hotel services in general.⁵⁸ The public need not be able to identify the specific producer; only that the product or service comes from a single producer.⁵⁹

Knowing where franchisor's Mark falls on the Trademark Continuum is of paramount importance when: (i) advising your client on whether the Mark is eligible for protection and what, if any, modifier might be added to achieve "distinctiveness" as a whole; and (ii) determining the relative "strength" of the franchisor's Mark, which could be a primary factor when analyzing whether franchisor is entitled to preclude third parties from using any Mark that franchisor believes is confusingly similar.⁶⁰

3. Establishing Use of Franchisor's Mark in Commerce to Acquire Protection

Assuming that a Mark qualifies for protection, rights thereto can be acquired in two (2) ways: (1) by being the first to use the Mark in commerce; or (2) by being the first to register the Mark with the USPTO⁶¹. Remember, however, that descriptive marks qualify for protection (and can be registered) only after they have acquired secondary meaning. Thus, for descriptive marks, there may be a period after the initial use of the mark in commerce and before it acquires secondary meaning, during which it is not entitled to trademark protection.⁶²

At what point a Mark is deemed to be in "used" in commerce depends on whether franchisor is seeking to register the Mark with the USPTO. Trademark protection under the Lanham Act requires that: (i) the Mark be used in commerce in connection with a good or service; and (ii) be used in interstate commerce in order to obtain a federal trademark registration.⁶³ The use in commerce must rise above a level of casual, sporadic, and *de minimis* use of the Mark in connection with the goods or services that franchisor wishes to protect.⁶⁴

If the Mark is the vessel that a franchisor or other provider relies upon as part of its business model, then the date the Mark at issue was first used in connection with the products or services it wishes to protect is the anchor. This is the date that franchisor can trace back to in order to determine whether it has priority and senior use as compared to any third-party use of a similar Mark. This date also typically serves as the basis for filing a federal trademark application with the USPTO⁶⁵, as the legal principle "first in time, first in right" generally applies to trademark rights in the United States.⁶⁶

The date a franchisor client can assert as its “date of first use in commerce” also depends on whether the Mark at issue is being used in connection with goods/products or services. The chart below details how to determine if and when your franchisor client has used a given Mark “in commerce” with respect to its products and/or services, as well as some examples of what might serve as an acceptable specimen to demonstrate use with the USPTO:

Mark Used in Connection With?	Date of First Use	Acceptable Specimens ⁶⁷
Products/Goods	Date that product or good was first sold or otherwise shipped across state lines. No phantom, sporadic or spontaneous sales.	Product packaging; display cases with decals; point-of-sale marketing materials; POS branding in close proximity to e-commerce purchase point
Services	Date that services affect interstate commerce (if bricks and mortar). Date that services were provided in more than one state or across state lines (if mobile-based).	Website branding; social media accounts with proper branding; store or other business signage (interior or exterior); marketing materials (direct mail, digital media, door hangers); menus and similar signage summarizing services

4. Federal Trademark Protection and Related Benefits

Once acquired, trademark rights may be registered with the USPTO. The Lanham Act gives a seller or producer the exclusive right to "register" a trademark⁶⁸, and take advantage of the remedies available to such federal trademark rights designed to prevent his or her competitors from using that trademark.⁶⁹

While both registered and non-registered Marks are entitled to protection under the Lanham Act, federal registration affords the Mark’s owner the following advantages⁷⁰:

- Nationwide trademark rights and priority as of registration date;
- Presumption of validity and *prima facie* evidence thereof;
- The owner listed on the registration is presumed to be the true owner of the trademark rights;
- Presumption that the mark has not been "abandoned" through non-use of the Mark in commerce;
- Access to federal courts for litigating trademark infringement;
- After five years of unopposed registration, a trademark is eligible to become "incontestable." An incontestable mark cannot be challenged by a third party in federal court or the TTAB absent proof of fraud, generic-ness or a few other select (and hard to demonstrate) grounds for said challenge;
- Constructive notice precluding third-party infringer(s) from claiming they were unaware of a registered trademark;
- Enhanced remedies for infringement, including the possibility of triple damages and criminal penalties for counterfeiting (if your client can demonstrate a higher degree of culpability or intent on the part of the third-party counterfeiter); and

- The right to have the U.S. Customs Service prevent others from importing goods bearing infringing marks⁷¹

5. Principal vs. Supplemental Register

If a Mark is deemed descriptive and not registerable on the Principal Register, franchisor may be able to acquire certain additional rights beyond what common law protection provides if the client is able to register the allegedly descriptive Mark on the Supplemental Register. The USPTO will only permit registration of descriptive Marks that it believes (a) might be capable of acquiring secondary meaning at some point in the future once it had been used in commerce for a particular period of time, and (b) are not confusingly similar to any third-party mark that is the subject of a prior registration or previously-filed pending application on file with the USPTO⁷². Below please find a quick comparison detailing the similarities and differences between registering on the Principal vs. Supplemental Register⁷³:

Comparison of U.S. Trademark Registers		
	<i>Principal</i>	<i>Supplemental</i>
Distinctiveness required?	Yes	No
Distinctive marks eligible for registration?	Yes	No
Gives prima facie evidence of ownership and use?	Yes	No
Can achieve incontestability?	Yes	No
Published for opposition?	Yes	No
Based on intent to use?	Yes	No
Based on foreign registration?	Yes	Yes
Can use indicia of registration—®?	Yes	Yes
Bar to subsequent applications for registration?	Yes	Yes

iii. **What Rights and Remedies Does TM Protection Afford Franchisor?**

Trademark Infringement Actions

If a party owns the rights to a particular trademark, that party can sue subsequent parties for trademark infringement.⁷⁴

A Mark used in connection with the sale of a good constitutes infringement if it is likely to cause consumer confusion as to the source of those goods or as to the sponsorship or approval of such goods.⁷⁵

While courts have created and employed a handful of primary tests to determine likelihood of confusion (or “LOC”) tests to analyze whether two (2) or more Marks are confusingly similar to each other and therefore likely to cause confusion in the

marketplace as to source of the product/services offered and sold under those respective Marks. To make this determination, courts typically look to a number of factors, including: (1) the strength of the mark; (2) the proximity of the goods; (3) the similarity of the marks; (4) evidence of actual confusion; (5) the similarity of marketing channels used; (6) the degree of caution exercised by the typical purchaser; (7) the defendant's intent.⁷⁶

For example, the use of an identical mark on the same product would clearly constitute infringement. On the other end of the spectrum, using the same term on a completely unrelated product will not likely give rise to an infringement claim. Thus, APPLE for computers and mobile phones is not likely to cause confusion with APPLE VACATIONS for travel agency services and the two (2) marks can peacefully co-exist as a practical matter, as the purchasing public is not likely to believe that a travel agency is the manufacturer of their latest mobile technology (or vice versa).

Between the two (2) ends of the spectrum lie many close cases, in which the courts will apply some or all of the factors listed above (and afford them different weight depending on the circumstances).

Trademark Dilution

In addition to bringing an action for infringement, owners of trademarks can also bring an action for trademark dilution under either federal or state law. Under federal law, a dilution claim can be brought only if the mark is "famous." In deciding whether a mark is famous, the courts will look to the following factors: (1) the degree of inherent or acquired distinctiveness; (2) the duration and extent of use; (3) the amount of advertising and publicity; (4) the geographic extent of the market; (5) the channels of trade; (6) the degree of recognition in trading areas; (7) any use of similar marks by third parties; (8) whether the mark is registered.⁷⁷

Under state law, a mark need not be famous in order to give rise to a dilution claim. Instead, dilution is available if: (1) the mark has "selling power" or, in other words, a distinctive quality; and (2) the two marks are substantially similar.⁷⁸

Once the prerequisites for a dilution claim are satisfied, the owner of a mark can bring an action against any use of that mark that dilutes the distinctive quality of that mark, either through "blurring" or "tarnishment" of that mark; unlike an infringement claim, likelihood of confusion is not necessary. Blurring occurs when the power of the mark is weakened through its identification with dissimilar goods. For example, KODAK brand sunglasses or XEROX brand candles. Although neither example is likely to cause confusion among consumers, each dilutes the distinctive quality of the mark.

Tarnishment occurs when the mark is cast in an unflattering light, typically through its association with inferior or unseemly products or services. By way of example, the former retail giant Toys "R" Us successfully brought a tarnishment claim against the owner of ADULTSRUS.COM, a pornographic web-site.⁷⁹

Other Potential Actions

Although likelihood of confusion and dilution are the two (2) main trademark-related causes of action, there exist a number of additional state-law causes of action under state unfair competition law: passing off, contributory passing off, reverse passing off, and misappropriation.

Passing off occurs when the defendant tries to pass off its product as the plaintiff's product.⁸⁰ Contributory passing off occurs when the defendant assists or induces another (typically a retailer) to pass off its product as the plaintiff's product,⁸¹ while reverse passing off occurs when the defendant tries to pass off the plaintiff's product as its own.⁸²

Fair Use and Parody Defenses

Defendants in a trademark infringement or dilution claim can assert basically two types of affirmative defense: fair use or parody.

Fair use occurs when a descriptive mark is used in good faith for its primary, rather than secondary, meaning, and no consumer confusion is likely to result. So, for example, a cereal manufacturer may be able to describe its cereal as consisting of "all bran," without infringing upon Kellogg's rights in the mark "All Bran." Such a use is purely descriptive, and does not invoke the secondary meaning of the mark. Similarly, a court held that the defendant's use of "fish fry" to describe a batter coating for fish was fair use and did not infringe upon the plaintiff's Mark FISH FRY.⁸³ Such uses are privileged because they use the terms only in their purely descriptive sense.

Some courts have recognized a somewhat different, but closely-related, fair-use defense, called nominative use. Nominative use occurs when use of a term is necessary for purposes of identifying another producer's product, not the user's own product. For example, in a recent case, the newspaper USA Today ran a telephone poll, asking its readers to vote for their favorite member of the music group New Kids on the Block. The New Kids on the Block sued USA Today for trademark infringement. The court held that the use of the trademark NEW KIDS ON THE BLOCK was a privileged nominative use of the arguably-famous Mark (at that time at least) because: (1) the group was not readily identifiable without using the mark; (2) USA Today used only so much of the mark as reasonably necessary to identify it; and (3) there was no suggestion of endorsement or sponsorship by the group. The basic idea is that use of a trademark is sometimes necessary to identify and talk about another party's products and services. When the above conditions are met, such a use will be privileged.⁸⁴

Lastly, certain Mark parodies may be permissible if they are not too directly tied to commercial use. The basic idea here is that artistic and editorial parodies of Marks serve a valuable critical function, and that this critical function is entitled to some degree of First Amendment protection. The courts have adopted different ways of incorporating such First Amendment interests into the analysis. For example, some courts have applied the general "likelihood of confusion" analysis, using the First Amendment as a factor in the

analysis⁸⁵, while others have expressly balanced First Amendment considerations against the degree of likely confusion. Still other courts have held that the First Amendment effectively trumps trademark law, under certain circumstances⁸⁶. In general, however, the courts appear to be more sympathetic to the extent that parodies are less commercial, and less sympathetic to the extent that parodies involve commercial use of the mark.

Remedies Available to Trademark Owner

Successful plaintiffs are entitled to a wide range of remedies under federal law. Such plaintiffs are routinely awarded injunctions against further infringing or diluting use of the trademark.⁸⁷

In trademark infringement suits, monetary relief may also be available, including: (1) defendant's profits, (2) damages sustained by the plaintiff, and (3) the costs of the action.⁸⁸Damages may be trebled upon showing of bad faith. In trademark dilution suits, however, damages are available only if the defendant willfully traded on the plaintiff's goodwill in using the mark. Otherwise, plaintiffs in a dilution action are limited to injunctive relief.⁸⁹

B. Copyrights

i. What does Copyright Protect?

The U.S. Copyright Office, quoting the U.S. Copyright Act (the "Copyright Act"), sets forth the following as the primary categories of copyrightable works:

Type	General Examples	Franchise-Specific Examples
Literary works	Book entitled "The Pelican Brief" by John Grisham	Operations Manual; source code to proprietary point-of-sale ("POS") software
Musical works (and words thereto)	The hit song "Whatever It Takes" by Imagine Dragons	Mister Softee Jingle ⁹⁰
Dramatic Works ⁹¹	Shakespeare's "Romeo and Juliet"	Taco Bell's new "Nacho Fries" commercials.
Pantomines and other choreographic works	Ice Skating Routine Performed at the Winter Olympics	Fitness concept's training instruction made available via online streaming
Pictorial, graphic and sculptural works	Painting entitled "Mona Lisa" by Leonardo da Vinci	Mascots; trade dress

Motion pictures and other audiovisual works	Recent hit movie entitled “Black Panther”	T.V. Commercial to promote the franchise brand
Sound recordings, which are works that result from fixation of a series of musical, spoken or other sounds	Any digital music track from iTunes	Reba McEntyre’s rendition of the KFC tagline ⁹²
Architectural Works	Monticello (and associated drawings, designs and layouts)	The template plans and designs for a prototype franchised location

The Copyright Act does not have overly strict definitions regarding what falls within the scope of each “type” of copyrightable work, and the Copyright Office even advises applicants that these categories should be viewed broadly when filing an application to register a client’s Work. For example, certain computer programs that franchisors develop for exclusive use in connection with their System (such as the POS System source code described in the foregoing table) might be registerable as a “literary work,” despite the fact that source code isn’t exactly Shakespeare.

Of particular import in the context of franchising, copyright law does not protect names, short phrases and slogans (such as “taglines”), product lettering and/or coloring and, perhaps most importantly, a mere listing of product ingredients or contents (which may apply to franchisor’s list of required purchases and/or approved suppliers).⁹³ This is because, in order to be protected by copyright, your client’s Work must contain at least a minimum amount of authorship in the form of original expression. Names, titles, and other short phrases are simply too minimal to meet these requirements.⁹⁴

Even if a franchisor client’s list of ingredients contained in a given menu item is not likely protectable, however, the proprietary recipe detailing how to make that menu item might be (assuming it is more than putting typical burger ingredients on a bun). At the same time, brand names, slogans and phrases that most franchisors really rely upon to drive their brand are potentially protectable under trademark law, subject to the analysis discussed elsewhere in this paper.

ii. Statutory or Other Primary Legal Framework

Copyright law in the United States is governed by federal statute, namely the Copyright Act of 1976.⁹⁵ The Copyright Act prevents the unauthorized copying of a work of authorship. However, only the copying of the work is prohibited – put differently, anyone may copy the ideas contained within a copyrighted work.⁹⁶

For example, a copyright could cover a written description of a franchisor’s proprietary methodologies set forth in the Operations Manual, but the actual methodologies themselves are not protected by copyright. Thus, no one could copy the written description, while anyone could use the description to implement (and misappropriate) the methodology in their own operations.⁹⁷

Copyrights can be registered in the Copyright Office in the Library of Congress, but newly created works do not need to be registered.⁹⁸ In fact, some commentators take the position that it is no longer necessary to even place a copyright notice on a work for it to be protected by copyright law.⁹⁹ However, the Copyright Act does provide additional benefits to those who register with the Copyright Office, as discussed more fully below.

Consequently, copyright registration and the use of a copyright notice is recommended given the relatively inexpensive cost and ease of filing, at least with respect to those items that a franchisor might only be using in connection with a one-time promotional campaign or other temporary activity that is unlikely to have value to the franchisor in the future.¹⁰⁰

iii. Eligibility for Copyright Protection

A copyrightable Work it must be "original", but the amount or degree of originality required (when compared to other previously-developed Works) is relatively small.¹⁰¹ The Work cannot be a mere mechanical reproduction of a previous Work, nor can the Work consists of only a few words or a short phrase. In addition, if the Work is a "compilation,"¹⁰²the compilation must involve some originality beyond mere alphabetic sorting of all available works (see the discussion on compilations below for more information). Beyond that, most works that are actually created or developed by an author will meet the originality requirement.

The other prong of copyright eligibility is that the Work must be fixed in a "tangible medium of expression."¹⁰³ Under the Copyright Act, a client's Work is considered fixed when it is stored on some medium in which it can be perceived, reproduced, or otherwise communicated.¹⁰⁴ For example, a song can be fixed by writing it down on a piece of paper. The paper is the medium on which the song can be perceived, reproduced and communicated. The medium need not be one that a human can even perceive the Work, as long as the Work can be perceived by a machine. Thus, the Mister Softee Jingle¹⁰⁵ was fixed the moment the author recorded it for the first time. Similarly, a computer program, including any software that might be proprietary or customized for a franchisor client, is deemed fixed when stored on a computer's memory.¹⁰⁶

No other actions are technically required for copyright protection. As with trademarks, there is no need to file an application for copyright protection – but such "formalities" come with benefits that could be important to your client.¹⁰⁷ The formalities of registration and notice (use of ©) still serve as recommended steps to expand the protection provided by U.S. copyright law.

iv. Work for Hire

"Work for hire" constitutes an interesting feature of copyright and plays some importance to franchisors. A work for hire arises when an employee or contract creates something capable of copyright protection, and, by virtue of such employment or performance under the contract, a copyright in the material inures to the employer or

contracting party.¹⁰⁸ Franchise agreements should contain a “work for hire” clause providing for the franchisor’s ownership of any creation a franchisee or its employees develop in the course of operating as a franchisee. These provisions should not only cover copyright, but also cover developments relating to every other form of intellectual property.

v. **Rights and Remedies Available to Copyright Owner under Applicable Law**

Rights Afforded a Copyright Owner

The U.S. Copyright Act grants certain exclusive rights to the owner of a copyright in a Work. It is important to note that these exclusive rights are different from the rights given to a person who merely owns a copy of the Work.¹⁰⁹

The Copyright Act grants five (5) enumerated and specific rights to a copyright owner, namely:

- the right to reproduce the copyrighted work;
- the right to prepare derivative works based upon the work;
- the right to distribute copies of the work to the public;
- the right to perform the copyrighted work publicly; and
- the right to display the copyrighted work publicly.¹¹⁰

The following Chart provides a bit more specificity regarding which economic rights above attach to each kind of copyrightable Work:

Literary, Dramatic or Musical Work	<ul style="list-style-type: none"> - to reproduce or store the Work - to issues copies to the public - to perform Work in public - to make cinematograph film or sound recording - to make a translation of the Work - to make an adaptation of the Work
Artistic Work	<ul style="list-style-type: none"> - to reproduce the Work - to communicate the Work to the public - to include the Work in a cinematograph film - to make adaptation of the Work
Cinematograph Work	<ul style="list-style-type: none"> - make copies of the Work - to communicate the Work to the public - to sell, license or engage third party to work further on Work - to communicate the Work to the public

Sound Recording Work	<ul style="list-style-type: none"> - to make any other sound recording that utilizes the Work - to sell or license the Work - to communicate that Work to the public
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The economic rights above are not without limit, however, as they are specifically limited by "fair use" and several other specific limitations set forth in the Copyright Act.

Brief Overview of Fair Use Doctrine

The doctrine of fair use was developed over the years as courts tried to balance the rights of copyright owners with society's interest in allowing copying in certain, limited circumstances. This doctrine has at its core a fundamental belief that not all copying should be banned, particularly in socially important endeavors such as criticism, news reporting, teaching, and research.

Although the doctrine of fair use was originally created by the judiciary, it is now set forth in the Copyright Act. Under the Act, four (4) factors are typically considered when determining whether a specific action is to be considered a "fair use." These factors are as follows:

- the purpose and character of the use, including whether such use is of commercial nature or is for nonprofit educational purposes;
- the nature of the copyrighted work;
- the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
- the effect of the use upon the potential market for or value of the copyrighted work.¹¹¹

While courts continue to struggle with bright line tests or clear limitations with respect to the fair use doctrine¹¹², the following are some traditional activities which have been used to illustrate when the fair use doctrine provides a defense to a copyright infringement claim:

- small excerpts in a review or criticism for purposes of illustration or comment;
- a parody which incorporates some elements (but not all) of the work being parodied;¹¹³
- quotations from a speech, address, or position paper in a news report;¹¹⁴and/or
- a limited copying made by a student for academic work.¹¹⁵

Sections 106 to 122, as well as Section 602, of the Copyright Act provide additional detail and a great breakdown of specific actions that constitute infringement of each type of copyrightable Work.¹¹⁶

Remedies Available to Copyright Owner

Under the Copyright Act, violating any of the exclusive rights afforded to the owner of a copyrighted Work grants the owner the right to seek:

- (i) injunctive relief to enjoin the infringing activity¹¹⁷;
- (ii) the impounding, destruction or other reasonable disposition of all subject matter created via the defendant's infringement of the copyrightable Work, as well as the remittance of all related sales and other documents related to such subject matter to the custody of the court¹¹⁸;
- (iii) actual damages suffered by the copyright owner due to the infringement, as well as disgorgement of the profits the infringer generated that is attributable to the infringement¹¹⁹; and
- (iv) in lieu of such actual damages and profits, any statutory damages in an amount between \$750 and (a) \$30,000, or (b) \$150,000 if the infringement is determined to be willful¹²⁰, as the court determines appropriate.¹²¹

Copyright owners may also seek reimbursement of its costs and attorneys' fees under the Copyright Act¹²², which is particularly important given the costs associated with prosecuting a typical copyright infringement action to adjudication. Given that copyright infringement actions are based on the federal Copyright Act, copyright owners typically bring such actions in federal court and claim "federal question" as the basis for subject matter jurisdiction.¹²³

C. Trade Secrets and Proprietary Information

The difference between a "trade secret" and "proprietary information" is often blurred and confusing to clients and their counsel alike. Not surprising given that most commentators' attempts to describe the potential overlap between these two kinds of IP, as well as how "confidential" information intersects with this analysis, sounds very much like a legalese version of Abbot and Costello's "Who's on First?".¹²⁴

To put it succinctly, commentators typically agree that, while most if not all "trade secrets" and "confidential information" will also be deemed the "proprietary information" of your client, not all "confidential information" or "proprietary information" will rise to the level of a "trade secret" and proprietary information may include information that is not secret in any way such that it is not "confidential information" (such as copyrighted materials and the subject matter of patents).¹²⁵

If the above waters already seem a bit murky, managing a client's expectations regarding what is and what is not protectable under each category, if any, of IP only further complicates matters. Looking at the franchise industry, often times a franchisor may view virtually everything it does or implements as its "super-secret sauce" to success – even

though certain components of a franchisor’s “brand philosophy” may not be protectable as either a trade secret or any other kind of proprietary information.

This Section attempts to provide some clarity and demarcate reliable on the lines between what constitutes a “trade secret” as opposed to “confidential information” or “proprietary information” under applicable law, in an effort to increase counsel’s ability to issue spot when (a) conducting its initial analysis of a franchisor client’s IP portfolio, and (b) subsequently engaging in the “proactive protection” and “reactive protection” legal strategies designed to protect these categories of IP, all of which is discussed in more detail later in this paper.

i. What Constitutes a Trade Secret?

Examples of trade secrets might include the following: engineering information; methods, processes, and know-how; tolerances and formulas; business and financial information; computer programs (particularly source code) and related information; pending, unpublished patent applications; business plans; budgets; methods of calculating costs and pricing; customer and supplier lists; internal marketing data; specifics concerning customers and suppliers; products and services in research and/or development; collections of data; and other information relating to a company’s business.

Any of those sound familiar? They should because many of the items described above are the same or substantially similar to the terms that franchise counsel uses to describe the components that comprise franchisor’s proprietary System that is licensed to franchisees under a typical franchise agreement. It takes more than just referencing these terms in a contract or disclosure document, however, for such data and information to be eligible for “trade secret” protection.¹²⁶

ii. Uniform Trade Secrets Act: Definition and Remedies for Misappropriation

Information and other data that rises to the level of a “trade secret” is typically protected by the Uniform Trade Secrets Act (“UTSA”), which has been adopted by 48 of the 50 states¹²⁷. The legislative intent of the UTSA was to help promote uniformity in terms of how trade secrets were defined and protected amongst the states.¹²⁸ This goal has been nearly realized as of today, with only New York and Minnesota still relying on their own respective state statutes to govern trade secrets – and even these two (2) statutes appear to borrow heavily from the language of the UTSA.¹²⁹ The UTSA defines a “trade secret” as follows:

information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means

by, other persons who can obtain economic value from its disclosure or use; and

- (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.¹³⁰

The above definition can be frustrating at times for counsel because: (i) determining whether your client's information is "deriving independent economic value" or has the potential to do so can be difficult; and (ii) often times, the client may not have taken reasonable efforts to maintain its secrecy, either because the client "didn't know what he had" or knew very well what he had and couldn't wait to share it with friends and peers in the industry. The latter point is especially a concern in today's age, when a single lapse in judgment on social media can destroy any protection an otherwise protectable "trade secret" (i.e. a proprietary recipe) might have with a single click.

On a brighter note, it may be a bit easier for counsel to demonstrate and confirm the first prong of the UTSA's "trade secret test" when working with franchisors, as most franchisors have: (i) integrated and identified the components of their proprietary System that constitute trade secrets; (ii) taken efforts to keep that information confidential to add value to their existing or prospective franchise brand (in other words, kept their "secret sauce" secret); and (iii) created an existing franchise agreement, or desire to start using such an agreement, that requires a franchisee to not only acknowledge the value of the System and its components but also pay franchisor a royalty, in part, to license that System.¹³¹

With that said, franchise counsel can really make an impact with regards to the second element of the "trade secret test" – so long as the client has not already "let the cat out of the bag" with respect to the information at issue. Among other things, counsel accomplishes this by making sure that a franchisor's form(s) of (a) franchise agreement, (b) vendor agreement with third-parties, (c) agreements with former franchisees, and (d) the template non-disclosure agreement for franchisee to enter into with its management and other employees that might have access to a potential "trade secret," all contain the appropriate confidentiality and non-disclosure provisions, as well as strong enforcement language that will help deter violations of the same.

The UTSA is designed to protect against the "misappropriation" of trade secrets and the statute purposefully casts a wide net when defining the activities the constitute misappropriation, including:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who

- (A) used improper means to acquire knowledge of the trade secret, or
- (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was (1) derived from or through a person who had utilized improper means to acquire it, (2) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or (3) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use, or (4) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.¹³²

The prevalent use of the word “or” throughout the statute when describing the kind of actions that constitute a violation of the UTSA, combined with the encompassing (yet specific) examples that the term “or” links together, demonstrates the USTA’s willingness to find culpability where a competitor or other party’s activities involving your client’s trade secrets do not pass the proverbial “smell” test.

The other phrase that permeates the UTSA is “improper means,” which is defined more narrowly as “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.”¹³³ From a practical perspective, improper means are methods that generally fall outside of the typical kinds of business activity that takes place in the industry at issue (i.e., using an airplane to fly over a competitor’s secret construction of a chemical plant in an effort to identify and thereby duplicate the design and layout of the plant.¹³⁴plans associated with that model¹³⁵).

The two (2) criteria above are necessary if franchisor is going to successfully obtain one (1) or more of the remedies afforded under the UTSA, namely: (i) injunctive relief for any actual or threatened misappropriation of trade secrets; (ii) damages in the amount of the actual loss caused by misappropriation and the unjust enrichment of the misappropriating party¹³⁶; and/or (iii) “double damages” in cases where the infringing party misappropriation methods were willful and malicious.¹³⁷ The UTSA also provides that a misappropriating party that gains an economic windfall based on your client’s misappropriated trade secrets may very well be required to remit the applicable profits to your client under a disgorgement theory.¹³⁸

In addition to remedies under the UTSA, the majority of states have additional penalties for misappropriate of your client’s trade secrets the availability of which depend on whether the infringing party’s actions are tantamount to theft and/or conspiracy.¹³⁹

While it doesn’t necessarily take an attorney that has passed the patent bar to litigate the merits of a trade secret misappropriation case, enforcing trade secret rights often involves expert witnesses and testimony to demonstrate and hopefully validate your

client's misappropriate information as that which rises to the level of a "trade secret" under the UTSA.¹⁴⁰ As counsel, you should have a good handle on those costs and conduct a cost/benefit analysis with your client that includes your opinion on whether the information at issue might not rise to the level of a "trade secret" due to lack on independent value or secrecy.¹⁴¹

iii. **Drawing the Lines of Protection and Importance of Practical Protective Measures**

Business information that may not rise to the level of a "trade secret" may nevertheless be deemed confidential within the company and protectable as such, provided the documents, materials or other physical objects at issue marked as "confidential" or similar designation, categories of documents and objects designated as "confidential," physical areas designated as confidential (via conspicuous signing or otherwise), procedures, processes, and methods, computer programs and other types of information that would generally be considered as confidential in the industry (even if now specially designed as such).¹⁴²

We previously discussed trade secrets and confidential information are typically deemed the "proprietary information" as well, and how proprietary information may also include information that is not confidential, including any IP that is the subject matter of patent or "formal"¹⁴³ copyright protection that is based, in part, on the publication or distribution of that IP in some manner.

While the term "trade secrets" and "confidential information" may have the same meaning in some contexts, they may not mean the same in other contexts, and the term "proprietary information" may often be used generically in both legal documents (including franchise agreements) and the actual marketplace alike.

In short, trade secrets and confidential information are a subset of the potentially much larger class of proprietary information. If your client's agreements and other relevant documents designed to protect IP use all of the foregoing terms, courts may infer that each term has a separate meaning even if the parties' intent was that they have interchangeable meanings, or worse, that the parties did not know what they meant by their loose use of these terms.

Again, this is where you can add value to your client by carefully drafting and/or updating a franchisor's contracts and other legal documents – as well as counsel the client from an everyday practical perspective – in terms of understanding the difference between the each of this different (but not necessarily distinct) terms and the importance of this terminology with dealing with personnel, outside vendors, potential investors and, often times most important, their franchisee network.¹⁴⁴ We discuss these drafting and practical considerations more fully below.

D. Patent Protection

Patent law may be at the forefront of the intellectual property regime in many industries¹⁴⁵, but it most franchisors do not rely as much on patent ownership as part of their IP arsenal as they do their primary trademark and the core “trade secrets” and other “proprietary” information that comprise the System licensed to their respective franchisee. With that said, below is a very basic overview of patent law, what it protects and the scope of protection and remedies afforded a patent owner.

i. Patent Act and Patent Duration

Patent protection – and its primary statute, the Patent Act¹⁴⁶ – encourage the production of statutory categories of inventions-; namely, processes, machines, a manufacture or article of manufacture, and other compositions of matter.¹⁴⁷ The patent system requires the patent owner to actually disclose of the patented invention in return for statutory protection that ranges from 14 to 20 years.¹⁴⁸

Once the patent expires, the disclosed innovation becomes part of the public domain, remains free for public consumption and use, and then is no longer susceptible to charges of patent infringement by the patent holder.¹⁴⁹

ii. Patent Eligibility and Kinds of Patentable Subject Matter

To obtain a patent, an inventor must first file an application in the United States Patent and Trademark Office (USPTO) describing the invention. The USPTO conducts an independent review of the invention as described for compliance with several statutory requirements, including (a) patent-eligible subject matter, (b) usefulness, (c) novelty, and (d) non-obviousness.¹⁵⁰ Moreover, counsel must be careful when preparing a patent application to ensure the application describes the invention in a way that would enable others to make and use the invention.¹⁵¹

While the threshold for usefulness (utility) is low in the patent analysis above, the thresholds for (a) novelty and non-obviousness are rigorous, and (b) accordingly, patent-eligibility has recently become increasingly difficult to achieve (and somewhat unclear) for some classes of inventions.¹⁵² There are three (3) distinct patents that can be applied for:

- Utility Patent: Protects how an invention works and includes inventions and functionality – this is the most commonly granted and sought after patent.¹⁵³
- Design Patent: Protects how an invention or other item looks, including ornamental designs.¹⁵⁴
- “Plant” Patent: Very specific protection for newly-established asexually reproduced plant species.¹⁵⁵

iii. Patent Issuance and Rights Afforded Patent Owner

If the patent application passes review, then the USPTO allows the application to be issued as a patent. Once a patent is issued for a given subject matter, the patent owner enjoys the exclusive right to exclude others from making, using, or selling that patented subject matter for a typical term of (a) 20 years from the earliest filing or priority date (the so-called "20 year term")¹⁵⁶ for a utility patent, or (b) 14 years for a design patent.¹⁵⁷ Patent rights are particularly powerful tools because they may bar even those who independently developed or discovered their invention from practicing their own invention.

III. Initial Evaluation and Organization of Franchisor's IP Portfolio

A. New Franchisors vs. Existing Franchisors

Whether your client is a long-standing franchise systems such as McDonalds or Mister Softee, or an entrepreneur with a new franchise concept he or she wishes to launch in an effort to replicate the operations of a few existing businesses he or she owns, you will need to address that client's trademark and other intellectual property portfolio. Where your client is in its franchise lifecycle, however, will not only impact the kind(s) of work you will be required to do at the outset of your engagement, but often times the client's budget within which you must provide these services.

The point here is that each client – and its brand – is unique, and the experience and history of the franchisor and its franchise system (or lack thereof) should always be a factor you consider. Newer franchisors may require more legal time be expended on developing, formalizing and/or expanding their intellectual property and its scope of protection, while larger, more established brands may have unique enforcement issues such as former or rogue franchisees infringing on the franchisor's marks or trade dress and/or utilizing certain aspects of the franchisor's proprietary "System" of operations in violation of the confidentiality provisions set forth in the applicable franchise agreement. But any one franchisor (or potential franchisor) may have a wide range of IP issues that require discussion, monitoring and, if appropriate, more aggressive action.

Evaluating where your client is in terms of its IP portfolio and protection strategy is not something that should only be done when you are preparing Items 13 and 14 of the FDD, regardless of whether you are preparing the client's initial FDD or conducting an update for a franchisor system that has been around 20 years. It is something that should be covered with the client in your first meeting, along with an overview of the various IP-related issues and pitfalls summarized below. This will allow you to stay more "proactive" than "reactive" as you continue to represent your client in the future, and hopefully imprint the importance of trademarks and IP into the DNA of your clients, their management and any internal legal team they might have.

New clients that have a longer history in franchising may be reluctant to modify how they have handled their IP portfolio and legal needs in the past, but it is nevertheless important that you provide them with your analysis and recommendations. They may not

be in a position to undertake certain actions at the time you recommend them due to budgeting or philosophical concerns, but providing the client with a potential strategy to tackle a given IP issue at least puts it “on the client’s radar” so that both you and the franchisor can continue to monitor the issue and take appropriate action if and when it is deemed necessary or advisable.

B. IP Registration Chart(s) and Special Considerations Regarding IP Not Subject to “Formal” Registration

Many franchisor clients may not even have a strong grasp on what intellectual property they have or whether such IP, if appropriate, has been formally registered with the appropriate agencies to help ensure maximum protection. At first glance this may be surprising given the importance of trademarks and other IP to franchising, but it is not uncommon for franchisors to focus more on the sales, operational and support aspects associated with the franchise system, and not so much on how the IP licensed to its franchisees has been and will continue to be protected. This is why IP-related representation is often times more “reactive” than “proactive” in nature, but a good franchise attorney armed with an understanding of IP law and experience will push its franchisor clients to reduce and organize their respective IP rights and potential issues associated with the same as soon as possible.

This exercise provides counsel with a strong springboard upon which to conduct further analysis into what further “proactive” legal work should or needs to be taken. It also provides franchisor with the confidence that it can continue concentrating on franchisee support and other keystones of a successful franchise system with a clearer picture of their IP portfolio and its status than other franchisors possess, despite the fact that such IP constitutes the primary building blocks of most if not all franchise systems.

Creating a chart or database using Excel, Access or similar software accessible to most attorneys is a great way to compile all of a client’s relevant IP information, upcoming action items and potential issues in a single place. Here are some primary issues to consider when preparing such a chart:

- Often times, a client believes it has a formal registration or pending application for IP such as trademark, copyrights or patents, but is not able to produce the documents demonstrating the same. In these instances, counsel can look to: (i) the client’s former counsel that may have handled (and hopefully not mishandled) IP-related matters; (ii) any files that have been already transferred to you by former counsel; and (iii) the online, searchable databases and other tools available to the public on the websites of the USPTO (for trademarks and patents) and U.S. Copyright Office (copyrights)¹⁵⁸.
- While the foregoing sites can be a great resource to help understand what IP the client has filed in the past and how these agencies evaluated and determined to deal with such filings, we know now that not all of a given franchisor’s IP has been, or is even capable of being, applied-for or registered.

We also know that just because certain IP is not the subject of a formal application or registration, it does not mean that this IP isn't important to the franchisor. Therefore, the compilation of franchisor's IP does not stop once you have scoured the websites above.

- As such, counsel must dig deeper into whether the franchisor:
 - (i) has any Marks or copyrightable Works that it owns, but has not yet applied to formally register or protect;
 - (ii) owns or has otherwise incorporated any (a) business methods, (b) required purchases (including equipment, supplies or inventory necessary to initially build out the business¹⁵⁹ or continue operations¹⁶⁰), (c) products or services that a franchisee may offer or provide, (d) marketing and promotional materials, (e) proprietary or customized software (including point of sale system software), or (f) other item associated with the franchisor's System, that might constitute a Trade Secret or other proprietary information. If unclear, we recommend erring on the side on inclusion in the chart so that you can keep them in mind when doing your deeper dive into potential legal work that needs to be taken;
 - (iii) has any license, distribution agreements with commissaries, suppliers or other vendors – whether an affiliate of franchisor or third party – for a product which franchisor developed or otherwise owns¹⁶¹; or
 - (iv) has any consulting or other independent contractor agreements with third parties that they engaged to create or establish any of the IP uncovered by the above inquiry.¹⁶²

The objective of such inquiries is twofold: not only are they designed to identify IP, but also how best to protect, enforce and defend such IP from both a legal and practical perspective as we discuss more fully below.

While there is no "right" way to create a given client's IP chart (the "IP Chart"), utilizing a table using the format and containing the categories below is a good starting point for most clients.

IP Type Subject IP	Owner	Relevant Licenses (to/from)	Formal Protection(s) (Y/N)	Date of Formal Registration (if any)	Registration or Application Date and Number	Next Action Item, re: Registration or Application Filing	Next Action Item, re: Strategy or Otherwise	Other Notes
INTELLECTUAL PROPERTY								
Trademarks								
Copyrights								
Potential Trade Secrets and Other Proprietary Information								
Patents								
IP-RELATED AGREEMENTS								
Type of Agreement	What it Covers?	Agreement Term and Primary Business Terms	Current Status of Agreement	Next Action Item (if any)				
Consulting or Other Agreement for IP Development								
Supplier and Other Vendor Agreements for IP Distribution								

Once an IP Chart has been developed that you and your firm are comfortable with, you should try to stick to that form and utilize it uniformly (to the extent possible) for your clients. This will not only benefit the existing associates at your firm as they work on IP or franchise-related matters for certain clients, but also help teach and enforce the importance of extracting this information from the client and compiling it in a format that has been vetted.

C. Benefits of Protecting Franchisor's Marks Formally and Practical Walkthrough of USPTO Application Process and Prosecution.

Due Diligence to Determine Current TM Rights and When to File with USPTO

As previously discussed, trademark rights vest when they are first used in commerce in the United States, provided they are not generic, descriptive or otherwise not eligible for trademark protection. The foregoing rights that vest at that time are what we call "common law" rights, which only extend to the area where the owner of the Mark can demonstrate he has "permeated the market" with the products and/or services that are being provided under that Mark.

Most times, a franchisor client will have established common law rights in one (1) or more Marks that it licenses its franchise system or intends to license as part of its new franchise offering. With that said, it is still of paramount importance to determine and/or confirm the (a) specific products and/or services that are provided under the Mark, (b) the date that each product or service was first provided or sold¹⁶³ under the Mark as necessary to establish "use in commerce", (c) ownership and licensing details involving the mark, (d) the relative strength of the mark using the Trademark Continuum and related "distinctiveness" analysis, and (e) what, if any, third parties in the marketplace utilize a confusingly similar mark in connection with the offer or sale of any products or services that are related to those provided under your client's Mark.

The information described in subparts (a)-(c) can likely be provided by the client, but questions in subparts (d) and (e) of the above will likely involve some additional due diligence on your part along with a legal analysis of any potential obstacles you uncover.

Coincidentally, the "distinctiveness" of your client's Mark and potential likelihood of confusion with a third-party mark are the two primary obstacles that an applicant must overcome when seeking federal registration of that Mark with the USPTO (the "Primary Substantive Refusals").¹⁶⁴

Given the sometimes painful limitations that common law trademark rights afford your franchisor client and its brand, it is important that franchise counsel get out ahead of these two issues and are prepared to address them should the USPTO examiner handling the Mark's application cite either as grounds for refusing registration.

Before discussing potential strategy for addressing such a refusal counsel must first ensure franchisor is in a position to file an application with the USPTO and, if so, the appropriate ground(s) for that filing.¹⁶⁵ That means (1) establishing whether franchisor has used the Mark in commerce, (2) when exactly that use took place, (3) whether your client can demonstrate that use via an acceptable specimen, and (4) conducting due diligence necessary to evaluate the likelihood, if any, that a USPTO examiner might raise either or both of the Primary Substantive Refusals. To that end, it may be helpful to keep the following in mind:

- Whether or not your client has used the Mark in a general sense should be a pretty easy determination, but determining whether – and more often, when – your client first used the Mark “in commerce” in connection with the goods or services franchisor wishes to protect can be a more difficult determination.
- Most times the relevant goods or services that a franchisor should seek to protect are the products and/or services that are offered, provided and/or sold to consumers in the marketplace. Some franchisors are in the service industry, others in the retail industry featuring certain products, and many franchise brands provide both products and services under their respective marks. By way of example, a franchisor in the quick casual restaurant (or “QSR”) industry will often times not only provide “restaurant services” under the Mark, but also specific menu items that are branded with the same or different Mark.
- Recall the chart below detailing how to determine if and when your franchisor client has used a given Mark “in commerce” with respect to its products and/or services, as well as some examples of what might serve as an acceptable specimen to demonstrate use with the USPTO¹⁶⁶:

Mark Used in Connection With?	Date of First Use	Acceptable Specimens
Products/Goods	Date that product or good was first sold or otherwise shipped across state lines. No phantom, sporadic or spontaneous sales.	Product packaging; display cases with decals; point-of-sale marketing materials; POS branding in close proximity to e-commerce purchase point
Services	Date that services affect interstate commerce (if bricks and mortar). Date that services were provided in more than one state or across state liens (if mobile-based).	Website branding; social media accounts with proper branding; store or other business signage (interior or exterior); marketing materials (direct mail, digital media, door hangers); menus and similar signage summarizing services

- Franchisor will have the option to file an intent-to-use application with the USPTO if franchisor does not believe it can assert valid use in commerce. While franchisor will almost always¹⁶⁷ need to demonstrate actual use the Mark in U.S. commerce before an intent to use application can mature to a federal registration, filing an intent to use application can still be beneficial insofar as: (i) franchisor’s filing will be reviewed and may impact an examiner’s application of any subsequently-filed applications with the USPTO¹⁶⁸; and (ii) an intent to use application puts the nation on constructive notice of franchisor’s intent to (a) use the Mark in connection with its goods/services, and (b) claim exclusive rights in such Mark.¹⁶⁹

Walkthrough of Federal TM Application with the USPTO

Once franchisor has a handle on the above, it is time to tackle the Mark’s application, which the USTPO strongly prefers applicants or their counsel file via their

website rather than hard copy (and even provides applicants with a number of incentives to encourage them to do so).¹⁷⁰ Accordingly, the best way to provide an overview of the federal trademark application is to do just that – walkthrough the online application itself and the trademark application generally.

To that end, let’s start with a review of the following chart containing the actual inquiries posed by the USPTO’s online application wizard¹⁷¹, as well as some practical filing tips and some cursory insight into what franchisor-specific issues might come into play:

USPTO Application Query (Chronological Order)	General Practice Guidelines and Tips; Franchisor-Specific Concerns and Issues (if any)	
Is an attorney completing this form?	Strongly recommend that counsel file all Mark applications to ensure (a) a procedures and technical requirements of the application, and (b) the franchisor-specific concerns describe in this Chart are evaluated and addressed.	
OWNER INFORMATION		
Owner of the Mark	<p>In addition to the name of the applicant that owns the Mark and corresponding IP rights, this portion of the application requires that the following information be provided about the applicant: (i) entity type (if any); (ii) street address information (including rarely relevant “internal address”); (iii) country or U.S. Territory of citizenship (for individuals) or formation (for entities); (iv) phone/fax number; (v) email address; and (vi) website address.</p> <p>If the applicant is going to a new company (“NewCo”) that is established to own the IP, then there should be a written assignment agreement whereby the NewCo is assigned all rights, title, interest, use (including IP-related rights) from the individual/entity that established common law rights in the Mark by using it in commerce. Also, providing the email and website of the applicant is optional and counsel may want to keep these off the application because this information is often compiled by third parties that may send TM-related solicitations directly to the client.¹⁷²</p> <p>From a franchising perspective, it may make sense to have a party other than franchisor serve as Mark and other IP owner for various reasons, including to help insulate the IP assets from exposure if the franchisor gets involved in litigation and/or bankruptcy (and vice versa). If the Mark is owned by an affiliate or other related party, counsel must address: (i) the license agreement between the Mark owner and franchisor to use, and license others to use, the Mark in connection with the franchise system; and (ii) the resulting license agreement disclosures in Item 13 of the FDD¹⁷³. Given the franchisor is typically the entity that will be audited each year and therefore needs strong financials, counsel should caution against franchisor paying a substantive license fee or other compensation to the Mark owner under the license agreement at issue.</p>	
MARK INFORMATION		
Enter the Mark	<p>The Mark must be entered by: (i) typing in the Mark if it is a basic Word Mark; or (ii) uploading an image as an exhibit to the application if the Mark contains any (a) stylized text, or (b) design mark. Sonic Marks and other unique Marks are also uploaded.</p> <p>If uploading, make sure the image is uploaded in the proper format and size that the TMESP requires to avoid a procedural refusal.</p>	
Potential Additional Statements	<i>Disclaimer</i>	If the Mark contains any terms that are descriptive or generic, it may make sense to acknowledge that by inserting such term(s) in the application where prompted by the Disclaimer query (i.e., the term

		<p>“BBQ” in the Mark BIGTIME BBQ. This especially if the applicant previously agreed to such a disclaimer. If, however, counsel believes there are any arguments that such terms are “suggestive” or otherwise inherently distinctive, then recommend not including any disclaimer in the initial application and address it only if raised in an office action.</p>
	<i>Active Prior Registrations</i>	<p>Insert the registration number for any Marks previously registered by the Mark owner (or any party with a “Common Sphere of Influence”¹⁷⁴) if that registration protects a Mark that is (a) similar to the Mark being applied for, or (b) contains a common term or element with the applied-for Mark that the USPTO found to be a registerable component of the Mark (i.e., the term “Factory” in PHILLY PRETZEL FACTORY¹⁷⁵).</p>
	<i>Translation</i>	<p>If the Mark has a meaning in a different language, then input the meaning(s) and language(s) at issue. Keep in mind, however, that TM examiners will consider the any translation of the Mark when conducting its LOC analysis pursuant to the Doctrine of Foreign Equivalents.¹⁷⁶ There are a number of ways to argue against application of this Doctrine, including that the Mark is a combination of a foreign term and either (a) an English term, or (b) a foreign term from a different language.¹⁷⁷</p>
	<i>Transliteration</i>	<p>Transliteration changes the letters comprising the Mark from one alphabet or language into the corresponding, similar-sounding characters of another alphabet – as opposed to a translation that tells one the meaning of the Mark in another language. This may come into play when assisting Asia-based franchisors to protect their existing Marks here in the U.S.</p>
	<i>Meaning or Significance of the Wording, Letters or Numerals Contained in the Mark</i>	<p>If the Mark or a given term therein has a special meaning in the industry(ies) that encompass the recited good or services in the application, then that meaning should be provided in response to this query (i.e., the term “ULE” or “Unit Level Economics” in franchising). Sometimes the relevance of this query depends on whether the term is commonly recognized in the industry, but not necessarily the marketplace generally, at the time the application is filed (i.e., an application filed 10 years ago for a Mark containing the term “SEO”).</p> <p>Keep in mind that any response to this query may give the examiner an argument that the Mark or term with “special” meaning is descriptive.</p>
	<i>Acquired Distinctiveness</i>	<p>Unless counsel is pretty sure that the Mark or a term therein is not inherently distinctive, recommend not raising an acquired distinctiveness claim under 2(f) with respect to the same unless and until a descriptiveness refusal is raised by examiner in an office action. Also, keep in mind that counsel can claim that certain portions of franchisor’s Mark is protectable under 2(f), while claiming the rest of the Mark is inherently distinctive. Regardless of when counsel claims acquired distinctiveness (in the application or in response to an office action), counsel should be prepared to provide the kinds of supporting evidence discussed in this paper.¹⁷⁸</p>
	<i>Name(s), Portraits, Signature(s) of Individual(s)</i>	<p>If the Mark contains the name, signature, portrait (or other likeness) of an individual (other than applicant), then you must note that in response to this query. At the same time, you will likely be required to get a written and signed consent from that individual to use its name, signature or likeness in the Mark and any registration for the same.¹⁷⁹</p>

	<p><i>Use of the Mark in Another Form</i></p>	<p>It is not uncommon for Mark owners – and franchisors in particular – to (a) develop and register its primary Marks in various different formats and in conjunction with different elements, and/or (b) develop a “family of Marks” that are all rooted in a common “house mark” that primarily identifies the brand.¹⁸⁰ If the applied-for Mark has been used in different lettering, with/without a logo or other design elements or even different language in the U.S., recommend noting that here and the date that version of the Mark was used.</p>
	<p><i>Concurrent Use</i></p>	<p>This will only come into play if the Mark owner has agreed, or is in the process of negotiating with a third party for an agreement, that allows both the Mark owner and a third party using the same or similar Mark at the same time and (possibly) each acquire a registration for their respective Marks. Most times, the USPTO will require clear (and not overlapping) geographical demarcations where each party can use the Mark and may require that restriction to be noted in the registration.</p>
	<p>Miscellaneous Statement</p>	<p>Counsel can use this query box to insert any other points or notes that it believes is relevant to the application filing. Keep in mind, however, that anything you type here will become part of the initial application and formal TM record. For this reason, it may make sense to raise these points later if needed to respond to an examiner office action.</p>
<p>GOODS/SERVICES INFORMATION</p>	<p><i>Input Goods/Services via Selection from ID Manual or Using “Free-Form” Typing</i></p>	<p>Unless applicant is 100% clear on the specific services it wants to provide and that exact description can be selected from the USPTO’s Manual of Acceptable Goods and Services Identification¹⁸¹, recommend using “free-form” to type in the applicant’s goods and services.</p> <p>The recitation of the goods and services can play a huge role in (a) the LOC analysis, (b) the inherently distinctive analysis, (c) whether the Mark pops up on any third party’s radar, and/or (d) filing fees franchisor will be required to pay, so counsel must carefully review each of these issues when preparing this part of the application.</p> <p>Keep in mind that: (i) no matter what you type via “free form” as the goods/services, you do not always need to place each good/service in its correct International Class if you are not sure (a) where certain goods/services fall, or (b) whether the Mark will be protectable in connection with some or any of the goods/services; (ii) is franchisor is worried that certain of its services/goods may be subject to an LOC refusal, then franchisor can consider filing for its other goods/services (even franchising services) initially with the strategy to possibly file for the concerning goods/services in the future after seeing how the USPTO handles the initial application; and (iii) while you can amend your services once the application is filed, you cannot amend those services to make them more expansive than as stated in the initial application once it is assigned to an examiner.¹⁸²</p>
	<p><i>International Class</i></p>	<p>Each good/service recited in the application will fall within a specific International Class based on the Nice classification system. Typically, goods fall within Int. Classes 01 through 34, while services fall within Int. Classes 435 to 45.</p>

		Please see the comments in the preceding row that are also relevant here.
	<i>Basis for filing</i>	<p>Typically, the basis for the application will be the Mark owner's actual use or "intent to use" in commerce that we previously discussed above. If franchisor is considering filing an intent to use application, counsel should push franchisor to make sure they are not in a position to start using the Mark prior to filing, which may be pretty easy to accomplish especially if the Mark at issue is seeking registration in connection with services.</p> <p>If franchisor already has an international presence, franchisor may be able to base its U.S. application for Mark on a foreign registration or pending application for that same Mark. If franchisor is considering such a basis, counsel must make sure it has a clear understanding of the foreign filing, a certified copy of the same, and that the Mark and Goods/Services Information set forth in the foreign filing are identical (or as close to identical as possible)</p> <p>Lastly, please take note that franchisor can base its trademark filing on more than one (1) basis in the initial application and refine or remove those bases as the application (and/or any foreign filing that is relevant) progresses.</p>
	<i>Specimen based on actual use of Mark</i>	<p>The specimen must be uploaded as an exhibit to the application using the file format and size that the USPTO mandates.¹⁸³ The kind of specimen you submit will depend on the good/services recited in the application, and a specimen must be submitted for each class of good/services recited and show the Mark being "used" in connection therewith.</p> <p>Examples of common specimens used by franchisors to demonstrate use include: (i) marketing materials, storefront pictures showing signage, screenshots of websites and menus for certain kinds of services; and (ii) product packaging, menus, POS advertising and screenshots of e-commerce pages for certain goods/products.</p>
	<i>Date of First Use of Mark Anywhere</i>	Input the date the Mark was adopted by the client and used in any manner (even if not in interstate commerce as required in commerce). There are also arguments to be made that the date input here can be based on (a) internal use, (b) the use of the Mark in a substantially similar form, or (c) use of the Mark in connection with goods/services other than those recited in the application.
	<i>Date of First Use in Commerce</i>	Discuss with client in detail and go through the "first use" analysis described above to nail down a clear "at least as early date" for first use in commerce. This is a critical date and counsel should input the earliest date possible (but that franchisor is confident is a date the Mark was used in commerce that is regulated by the U.S. Commerce Clause).
ATTORNEY INFORMATION		<p>This portion of the application is pretty self-explanatory and involves counsel providing the contact information for counsel and counsel's firm, including an email address that the applicant authorizes the USPTO to communicate with (which is a requirement to take advantage of the Reduced Filing Fee Application).</p> <p>Counsel that is filing the application will also have the opportunity to input: (i) a Docket/Reference No. for the filing that will show up on (a) USPTO correspondence, and (b) the USPTO invoice for the filing fee(s); and (ii) other "Appointed Attorneys" that will be</p>

	able to address subsequent USPTO correspondence to assist franchisor in progressing the application.
CORRESPONDENCE INFORMATION	Most times this will mirror much of the information from the Attorney Information portion of the application, and the USPTO online filing application wizard will automatically update this page of the online application with any information it believes is relevant from the Attorney Information portion of the application.
CONFIRMING TOTAL AMOUNT DUE	The USPTO will automatically calculate and propose the required fee payment. Not much to note here, other than to reiterate that the filing fee is based on the number of classes of goods/services the applicant recites in response to the GOODS/SERVICES INFORMATION queries. Depending on applicant's confidence in the Mark and/or uncertainty about what classes certain goods/services fall within, it may make sense to recite the goods/services via free-form in a single class. This will involve payment of a filing fee of \$275 and any additional payments necessary to pay for additional class(es) of good/services will be raised by the examiner in the office action.
PROVIDING ELECTRONIC SIGNATURE WITH DECLARATION	There have been some recent changes to this final portion of application, which now requires the filing party ¹⁸⁴ to check 4 boxes with each box containing a representation relevant to the filing (application basis; to best of knowledge, no other confusingly similar use; information set forth in the application, after reasonable investigation, have evidentiary support; and declaration the statements in application are believed to be true) along with an acknowledgement of fines and penalties if it is not. This format change was likely made, in part, to better shape whether the filer of the application or applicant has committed fraud when filing if a third party files an opposition or cancellation down the road. Don't be afraid to push the client and ask for evidentiary support in connection with the application, especially with respect to the dates of first use, specimens and goods and services. As counsel if often times the filing party, counsel has the exposure related to the representations and warranties as well and should take them seriously. When e-signing the application at the end, counsel must e-sign, print (aka type) counsel's name and also provide counsel's position. If the application is being filed by in-house counsel or other internal personnel, then the filer should their position with the company. If outside counsel, typically state "Attorney of Record, [STATE] Bar Member" – while it may happen, do not recommend signing on behalf of anyone else.
Payment Processing Page	Payment can be made by credit card or from any existing account that counsel's firm might have with the USPTO. Just make sure that if the firm is covering the franchisor's filing fees, that such fees are communicated to the client and properly billed to the client as an expense.
E-Receipt and Download	The application, including Mark drawing and specimen, should be saved and/or printed consistent with firm policy, along with the Electronic Receipt and more detailed Receipt file that can be downloaded from the USPTO site at this point. Counsel can provide the emails of other attorneys in the firm it wants to get notice of any application updates. For franchisors, the U.S. Serial Application Number and application date set forth in the E-Receipt will be relevant for possibly inclusion in the TM Chart that franchisor must disclose is Item 13 of the FDD.

Prosecuting the Federal TM Application

Given the intended scope of this paper, it is not possible to try to even summarize the myriad issues that could come up in an "office action"¹⁸⁵ that a USPTO examiner often issues in response to an application. An office action is rarely a dead-end in the application process. As a tool to help you organize a response to an examiner's office action, below please find some general comments to consider when dealing with the USPTO, some helpful arguments you can assert in response to the two (2) Primary

Substantive refusals, and a “short list” of the minor “procedural” refusals that examiners routinely issue to address perceived imperfections in the Mark’s filing.

1. General Comments

Despite the preliminary legal work you have done before and in connection with filing your federal TM application with the USPTO, experience has shown that there is rarely a “sure thing” when it comes to how an examiner will handle your application – and counsel should provide such guarantees¹⁸⁶ regarding the success of any Mark filing at his or her own peril.

Always be courteous and respect the TMEP’s position that each application is decided on its own¹⁸⁷ and that no prior determination of the USPTO in connection with a particular mark’s application – even if similar to your own – is dispositive¹⁸⁸. As a general matter, the examiner will be looking to its own experience and as a result his or her analysis can oftentimes be rather subjective.

Over time, it has gotten harder to get a TM registration and examiners have seemingly become more restrictive in terms of what marks they will approve for publication – not surprising given that the USPTO issued a staggering 242,709 new registrations in 2017 alone (about 92,000 more than it issued 10 years ago in 2007), while also fielding 594,107 new trademark applications during that same time period.¹⁸⁹ The addition of each mark puts another potential likelihood of confusion (“LOC”) obstacle, but these prior filings – even if similar to your own – may actually be raised in your response to support your conclusion (as discussed more fully below).

2. Strategic Thoughts on Overcoming Eligibility-Related Refusal(s)

Professor McCarthy, who would basically be on the Mt. Rushmore of trademark law experts if they ever decide to create such a monument, has aptly described the analysis of whether a given mark is descriptive (and not eligible for registration) vs. suggestive (and eligible) as the “battle lines” upon which many a trademark application is prosecuted.¹⁹⁰ While one could likely write an entire paper focusing on this legal distinction and the various precedential case law decisions dealing with the same, we would like to provide you with some of the primary legal points and arguments that serve as ammunition when you get down into the “trademark trenches” to argue against a USPTO examiner’s finding that an applied-for mark is descriptive or generic.

- As previously discussed, in order for a mark to be deemed descriptive it must (a) describe the goods or services recited in the mark’s application, and/or (b) describe an essential characteristic of the applicant or its goods/services provided under the mark. With that in mind, we recommend first looking at the application itself to determine whether there is any way you can recast or remove certain of the goods/services recited therein to address the examiner’s concern.

- If there is not an obvious adjustment to the recitation of goods and/or services that your client is comfortable with and that is acceptable to the examiner, then the next step is to typically employ one (1) or more of the following tests to see if any of them weigh in favor of a finding that the mark at issue is not descriptive:
 - Imagination test¹⁹¹
 - Competitor's Need Test¹⁹²
 - Competitor's Use Test¹⁹³
- Go with the elements of the test(s) that weigh in favor of registration, but it might serve your client well to address all of the foregoing tests if you are going to advocate under any one (1) of them. Of course, if one (1) test reveals a likely negative for franchisor it may not make sense to include in your office action response. With that said, if two (2) or more of the tests don't appear to weigh in your favor, it may be better to focus on one of the other strategies described under this heading.
- A different argument that may be effective in overcoming a merely descriptive refusal might be that the Mark has gained secondary meaning or "acquired distinctiveness" and is therefore registerable under Section 2(f) of the Lanham Act¹⁹⁴. When making this argument it is important to keep in mind that: (i) if the Mark is comprised of one or more elements, only one of those elements (whether a word or design) need be suggestive or stronger on the TM Continuum; and (ii) an applicant can concede (or argue, depending on the circumstances) that a particular component of the Mark is registerable under Section 2(f).¹⁹⁵
- If there are third-party marks that have been registered by the USPTO without disclaiming the portion of your Mark that the examiner is claiming is not registerable under Section 2(a) of the Lanham Act, counsel may cite these prior registrations as particularly instructive for the examiner when revisiting its 2(a) refusal with respect to franchisor's Mark. It is not wise, however, to rely solely on a handful of such examples when combating a Section 2(a) refusal, especially given the lack of deference that examiners often afford prior USPTO determinations. Remember, each trademark examination is reviewed on its own merits – essentially in a vacuum of sorts – and this is something which examiners are more than happy to emphasize in their reply if your only responsive argument is based on such prior determination(s).
- If you happen to uncover a TTAB or federal court opinion where the Board found that a mark (or relevant component thereof) similar to your Mark (or whatever element of the Mark the examiner finds objectionable) is not descriptive, then such an opinion would likely carry much more weight with the examiner (and its manager).

- Lastly, you should look at other sources, such as Urban Dictionary¹⁹⁶, to determine whether the Mark or term has any other alternative meaning that would not be merely descriptive or generic when used in connection with franchisor's recited goods/services set forth in the application.
3. Strategic Thoughts on Overcoming Likelihood of Confusion (or LOC) Refusal

Likelihood of confusion refusals, if supported by fact upon investigation, can be particularly disheartening to a client. Not only does it prevent registration if not overcome, but such as a refusal also identifies a third party with an arguable right to challenge franchisor's Mark via either (a) an opposition or cancellation proceeding with the TTAB, and/or (b) a federal action for infringement or declaratory judgment.

Putting aside third-party infringement issues for the moment (we will revisit under the "Reactive Protection" heading below), the following encapsulates the typical arguments that counsel might raise to fight an examiner's LOC refusal under Section 2(d) of the Lanham Act¹⁹⁷.

- As previously discussed, the two primary factors that counsel should focus on when conducting a LOC analysis (and making an argument for/against LOC) are: (i) the similarity of the Mark and any third-party marks(s) cited in the office examiner's office action (each, a "Cited Mark"); and (ii) the relatedness of the products/services that third party provides under the Cited Mark to the product/services recited in the Mark's application.¹⁹⁸
- In responding to an office action containing an LOC refusal, that the initial focus should be on the two (2) primary factors above.
- When battling a LOC refusal, a good start is to place the franchisor's Mark and the Cited Mark side-by-side, and make an exhaustive list of any and all differences that someone encountering those two (2) Marks in the marketplace. While differences in *appearance* are certainly important, counsel should expand the scope of their comparison beyond what the two Marks look like to also include any differences in (a) *sound and any phonetic differences* (how the Marks are likely to be spoken by the public), (b) *length* of the Marks (keeping in mind that taglines, slogans and other phrases are often afforded lesser protection), (c) *cadence* (how the Marks "roll off the tongue"), and (d) *actual meaning* to the average purchasing public (including any "special" meaning in the industry that may have been submitted by franchisor as part of the Mark's application discussed above).
- You may not use all of the differences you note in your "exhaustive list," and where counsel decides to cut off the list that actually makes it into franchisor's response may depend on the strength of franchisor's arguments against LOC in the other 2(d) factors discussed below.

- The next step is to supplement the differences of the Marks with any and all arguments demonstrating that the goods/services – as they are specifically recited in franchisor’s TM application – are dissimilar and not related¹⁹⁹ to the goods/services that are specifically recited in the Cited Marks’s filing.²⁰⁰
 - o Remember that the USPTO’s scope of examination and analysis on this LOC factor is technically limited to the goods and services as they are recited in the filings submitted by the parties and not any other activities, which is a more limited scope than what a federal court would have the opportunity to examiner in a trademark infringement action (which would also likely include any other activities that the parties’ in the action actually conducted under the Mark and Cited Mark, respectively).
 - o This is generally beneficial to franchisor because it is unlikely that widening the scope of goods/services to actual activities under the franchisor’s Mark and Cited Mark only serves to increase the chance of an overlap.
 - o From a practical perspective, however, TM examiners sometimes appear to be influenced by anything in the record before the USPTO that tends to show a more expansive scope of goods or services provided by the applicant, including any specimen that franchisor submits as part of its application. As such, counsel should be careful when filing the application to avoid submitting any specimen showing the Mark being used in connection with good/services that (a) franchisor is not applying to protect in that specific application for the Mark, and/or (b) when provided under the Mark, tend to increase the chance of LOC with any third-party Mark that is the subject of a prior filing with the USPTO (which counsel can determine when conducting its TM searches and other due diligence prior to filing).
- In addition to noting any obvious differences between the goods/services recited in the filings for the franchisor’s Mark and Cited Mark (i.e., the prior example of “travel agency services” vs. “computers and cell phones”; use of the mark UNITED in both “check cashing services” and “transportation services” is not likely to cause confusion in the marketplace), counsel can leverage certain of the “secondary” LOC factors to bolster its argument that franchisor’s recited goods/services are not related to those recited in the Cited Mark’s filing as follows:

Secondary LOC Factor	Impact on LOC Analysis and Practical Connection to “Related Goods” Analysis
Channel wherein the respective goods and services are sold under the Marks at issue	The more factual information franchisor can provide to demonstrate that franchisor’s G/S are offered to consumers via channels that are distinct and/or different from those where the Cited Mark’s G/S are sold, the stronger franchisor’s argument that the G/S

	<p>are not likely to be encountered side by side in the marketplace thereby reducing or removing any LOC concern.</p> <p>Different channels of trade can also tend to demonstrate the G/S at issue in the LOC analysis are not really competitive or related.</p>
<p>Advertising and other channels used to promote the goods/services provided under the Marks at issue</p>	<p>Similar to the above, if the recited G/S provided under franchisor's Mark and the Cited Mark are not marketed or advertised in overlapping channels (i.e., specific magazines, billboards, trade shows, etc.), then this too decreases the change that the purchasing public will see, hear or think about the G/S offered under franchisor's Mark and be confused as to whether the source of franchisor's G/S.</p> <p>From a practical perspective, related G/S more often tend to use the same marketing and advertising channels to promote because they want to reach the same audience of consumers – evidence of lack of such an overlap, in turn, helps demonstrate that G/S are not related.</p>

- While not always the client's preference, franchisor may also be able to address a LOC refusal by amending the recited G/S to (a) remove, or (b) narrow the scope of one (1) or more classes of G/S, to cut out the specific G/S that make the overall recitation of G/S "related" to those in the Cited Mark if the remaining G/S in franchisor's application are not as much of a concern. This is something that is usually done once franchisor have convinced the TM examiner that such an amendment to the recited G/S/ would result in an approval for publication. Remember, applicants cannot amend the recited G/S to *expand* beyond what it originally recited, but it can almost always remove or narrow the scope of those G/S after the application is filed.
- Once the similarity of the Marks and the relatedness of the recited G/S have been addressed, it may behoove franchisor to attack the *strength* of the Cited Mark to demonstrate that the Cited Mark's scope of protection should not extend to preclude franchisor's use and registration of the Mark – even if franchisor's Marks arguably shares some common elements or there is some degree of overlap in terms of recited G/S.
 - o Conduct the "inherently distinctive" analysis for the Cited Mark, as well as any elements of franchisor's Mark that is not shared with the Cited Mark.
 - o Determine whether any of the shared term(s) or elements contained in both Marks at issue (each, a "Shared Mark Component") that give rise to the examiner's LOC refusal are disclaimed in the Cited Mark's filing or in any third-party registrations on file with the USPTO – if the Shared Mark Component is commonly disclaimed in in third-party filings at the

USPTO's demand/request, then this is good evidence that the Shared Mark Component itself is descriptive or generic and should not be given great weight when determining the LOC between franchisor's entire Mark and the overall Cited Mark.

- Determine whether each Shared Mark Component is also found in any (a) third-party registrations for Marks registered, or (b) unregistered Marks that are used, in connection with G/S that are the same or similar to the G/S recited in the Cited Mark's filing.
 - o If a Shared Mark Component is a registered component of multiple prior third-party registrations and, to a lesser extent, a component of a substantial number of Marks that are being used in the marketplace, franchisor can argue that the prevalent use of the Shared Mark Component by those in the relevant industry is evidence that a "crowded trademark marketplace" exists with respect to that Shared Mark Component.²⁰¹
 - o If there is strong evidence that a "crowded TM marketplace" exists for a Shared Mark Component, franchisor can argue that this crowding demonstrates that the Component at issue is not fanciful, arbitrary or otherwise all that distinctive in the industry – which may help you convince the examiner that: (i) the Component at issue is weaker than other, more dominant portions of franchisor's Mark that are not shared with the Cited Mark; and/or (ii) since the average purchasing public for the G/S provided under franchisor's Mark typically encounter a substantial number of third-party Marks that also contain the Shared Mark Component (including the Cited Mark), this has made the average purchaser more "sophisticated" as a practical matter by teaching the consumer base to look for these more dominant portions of the franchisor's Mark, as well as any other non-shared components of the Cited Mark when determining the source of the G/S sold thereunder.
 - o If the above analysis sounds a bit familiar, that is because it is almost a variation of the competitor's use test that was offered as a means to demonstrate that a franchisor's Mark was not descriptive and, at worst, suggestive and therefore eligible for trademark protection. Here, however, franchisor would be employing the same kind of test but with the opposite goal of demonstrating that the Shared Mark Component at issue is actually used prevalently in the industry and, hopefully, deemed a registerable component of multiple Mark registrations.
 - o While the test is employed with different goals in mind depending on whether you are attacking a descriptiveness or LOC refusal, evidence that the USPTO, TTAB or federal courts have determined that the

portion of your Mark examiner is tackling is registerable is typically good evidence in arguments designed to overcome both kinds of refusals.

- While the points covered so far in this heading are typically the “meat and potato” arguments franchisor has at its disposal to defend against a LOC refusal, we previously mentioned how the sophistication of the average purchaser of the G/S described in franchisor’s Mark and the Cited Mark might also serve to help franchisor’s cause. In addition to demonstrating sophistication resulting from a “crowded trademark marketplace,” TM law typically recognizes that a purchaser’s sophistication is heightened in situations where the G/S offered and sold under the Marks at issue (a) have a higher price point (e.g., a car or computer), and/or (b) are of the type that are more personal to the purchaser (e.g., doctor or other medical-related services).²⁰²
- The particular facts of each case will be what drives the argument against a finding of LOC with a given Cited Mark.
- If all else fails and the Mark’s registration is paramount to franchisor’s success, then franchisor may consider reaching out to the owner of the Cited Mark(s) in an attempt to negotiate a consent agreement wherein the Cited Mark’s owner consents to franchisor’s use of the Mark on terms that agreeable to both parties. If a consent agreement is negotiated, it can be submitted to the USPTO in response to an office action and trademark law provides that examiners are to afford great deference to such mutually-negotiated agreements with the Cited Mark’s owner, so long as the consent agreement is not “naked” and contains provisions on how franchisor and Cited Mark’s owner will work together to avoid any LOC that might arise in the future (and an acknowledgement by both parties that they do not believe such LOC is not, in the minds of the Marks’ owners, a real issue in the marketplace and any reasons why).
- Reaching out may also raise a red flag and potential challenger – counsel should advise franchisor to be careful when going down this path and avoid “awakening a sleeping giant.”
- Lastly, if a Cited Mark is raised as grounds for LOC and franchisor believes that franchisor has senior use and priority over that third-party Mark (comparing, among other things, the “first use” date recited in its own Mark’s application and the Cited Mark’s application), it is important to note that franchisor cannot attack this priority issue or otherwise attack the continued validity of the Cited Mark’s registration or pending application. Unfortunately, such claims must be brought before the USPTO as part of an *inter partes* cancellation or opposition proceeding (based on whether the Cited Mark is registered or approved for publication, respectively) with the TTAB. This is to ensure the owner of the Cited Mark has the opportunity to defend against such an attack by franchisor, which the normal USPTO TM application process does not afford.²⁰³

4. Practical Tips to Address Common Procedural Refusal(s)

In order to round out this Section, counsel should be prepared to practically address certain of the more common procedural refusals raised by USPTO examiners. We emphasize the word “practical” here, as many procedural refusals are not based on substantive legal determinations, but rather how the particular examiner believes he Mark’s application does not comply with technical or procedural provisions of the TMEP or otherwise contains a mistake.

Common Procedural Refusals
Unacceptable Drawing of the Mark
Non-Accurate Description of the Mark
Improper recitation of Goods or Services in the TM Application
Improper Specimen Submitted with Application to Demonstrate Use
Disclaimer Requirement with Respect to Descriptive or Generic Portion of the Mark
Failure to Cite Prior Registration and/or Cited Mark that is Under Common Ownership or Control

From some of the more minor procedural refusals above, an examiner may elect to contact the filing party (whether the applicant/owner or its counsel) by phone or by issuing a “Priority Action”²⁰⁴ and request authorization for the examiner to simply correct the mistake (or examiner’s perceived deficiency) in the application on their end and send confirmation of that change. In order to authorize such an “Examiner’s Amendment,” counsel must be specifically identified as the “Counsel of Record” or “Other Appointed Attorney” in the Application or other prior filing with the USPTO in connection with the Mark.²⁰⁵

Examiners can always issue its more standard Office Action to raise non-substantive refusals, which will provide the standard six (6) month window to respond.²⁰⁶

Opposition Period and Overview of the Trademark Trial and Appeal Board (TTAB)

Once a Mark is approved by the USPTO examiner handling franchisor’s application, the application will normally be approved for publication and the USPTO will provide franchisor with a Notice of Publication detailing the date when the Mark will be published in the U.S. Trademarks Gazette.²⁰⁷ Third-parties will have a period of 30 days from the date the Mark is published to file a Notice of Opposition where the third party raises one (1) or more available arguments to block the franchisor’s registration, with the most common argument being that franchisor’s Mark is confusingly similar to the third-party’s previously registered (or otherwise senior) Mark.²⁰⁸

If no third-party oppositions, or Request for an Extension of Time to File Opposition (and often annoying tool imposed by bigger brands that cast a wide net when “monitoring” marks)²⁰⁹, are filed within the 30-day period, the Mark will be issued a federal registration in due course barring any unforeseen circumstances.

Before moving on to the formal Copyright process, it is important to provide a brief overview of the TTAB that commentators and counsel alike often refer to simply as the “Board”. In addition to handling opposition proceedings, this administrative Board also handles the adjudication of (a) *ex parte* proceedings where an applicant wishes to appeal the final determination to refuse registration (for whatever reason), and (b) cancelling proceedings that a third-party can initiate by filing a Petition to Counsel with the Board detailing the specific grounds that are available under the Lanham Act²¹⁰ that support cancellation of an existing federal registration.

While the scope of this paper does not allow a deeper dive into the TTAB, the foregoing proceedings could pay a big part in initially protecting and defending franchisor’s trademark rights. The Trademark Manual of Board Procedure (“TMBP”) is tantamount to the “Board’s Bible” when it comes to procedure, and it should become a primary resource should franchisor find itself navigating TTAB waters. It is also important to note that the TTAB often time has concurrent jurisdiction with federal district courts on a number of trademark-related matters, but typically if franchisor finds the same matter before both the TTAB and a federal court it is appropriate to suspend the Board proceeding and proceed with adjudicating the matter in federal court.²¹¹ The TMBP provides a specific method for the parties to file such a motion (including via an online consent motion).²¹²

D. Benefits of Protecting Franchisor’s Copyright Formally and Practical Overview of U.S. Copyright “Standard” Application Process and Timelines.

Anyone who had the opportunity to take an intellectual property survey course in law school likely remembers the copyright cases more clearly than other IP cases, because these cases often times involve celebrities and/or other pop culture products and references of the time (or times forgotten)²¹³.

Now as then, copyright cases often involve high-profile cultural actors and artifacts, as technology has only fueled the fire and glamour associated with this IP²¹⁴. While the world of franchising has had its share of prominent copyright “battles of the brands,” the focus of this paper will be on how to protect a franchisor client’s copyrightable works even if it they seem less likely to ever start a social media frenzy.

Copyright Application Overview and Process

In order to formally protect a franchisor’s copyrighted Work, it must be registered with the U.S. Copyright Office. Currently, the Copyright Office estimates that about 96% of the applications it receives are completed and submitted online utilizing the Copyright

Office's application wizard.²¹⁵ If the Work has been "published" within the meaning of the Copyright Act, then franchisor can file a "Registration Application" – if not, franchisor may consider filing a pre-registration application that details the other relevant information about the Work other than publication using the Office's "Pre-Registration Application."

According to the Copyright Office, however, pre-registration may only be beneficial to a copyright applicant if the applicant (a) thinks it is likely that a third-party will attempt to infringe on the Work before it is released or otherwise "published," and (b) has started on the Work but has not yet completed it as necessary for such "publication," with the Copyright Office cautioning that pre-registration will not be useful for the "vast majority of [W]orks."²¹⁶

In light of the above, let's focus on the standard "Registration Application" that a franchisor will need to file to acquire the advantages of a federal copyright we discuss more fully below under the next heading.

In order to file online, franchisor or the filing party must also set up or have an existing online account with the Copyright Office's "eCO" (or "Electronic Copyright Office") portal (the process of registering for a eCO account is free).²¹⁷ Franchisor will be eligible to file what the Copyright Office calls a "Single Application" if (a) franchisor agrees to file electronically, (b) all authorship contained in the Work and "deposit" of that Work submitted to the Office is the same author, (c) the Work is not a "collection" of individual Works and does not involve a "joint work" or "works made for hire," and (d) the author is also the sole claimant/owner and the Work is filed by the author or his or her authorized representative.²¹⁸ Otherwise, franchisor will need to submit what the Office calls a "Standard Application."²¹⁹

The online application process is completed via the eCO and, once the filing wizard helps franchisor determine which of the two (2) applications above is appropriate for registration by asking the applicant a series of questions²²⁰, the filing party will need to be prepared to submit the following information if required to proceed through the online "Standard Application" for the Work (or each Work) comprising the filing:

1. The type of Work (Literary, Work of Visual Arts, Sound Recording, Work of the Performing Arts, Motion Picture Work, etc.) – please recall that franchisor will need to use the Standard Application if the registered Work involves multiple works or has certain other characteristics;
2. The title of the Work (which the may impact how the Work is indexed with the Office) – remembering that the Standard Application must be used if there is more than one (1) Work at issue here;
3. Whether the title you submit is simply the "Title of Work Being Registered" or a different kind of title (i.e. prior title, title of a larger Work, Series Title or Contents Title) – keeping in mind that if a filing is comprised of multiple Works, then there will likely be multiple title selections;

4. Whether or not the Work has been published (Yes/No drop down box);
 - a. If “no,” then when the Work was completed and whether the applicant has filed any Preregistration Number acquired via a Preregistration Application filing;
 - b. If “yes,” then (i) when the Work was completed, (ii) date of first publication, (iii) nation of first publication, (iv) International Standard Number Type (if applicable, and (v) International Standard Number (if applicable).
5. Relevant information about the author or author(s) of the Work (or certain components thereof), including (a) whether the author is an individual or entity, (b) if an individual, that individual’s name, citizenship/domicile, year of birth and (if applicable) year of death, (c) if an entity, the entity name, (d) whether the author is “anonymous” or has/had any pseudonyms, and (e) whether the author’s contribution is a “work for hire” within the meaning of the Copyright Act;
6. What kind of contribution each author made to the Work that is submitted to the office as a “Deposit” with the online application;
7. The copyright “claimant(s)” with respect to the Work;
 - a. While the author is almost always the original copyright claimant, other parties may become a claimant via means of a transfer, assignment or other contractual provision wherein the author validly assigns that party the copyright associated with the Work;
 - b. Once the claimant’s contact information has been input, the filing party will need to submit a “transfer statement” from the drop-down box in the application to indicate how the claimant acquired its copyright claim in the Work;
 - c. Multiple claimants can be input for a single Work in the Standard Application (but not the Single Application);
8. Whether there are any limitations on a given copyright claim because the Work is, in part, based on previously-registered or otherwise published copyrighted materials. If that is the case, then the application also requires a description of the kind of pre-existing material, its prior registration(s) with the Copyright Office, and the new material that was address to that previously-registered subject matter to create the Work that is being applied for;
9. Optional submission detailing the contact information of any agent or specific representative the applicant wishes to grant the right to use the Work at issue (*i.e.*,

an attorney or management company) – most times, this will not be applicable for franchisors;

10. The contact information for (a) the correspondent whom the Copyright Office will contact if it has any questions or issues with the application, and (b) where the Copyright Office should send the U.S. Copyright certificate if and when issued.
11. If any of three (3) situations exist, the applicant may choose to request “Special Handling,” which costs about \$800 in additional filing fees and is typically chosen if there is pending litigation or other reason to accelerate the Work’s application.

After the information above has been input into the online Standard Application, the filing party will be required to identify him or herself, and whether they are an owner/claimant or authorized representative of either (the only parties that can submit and certify this kind of application).²²¹ Once the application has been reviewed and certified, the filing party will go through the payment processing steps – with payment accepted via ACH, credit card or an existing “Deposit Account” with the Copyright Office.

Once payment is confirmed, the applicant will need to provide the Office with a copy of the Work(s) at issue, which can be provided by: (i) uploading the appropriate file(s) for each titled Work comprising the application if that Work is of a type that can be represented via files that can be uploaded (i.e. pictures, design/plans, etc.); or (ii) if the Work is of a type that cannot be submitted via electronic copy, then a hard copy of the Work must be submitted to the Office using a shipping slip that is prepared using the online application.²²² Be sure not to submit both electronic and hard copies of the Work, as that will lead to delays in processing.²²³

Copyright Application Timeline(s)

Similar to a federal TM application, the timeline to secure a registration based on a federal copyright application will vary based on whether or not there are any issues with your copyright application that a Copyright Office examiner believes need to be addressed in order for your application to mature to a registration.

For claims that do not involve any such issues, the application timeline ranges from: (i) three (3) to eleven (11) months, with an average processing time of seven (7) months for web-based applications (which the Copyright Office estimates to be about 66% of all Copyright Office applications filed in 2017)²²⁴; or (ii) two (2) to sixteen (16) months, with an average processing time of nine (9) months, for all mail-based applications (which the Copyright Office estimates to be about 3% of all applications filed in 2017).²²⁵

For web-based applications that do involve issues raised by the Copyright Office examiner (constituting about 30% of all 2017 applications), the applications processing time ranges from three (3) to sixteen (16) months with an average of nine (9) months. For mail-based claims involving such issues (comprising the remaining 2% of 2017

applications), the average processing time is sixteen (16) months based on a range of four (4) to twenty eight (28) months.²²⁶²²⁷

Benefits of Formal Copyright Registration

In addition to establishing a public record of a copyright claim, registration offers several other statutory advantages²²⁸:

- Before an infringement suit may be filed in court, registration (or refusal) is necessary for Works that originated in the U.S.
- Registration establishes prima facie evidence of the validity of the copyright and facts stated in the certificate, when registration is made before or within five (5) years of publication.
- When registration is made prior to infringement or within three months after publication of a work, a copyright owner is eligible for statutory damages, attorneys' fees, and costs.
- Registration permits a copyright owner to establish a record with the U.S. Customs and Border Protection (CBP) for protection against the importation of infringing copies.

Registration can be made at any time within the life of the copyrightable Work. If franchisor registers a Work before publication, franchisor does not have to re-register once the Work is published, but there may be benefits to registering the published Work and franchisor has a mechanism to do so if desired.²²⁹

Duration of Copyright Protection

In general, for works created on or after January 1, 1978, the term of copyright is the life of the author plus seventy years after the author's death. If the work is a joint work with multiple authors, the term lasts for seventy years after the last surviving author's death. For works made for hire and anonymous or pseudonymous works, the duration of copyright is ninety-five (95) years from publication or one hundred twenty (120) years from creation, whichever is shorter.²³⁰

For works created before January 1, 1978, that were not published or registered as of that date, the term of copyright is generally the same as for works created on or after January 1, 1978. The law, however, provides that in no case would the term have expired before December 31, 2002, and if the work was published on or before that date, the term will not expire before December 31, 2047.²³¹

For works created before January 1, 1978, that were published or registered before that date, the initial term of copyright was twenty-eight (28) years from either the date of publication with notice or from the date of registration. At the end of the initial term, the

copyright could be renewed for another sixty-seven (67) years for a total term of protection of up to ninety-five (95) years. To extend copyright into the renewal term, two registrations had to be made before the original term expired: one for the original term and the other for the renewal term. This requirement was eliminated on June 26, 1992, and renewal term registration is now optional.²³²

IV. PROACTIVE PROTECTION OF ALL FRANCHISOR’S INTELLECTUAL PROPERTY AND SPECIAL CONSIDERATIONS TO PROTECT IP NOT SUBJECT TO “FORMAL” PROTECTION

A. Building Protective Provisions into the Franchise Agreement

Your franchisor client’s primary concern is often times ensuring that its franchisees acknowledge franchisor’s ownership of the IP licensed as part of its franchise offering, and that franchisor has the proper rights to control when and how its IP may be used by the franchisee network. This can be accomplished, in large part, by placing the appropriate provisions in your franchisor’s prescribed form of franchise agreement.

As is the case with much of a franchisor’s franchise agreement, the selected provisions designed to protect the franchisor’s IP rights should be purposefully drafted to encompass a wide range of potential IP-related issues disputes, even if the foregoing are not forefront in the mind of the franchisor at the time of drafting. At the same time, these provisions need not drill down and provide a current snapshot of the franchisor’s current IP portfolio – as franchisor is required to do in Items 13 and 14 and other portions of the FDD discussed under the next heading – and should instead provide franchisor with the necessary flexibility to refine and otherwise modify its IP portfolio and require its franchisees to comply with any franchisor directives regarding the same. With that in mind, here are the primary IP-related provisions that should be included in a franchise agreement and corresponding drafting tips when preparing each provision:

Provisions Protecting Intellectual Property Generally	
<i>Subject Matter of Provision</i>	<i>Sample Provision (or Portion of Provision) to Protect IP</i>
Definition of the Franchisor’s “System”	<p>Franchisor’s “System” is comprised of various proprietary and, in some cases, distinguishing elements, including without limitation: the trade secrets, confidential information, copyrightable works and Marks associated with the System; proprietary methodology and procedures for the establishment and operation of a Shop; site selection guidance and criteria; specifications for the design, layout and construction of the interior of the Shop; standards and specifications for the furniture, fixtures and equipment located within a Shop; established relationships with approved or designated suppliers for certain products and services; and standards and specifications for sales techniques, merchandising, marketing, advertising, inventory management systems, advertising, bookkeeping, sales and other aspects of operating a Shop.</p> <p>Franchisee hereby acknowledges and agrees that: (i) while the System and Franchisor’s related materials contain information that, in isolated form, could be construed as being in the public domain, they also contain significant proprietary and confidential information which makes the System unique as a whole; and (ii) the</p>

	combined methods, information, procedures, and theories that make up the total System or are contained in the relevant manuals that are proprietary and confidential.
Grant of Franchise	Franchisor hereby grants Franchisee, subject to the terms, conditions, and obligations of this Agreement, the right and license to use the Proprietary Marks and receive the other benefits of the System in connection with the establishment and operation of a single Shop (the "Franchised Business").
Right to Modify System	The parties agree and acknowledge that Franchisor may change, improve, further develop, or otherwise modify the System from time to time as it deems appropriate in its discretion.
Franchisee's Offer and Sale/Provision of Approved Products and Approved Services	Franchisee must and may only offer and sell only the Approved Products and Approved Services at the Franchised Business. Franchisee may not offer or provide any other products/services and must not deviate from Franchisor's System standards and specification related to the manner in which the Approved Products or Approved Services are offered and sold, unless Franchisor provides its prior written consent. Franchisor has the right to add additional, delete or otherwise modify certain of the Approved Products and Services from time to time in the Manuals and otherwise in writing, as it deems appropriate in its sole discretion. In the event of a dispute between Franchisee and Franchisor concerning Franchisee's right to carry any particular product or to offer any specific service, Franchisee will immediately remove the disputed products from inventory, remove the disputed service from those services offered at the Premises, or, if the same are not already in inventory or such services not yet being offered, will defer offering for sale such products and services pending resolution of the dispute.
Construction and Buildout of the Franchised Business	Franchisee must complete all construction and build-out of the Premises in a manner consistent with Franchisor's System standards, specifications and any agreed-upon plans, including all modified templates associated with Franchisor's templates for a prototype Shop, and open the Franchised Business to the public no later than...
Image of Franchised Business	Franchisee shall maintain the image of the Franchised Business at all times in accordance with Franchisor's standards and specifications, including: (i) ensuring that the Premises is maintained in a clean and orderly manner; and (ii) ensuring that all equipment, furniture and fixtures remain in good, clean condition and is properly displayed. Franchisor may require Franchisee to refurbish, renovate and/or otherwise substantively modify the interior of the Franchised Business, including the furniture, fixtures and equipment used at the Premises, no more than once every five (5) years (unless the change is required in connection with a renewal or transfer of this Agreement) so that the Premises and Franchised Business conform with Franchisor's then-current System standards and specifications for a new Shop.
Inspection/Audit Rights	Franchisor will have the right, as it deems appropriate in its sole discretion, to conduct inspections and/or audits of the Franchised Business and Premises to ensure that Franchisee is operating its Franchised Business in compliance with the terms of this Agreement, the Manuals and the System standards and specifications. Such inspections may include inspections of the Premises, taking photographs and/or videotape of the Shop's common area, taking samples of any Approved Products for sale at the Shop, interviewing and surveying Franchisee's personnel and customers, inspecting any and all books and records, and conducting mystery shop services. Franchisor is not responsible for ensuring that the Franchised Business is being operated in compliance with all applicable laws and regulations.

<p>Franchisee "Improvements"</p>	<p>Franchisee agrees to disclose promptly to Franchisor any and all inventions, discoveries, and improvements, whether or not patentable or copyrightable, that are conceived or made by Franchisee or its employees or agents that are in any way related to the establishment or operation of the Franchised Business (collectively, the "Improvements"), all of which shall be automatically and without further action owned by Franchisor without compensation to Franchisee (including all intellectual property rights therein). Whenever requested to do so by Franchisor, Franchisee will execute any and all applications, assignments, or other instruments that Franchisor may deem necessary to apply for and obtain intellectual property protection or to otherwise protect Franchisor's interest therein. These obligations shall continue beyond the termination or expiration of this Agreement. If a court should determine that Franchisor cannot automatically own certain of the Improvements that may be developed, then Franchisee hereby agrees to grant Franchisor a perpetual, royalty-free worldwide license to use and sublicense others to use such Improvements.</p>
<p>Default and Termination Rights Based on Breach of IP-Related Provisions</p>	<p>Franchisor has the right to terminate this Agreement upon written notice to Franchisee without providing Franchisee any opportunity to cure with respect to any of the following breaches or defaults:</p> <ul style="list-style-type: none"> - If Franchisee or Franchisee's owners/principals violate any of the in-term covenant not to compete or any of the other restrictive covenants set forth in Section 14 of this Agreement; - If Franchisee misuses the Proprietary Marks or Confidential Information in any manner, or otherwise violates any provision of this Agreement related to the use of the Proprietary Marks, Confidential Information and any other confidential materials provided by Franchisor (including those provisions related to non-disclosure of the Manuals and other confidential materials that Franchisor loans to Franchisee); - If Franchisee misuses any proprietary software that Franchisor designates for use in connection with the Franchised Business; or - If Franchisee fails to cure any of the following violations under this Agreement within ten (10) days of being notified by Franchisor: (i) failure to offer only those Approved Products and Services that Franchisor authorizes at the Franchised Business; (ii) any purchase of any non-approved item or service for use in connection with the Franchised Business; (iii) failure to purchase any Required Item that Franchisor designates as necessary for the establishment or operation of the Franchised Business from the appropriate Approved Supplier(s) that Franchisor designates.
<p>Post-Term Obligation to Cease Operations and Use of the System</p>	<p>Upon the expiration or termination of this Agreement, Franchisee shall immediately cease to be a franchise owner of Franchised Business under this Agreement and cease to (a) operate the former Franchised Business, and (b) otherwise use of the System in any manner.</p>

Right to Injunctive Relief	Franchisee acknowledges and agrees that irreparable harm could be caused to Franchisor by Franchisee’s violation of certain provisions of this Agreement and, as such, in addition to any other relief available at law or equity, Franchisor shall be entitled to obtain in any court of competent jurisdiction, without bond, restraining orders or temporary or permanent injunctions in order to enforce, among other items, the provisions of this Agreement relating to: (i) Franchisee’s use of the Proprietary Marks and Confidential Information (including any proprietary software used in connection with the Franchised Business); (ii) the in-term covenant not to compete, as well as any other violations of the restrictive covenants set forth in this Agreement; (iii) Franchisee’s obligations on termination or expiration of this Agreement; (iv) disputes and controversies based on or arising under the Lanham Act, or otherwise involving the Proprietary Marks, as now or hereafter amended; (v) disputes and controversies involving enforcement of the Franchisor’s rights with respect to confidentiality under this Agreement; and (vi) to prohibit any act or omission by Franchisee or its employees that constitutes a violation of applicable law, threatens Franchisor’s franchise system or threatens other franchisees of Franchisor. Franchisee’s only remedy if such an injunction is entered will be the dissolution of the injunction, if appropriate, and Franchisee waives all damage claims if the injunction is wrongfully issued.
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Provisions Relevant to Protecting Trademarks Specifically	
<i>Subject Matter of Provision</i>	<i>Sample Provision (or Portion of Provision) to Protect IP</i>
Definition of “Proprietary Marks”	The System and Shops are identified by the mark [INSERT MARK], as well as certain other trade names, trademarks, service marks and trade dress, all of which Franchisor may modify, update, supplement or substitute in the future (collectively, the “Proprietary Marks”). The parties agree and acknowledge that Franchisor has established substantial goodwill and business value in its Proprietary Marks, expertise, and System.
Franchisee’s Acknowledgement Regarding Ownership	Franchisee acknowledges the exclusive ownership and/or right to use the Proprietary Marks by Franchisor, and Franchisee agrees that during the term of this Agreement and after its expiration or termination Franchisee will not directly or indirectly contest or aid in contesting the validity of the Proprietary Marks or the ownership or rights of the Proprietary Marks by Franchisor. Furthermore, Franchisee intends and hereby concedes that any commercial use Franchisee may make of the Proprietary Marks shall contribute and inure to the commercial use and benefit of Franchisor, which Franchisor may claim to strengthen and further secure ownership of the Proprietary Marks.
Permitted Use of Marks	It is understood and agreed that the use by Franchisee of Franchisor’s Proprietary Marks applies only in connection with the operation of the Franchised Business at the Premises, and includes only such Proprietary Marks as are now designated, or which may hereafter be designated in the Manuals or otherwise in writing as part of the System (which might or might not be all of the Proprietary Marks pertaining to the System owned by the Franchisor), and does not include any other mark, name, or indicia of origin of Franchisor now existing or which may hereafter be adopted or acquired by Franchisor.
Use in Advertising and Signage	To develop and maintain high, uniform standards of quality and service and thereby protect Franchisor’s reputation and goodwill, as well as that of the System, Franchisee agrees to:

	<ol style="list-style-type: none"> 1. Operate and advertise the Franchised Business only under the Proprietary Marks authorized by Franchisor as specified in this Agreement or the Manuals; 2. Maintain and display signage and advertising bearing the Proprietary Marks that reflects the current commercial image of the System and, upon notice from Franchisor, to immediately discard and cease use of Proprietary Marks or other imagery that has become obsolete and no longer authorized by Franchisor. 3. Upon Franchisor's request, Franchisee hereby covenants and agrees that it will affix in a conspicuous location in or upon the Premises, a sign containing the following notice: "This business is owned and operated independently by (<i>name of franchisee</i>) who is an authorized licensed user of the [INSERT PRIMARY MARK] under a license agreement with [FRANCHISOR]."
<p>Acknowledgements Regarding Infringement if Franchisee Engages in Non-Authorized Use</p>	<p>Franchisee acknowledges that the use of the Proprietary Marks outside the scope of this license without Franchisor's prior written consent constitutes material infringement of Franchisor's trademark rights in such Proprietary marks. During the term of this Agreement and after the expiration or termination hereof, Franchisee covenants not to directly or indirectly commit an act of infringement, contest or aid in contesting the validity or ownership of Franchisor's Proprietary Marks, or take any other action in derogation thereof.</p>
<p>Notice of Third-Party Infringement or Potential Infringement</p>	<p>Franchisee agrees to cooperate with and assist Franchisor in connection with any legal action brought by or against either of them regarding the protection and preservation of the Proprietary Marks, System, or the Manuals and other information and intellectual property delivered to Franchisee or used by Franchisee under this Agreement.</p>
<p>Franchisee's Assistance in Protecting the Marks; Franchisor's Right to Control Litigation Involving the Marks</p>	<p>Franchisee shall notify Franchisor within three (3) calendar days of any suspected infringement of, or challenge to, the validity of the ownership of, or Franchisor's right to use, the Proprietary Marks licensed hereunder. Franchisee will not communicate with any persons other than Franchisor or Franchisor's legal counsel in connection with any such infringement, challenge, or claim. Franchisee acknowledges that Franchisor has the right to control any administrative proceeding or litigation involving the Proprietary Marks. In the event Franchisor undertakes the defense or prosecution of any litigation relating to the Proprietary Marks, Franchisee agrees to execute any and all documents and to do such acts and things as may be necessary in the opinion of counsel for Franchisor to carry out such defense or prosecution.</p>
<p>Right to Modify the Marks</p>	<p>If, in Franchisor's sole determination, the use of Proprietary Marks in connection with the System will infringe or potentially infringe upon the rights of any third party, weakens or impairs Franchisor's rights in the Proprietary Marks, or it otherwise becomes advisable at any time in Franchisor's sole discretion for Franchisor to modify, substitute, supplement, discontinue, the Proprietary Marks that are licensed hereunder, Franchisee must comply with any such directives regarding the modification of the Proprietary Marks in the manner prescribed by Franchisor within a reasonable time (not to exceed 30 days) following Franchisor communicating the same via the Manuals or otherwise in writing.</p> <p>If Franchisor changes the Proprietary Marks in any manner, Franchisor will not reimburse Franchisee for any out-of-pocket expenses that Franchisee incurs to implement such modifications or substitutions. Franchisor is not obligated to reimburse Franchisee for any loss of goodwill or revenue associated with any modified or discontinued Proprietary Mark, nor is Franchisor responsible for reimbursing Franchisee for any other costs or damages.</p>

De-Identification and Return of Branded Materials Upon Expiration or Termination of the Franchise Agreement	Upon termination or expiration and non-renewal of this Agreement, Franchisee agrees to immediately cease use, in any manner whatsoever, of any of the Proprietary Marks or any other Proprietary Marks or trade names that may be confusingly similar to the Proprietary Marks.
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Notes on Other Primary Provisions Relevant to Addressing IP Protection	
Make sure the franchisor’s definition of its “Confidential Information” is specific, inclusive and has reasonable limitations regarding what is “exempt” from the definition of “Confidential Information” (such as information in the public domain).	
Confidentiality and Non-Disclosure Obligations: All Franchise Agreement should have standard provisions that not only protect against Franchisee’s disclosure or misappropriation of Franchisor’s Confidential Information – but also requires the Franchisee (a) have its personnel that will have access to such information sign a prescribed form of “NDA” that contains third-party beneficiary rights in favor of Franchisor, and (b) is otherwise required to cooperate with Franchisor in enforcing the same. -	
Advertising Designation and Approval Rights (Copyright and Trademark): Franchisor should always have the right to (a) approve all advertising, (b) designate and require Franchisee to use all designated advertising and/or purchase such materials from Franchisor’s approved suppliers, and (c) revoke any prior advertising approval upon notice.	
Right to Designate and/or Approve Suppliers (Patents, Trade Secrets, Confidential/Proprietary Information): This is pretty self-explanatory, but if Franchisor has any specific concerns or items its wants to highlight here, counsel can consider doing so. With that said, Franchisor should not list any specific suppliers in the Franchise Agreement as to avoid “muddying the waters” on Franchisor’s right to modify the supplier at some point over the 10+ year term of the agreement. The same principle goes for Item 8 of the FDD to the extent permitted by the Rule (and state examiners).	
Franchisee’s Right to Propose Alternative Suppliers: Make sure Franchisor has the right to condition any evaluation of a third-party supplier on that supplier signing Franchisor’s prescribed form of NDA and that franchisor has total discretion over its decision.	
Operations Manual and Franchisor’s Right to Modify (Trade Secrets, Patents, Confidential Information and other Proprietary Information)	
Right to Establish Cloud or Other Internet-Based Portal to Distribute System Materials	
Return of Manual and Other Proprietary Information Upon Expiration or Termination of the Franchise Agreement: The language on the foregoing point is important in the Franchise Agreement, but equally or perhaps more critical is the making sure Franchisor (a) understands what it needs to do upon expiration/termination to ensure its IP is protected, returned or destroyed (as Franchisor determines appropriate), and (b) has a clear plan and process in place for ensuring Franchisee compliance, including any on-site inspection rights (and responsibility for associated costs).	

B. Ensuring Proper IP-Related Disclosure(s) in the FDD

Once you’ve built in or revised the IP-related provisions above into your client’s franchise agreement (as needed), the next step is to make sure that the franchisor’s FDD contains that appropriate disclosures to (i) identify the rights and obligations underpinning these provisions if and as required by the Rule or, in at least one (1) case, by state franchise registration laws²³³; and (ii) otherwise address the required disclosures in Items 13 and 14, which are designed to provide prospective franchisees with a snapshot of franchisor’s current IP portfolio and related issues that might have an impact on the franchisee’s rights or operations moving forward.

While most commentators tend to gloss over Items 13 and 14 of the FDD and generally refer to them as containing “brief but important” disclosures that describe the kind of IP that a franchisee will have access to, the potential pitfalls associated with franchisor failing to or inaccurately disclosing certain IP-related information warrants a closer look here.

Item 13 Walkthrough and Disclosure Considerations

The Rule breaks down Item 13 into nine (9) primary categories of required disclosure, with the Chart below detailing each category and what to consider as franchise counsel when preparing this Item:

Item 13 Disclosure Requirement	Practical Disclosure Considerations				
<p>“Principal Trademarks” to be licensed to franchisees and whether:</p> <ol style="list-style-type: none"> 1. Each disclosed Mark is registered on Principal or Supplemental Register of the USPTO and registration details (registration date/number and which Register); and 2. Whether all affidavits necessary to maintain or renew any registration have been filed. 	<p>Make sure Item 13 contains prefacing language describing the limited license that Franchisee will acquire to use the Marks in connection with the operation of the Franchised Business only and, if appropriate, clearly disclaims that the Franchisee will not acquire any trademark rights or license under any multi-unit development agreement (or “ADA”) that the Franchisee might also enter into if it is engaging in multi-unit development.</p> <p>May not include every trademark the franchisor owns and, depending on the strength or registration status of a given Mark, counsel should consider whether to disclose that Mark if it is not a “principal” Mark.</p> <p>The Mark displayed on the FTC Cover Page of the FDD should likely be disclosed in Item 13.</p> <p>While not required, franchisors often detail their principal Marks in a chart in the following format:</p> <table border="1" data-bbox="743 1675 1515 1820"> <thead> <tr> <th data-bbox="743 1675 906 1820">Mark</th> <th data-bbox="911 1675 1110 1820">Application Serial No. OR Registration No.</th> <th data-bbox="1115 1675 1320 1820">Filing Date OR Registration Date</th> <th data-bbox="1325 1675 1515 1820">Principal or Supplemental Register</th> </tr> </thead> </table>	Mark	Application Serial No. OR Registration No.	Filing Date OR Registration Date	Principal or Supplemental Register
Mark	Application Serial No. OR Registration No.	Filing Date OR Registration Date	Principal or Supplemental Register		

<p>For any Mark disclosed in Item 13 that is not yet registered, the pending Application details (date, number and Register), if any, for such Mark</p>	<p>The Chart above uses a format that can be used to disclose both registered and “not yet registered” principal Marks. If a given Mark is not yet registered by franchisor, it may make sense to keep it out of Item 13 if it is not a primary mark used to identify the Franchised Business at issue.</p> <p>If you do not have a federal registration for a Mark on the Principal Register of the USPTO, franchisor will need to make the following negative disclosure that can impact how the prospect views the risks associated with purchasing your client’s franchise:</p> <p><i>We do not have a federal registration for our principal trademark. Therefore, our trademark does not have many legal benefits and rights as a federally registered trademark. If our right to use the trademark is challenged, you may have to change to an alternative trademark, which may increase your expenses.</i>²³⁴</p>
<p>Any effective material determinations of the USPTO, TTAB or any state trademark administrator or court; and</p> <p>Any pending infringement, opposition, or cancellation proceeding, including infringement, opposition, or cancellation proceedings in which your franchisor client unsuccessfully sought to prevent registration of a third-party mark in an effort to protect a Mark your client licenses to its franchisee; and</p> <p>How any such determination affect the ownership, use or licensed of the Mark(s) at issue.</p>	<p>Try to limit Franchisor’s disclosures here as much as possible, while also complying with the Rule.</p> <p>Please note that office actions that the TM examiner issues in connection with a pending application does not necessarily constitute “an effective material determination” of the USPTO, but it may if it is an office action that goes “Final” or if the TTAB has issued a final determination in connection with an appeal of an office action.</p> <p>Notice that the Rule requires Franchisor to disclose all actions where Franchisor unsuccessfully sought to have the TTAB or federal court prevent registration of a competitor’s or other confusingly similar Mark. This means Franchisor should use discretion when attacking the “registerability” (or use general) of third-party Marks – counsel should make sure Franchisor does not issue demand letters or file actions that are not supported by the law and can’t be “backed up” as discussed more fully under “Reactive Protection.”</p>
<p>Details of any pending federal or state court litigation regarding your franchisor client’s use or ownership rights in a given Mark that is material, namely:</p> <ol style="list-style-type: none"> 1. Forum and venue of action; 2. Nature of the claims made; and 3. Any effective court or administrative agency ruling on the matter. 	<p>The franchisor may include an attorney’s opinion relative to the merits of litigation or of an action if the attorney issuing the opinion consents to its use. The text of the disclosure may include a summary of the opinion if the full opinion is attached and the attorney issuing the opinion consents to the use of the summary.</p>
<p>The details of any currently effective agreement(s) that significantly limit franchisor’s rights to use or license the use of Marks listed in this Item in a manner that is material to the franchise, namely:</p> <ol style="list-style-type: none"> 1. The manner and extent of the limitation or grant; 2. Potential effect on franchisee; 3. Duration of agreement and parties thereto; 4. Whether and how agreement may be cancelled or modified; and 5. Other material terms. 	<p>If the franchisor is licensing a given Mark from an affiliate, parent, predecessor or third party, counsel must consider whether this license agreement imposes any significant limitation on franchisor’s use and licensing of the Mark (even if such limitation was never intended).</p> <p>If such a limitation exists and the parties to the agreement are related, then counsel should push to remove any such limitations and otherwise revise the agreement before issuing the FDD so that the agreement is either not disclosable or, if that cannot be</p>

	accomplished, involved minimal disclosures that will not deter prospective franchisees.
<p>Whether the franchisor must protect the franchisee's right to use the principal trademarks listed in this section, and must protect the franchisee against claims of infringement or unfair competition arising out of the franchisee's use of the trademarks; and</p> <p>What the franchise agreements requires of both the franchisee and franchisor in connection with third-party infringement claims involving franchisor's Marks, including indemnification obligations and process.</p>	<p>Typically, franchisors will have a pretty standard indemnification provision in the Franchise Agreement requiring Franchisor to indemnify, defend and hold Franchisee harmless in the very specific situation where: (i) the action arises solely out of Franchisee's <i>authorized</i> use of the Marks in accordance with the Franchise Agreement, Manuals or otherwise in writing at the time of the alleged infringement and thereafter; (ii) Franchisee provides prompt notice of any such third-party claim to Franchisor; and (iii) Franchisee permits Franchisor to control the litigation and agrees to cooperate with Franchisor when doing so.</p> <p>If possible, one should try to limit Franchisor's exposure under the indemnification provision to the initial franchise fee paid, especially in situations where Franchisor's Marks are not yet registered or where due diligence shows some potential challenges to registration in the future.</p>
The franchisee's rights under the franchise agreement if the franchisor requires the franchisee to modify or discontinue using a given Mark.	Under the FA, the franchisee should not have any rights or remedies if franchisor elects to modify the Mark, other than a reasonable time period to adopt and implement the change (which may vary based on whether the change involves exterior signage or other material purchases by the franchisee to effectuate). Please see sample language under the prior heading.
<p>Whether franchisor knows of either superior prior rights or infringing uses that could materially affect the franchisee's use of the principal Marks in the state where the franchised business will be located.</p> <p>Details of any third-party use of a principal Mark that franchisor believes constitutes infringement and has the potential to materially affect the franchisee's use of that Mark, namely: (i) the nature and location(s) of the infringing activity; (ii) duration of the purported infringement at each location; and (iii) any actions that your franchisor client expects or intends to take (or has taken already) in response.</p>	<p>Any disclosures here should be limited to what Franchisor knows or reasonable should know via its due diligence.</p> <p>Franchisor's disclosures on this point should also be limited to only those senior rights or infringing uses that have the potential to affect where the franchisee might be operating. Interestingly, if Franchisor is aware of senior common law rights that a third party has in a Mark that might require disclosure here, Franchisor may elect not to sell in that state or area as part of its franchising strategy – and this may provide Franchisor with a basis for now disclosing this known use (if it is indeed only a common law use with limited protection in a trade area where Franchisor is not offering franchises).</p> <p>Do not overstate what your franchisor client has done, or overpromise when describing any actions that franchisor expects or intends to undertake in response. Set reasonable expectations both with the Franchisor (in terms of what actions it can take) in everyday representation and with the prospect here in Item 13.</p>

Following the Rule directives and response guidelines above when preparing your client's Item 13 disclosures will help ensure that franchisor is not unnecessarily exposed to claims about what a prospective franchisee should have known about your client's Marks prior to purchasing a franchise and will be an important part of franchisor defending against any rescission or other franchisee claim based on a purported misrepresentation regarding the Marks or the franchisee's right to use the same.

Item 14 and Disclosure Considerations

Given that most franchise concepts do not rely heavily (if at all) on formally-registered copyrights and patents that comprise the required disclosures for Item 14 of the FDD, there is no need to provide the kind of comprehensive walkthrough that we provided for Item 13 regarding Franchisor's principal and other Marks. This is not to say the franchise counsel shouldn't have the entire Rule at their side to ensure each specific Item 14 disclosure is addressed, but the following is a truncated list of the Item 14 disclosures that are relevant to most franchisors and should be at the forefront of counsel's analysis when navigating this portion of the FDD:

- If the franchisor owns any copyrights or patents that are registered, or has any pending copyright or patent applications pending, with the U.S. Copyright office or USPTO, respectively, then franchisor must disclose certain information about those filings (duration of the protection, registration/application number and date²³⁵) with the Rule requiring further patent disclosure regarding the type of patent, nature of the patented subject matter and its relationship to the franchise.²³⁶
 - o If franchisor has this kind of formal IP protection, the relevant details needed to cover the required disclosures should be easily obtainable from the IP Chart you have created as part of your initial evaluation of the franchisor's IP portfolio.
 - o If the franchisor does not have any of these formal filings or registrations, then Item 14 must contain a negative disclosure to that effect.
- Even if you make such a negative disclosure regarding formal copyright and patent protection, more often than not your franchisor client will claim common law copyright protection in its Operations Manual, training and template marketing materials, designs and layouts, certain logos and other materials. Item 14 provides franchisor the opportunity to give a "shout out" to these materials and how they bring value to the franchise offering while also complying with the Rule. If the client's franchise agreement contains an "Improvement" provision similar to the one previously suggested, then noting franchisor's right with respect to such franchisee-developed IP (which is often times protectable by copyright) is likely appropriate in this Item as well.
- The Rule requires that franchisor next disclose any material determinations by the USPTO, Copyright Office or court regarding any patent or copyright, as well as how this determination affects the franchised business being offered under this Disclosure Document.
 - o Importantly, the plain reading of this portion of the Rule does not limit the scope of disclosure to registered patents or copyrights of the franchisor, and can easily be read to include any (a) unregistered

copyrights, and (b) determinations regarding any third-party patent and copyright actions against franchisor.

- A material determination could also include a refusal to register a patent or copyright the franchisor has applied for, and franchise counsel should weigh the risk of such a negative disclosure appearing in Item 14 when analyzing whether franchisor should apply for “formal” protection of certain items, and be sure to emphasize this risk when advising client (especially if your recommendation is not to proceed with the filing, as it may assist in achieving client alignment and set client expectations).
 - In addition to material determination, franchisor must also disclose a summary of any pending proceedings with the USPTO or any court involving the patents or copyrights that franchisor claims are material to the franchise. Given that the term “material” is used throughout the statute, part of your analysis should include whether franchisor is able to reasonably modify the System to remove or replace any IP that is subject to a negative material determination.
 - On the other end of the spectrum, if the material determination involved the a USPTO, court or other decision in favor of franchisor’s IP or that enforces said IP against a third party, then counsel may want to emphasize this fact and should not be concerned with a bulkier disclosure if it helps show the franchise prospect the validity and/or value of a particular patent or copyright.
 - Be sure to review the kinds of “Other Franchisor Agreements” discussed under the next heading in this Section, as they may very well come into play in the kinds of proceedings described above.
- Similar to trademarks, franchisor must disclose any agreement the limits the use of the patent, patent application or copyright, along with the details of that agreement and how it might affect the franchisee. Again, certain of these agreements are discussed under the next heading and should be considered when addressing this disclosure requirement.
 - If franchisor is required to protect and/or provide indemnification to franchisee in connection with its use of, the patent, patent application or copyright, then the parties’ obligations and rights regarding these issues must be disclosed.
 - Recall that the “Franchisor Indemnification” suggested for the franchise agreement only provides for franchisor to indemnify the franchisee in connection with third-party trademark claims involving the Marks, and does not refer to patents or copyrights.

- While we recommend sticking with that language and not including any other indemnification language regarding the “System” or that specifically covers patents or copyrights, you should be careful how you address this particular Item 14 disclosure and also consider whether franchisor might have any indemnification obligations rooted in statute or common law (even if not set forth in the franchise agreement).
- As part of this disclosure, franchisor should always disclose that franchisee must comply with any modifications or other directives that franchisor issues to the franchise system regarding any patent or copyright within a reasonable period of time after notice.²³⁷ While franchisor’s right to modify patents and copyrights if not often specifically spelled out in the franchise agreement, such modification rights and responsibilities should be covered by franchisor’s right to modify the System generally so long as franchisor is careful to note these specific kinds of IP in the “System” definition.
- While it will hopefully not be a disclosure you have to spend too much time on with your client, the Rule also requires disclosure of *any* patent or copyright infringement action that could materially affect the franchisee, along with (a) the nature, location(s) and length of infringement, and (b) what actions the franchisor expects or anticipates taking²³⁸.
 - This could be read to include actions involving patents or copyrights that do not even name franchisor or its affiliates if the action involves the franchisor’s approved supplier for a given subject matter that is licensed or sold to the franchisee network.
 - If there is an action that needs to be disclosed here, then franchisor should be clear and concise when describing the actions it expect to take in the future and resist the temptation to overpromise or overstate the franchisor’s intentions in an effort to put franchise prospects’ at ease. The best practice is be transparent, but only to the extent the Rule requires.
- Lastly, the Rule requires that franchisor generally describe any trade secrets or other confidential information (not previously covered by the disclosures above) that franchisor claims as proprietary and licenses to franchisees to use.
 - While this provides franchisor with another opportunity to tout its IP even if it is not formally registered, franchisor should limit its relevant disclosure to those items that likely to remain material to the franchise offering for an extended period of time.
 - Moreover, franchisor is only required to describe the general nature of the proprietary information (e.g., a “formula” or “recipe”) and franchise

counsel should be careful not to disclose any more detail, as such specifics may (a) impact the secrecy/confidentiality of the IP at issue, and/or (b) give the prospect the impression that the IP at issue will not be changed, modified or substituted in the future.

C. Other Agreements Relevant to Ensuring Ownership of IP and its and/or Ongoing Protection of Trade Secrets, Confidential Information and other Proprietary Information

The FDD and franchise agreement are the tools franchisor should utilize to ensure its intellectual property is protected against franchisee infringement and/or improper misappropriation, but there are a handful of other contracts that play a regular – and sometimes pivotal – role in protecting franchisor that franchise counsel should be familiar with. These agreements usually come up in two (2) situations that are relevant to a franchisor’s IP: (i) the development of the IP subject matter; and (ii) protecting the IP from third-party disclosure or other infringement.

Often times, franchisors (especially newer ones) need to engage outside help to assist in developing initial marketing materials, training materials and the Operations Manual and other items that franchisees will have access to as part of the franchise, many of which may be subject to copyright²³⁹, trademark²⁴⁰, patent or other IP protection. The primary goal in this context is ensuring that: (i) franchisor owns the work product and all IP rights associated therewith; and (ii) that the provider of the work product created or otherwise developed the work product in a manner that is original and assignable to franchisor. The key provisions in these kinds of contracts – often referred to as “consulting agreements,” “software development agreements,” “service agreement” or the all-encompassing “independent contractor agreement” – are as follows:

- “Work for hire” or other “magic” language
- Representations Regarding Ownership and Assignability
- Assignment
- Obligation to Execute Ancillary Documents and Power of Attorney in Favor of Franchisor/Owner
- Confidentiality and Non-Disclosure
- Indemnification
- Non-Circumvention
- Default, Termination and Injunctive Relief
- State Law Considerations²⁴¹

As franchisors grow larger and their franchisee network expands both in size and geographic scope, successful franchisors must expand their supply chain for items or services that they consider proprietary and may be subject to IP protection. Whether the IP at issue is a proprietary product mix or a customized FFE²⁴² package used to buildout a new franchise location, the relevant issues and provisions that franchise counsel needs to analyze in the contracts franchisor has or might enter into with a given “supplier,” “manufacturer,” “distributor,” “co-packer” or “consultant” with whom franchisor is dealing

are really a select combination of (a) the points discussed directly above, and (b) those items that franchisor must address when preparing its franchise agreement²⁴³. With that in mind, here are a few of the most salient provisions that deserve special evaluation in this context:

- Non-Circumvention
- Limited License to Use Marks
- Marketing/Packaging Approval
- Confidentiality, Non-Disclosure and Liquidated Damages.
- Representations and Warranties²⁴⁴.
- Acknowledgements Regarding IP Ownership.
- Exclusive Dealings
- Other Restrictive Covenants
- Default, Termination and Injunctive Relief
- Checking for Reference to Purchase Order, Invoice or Other External “T&C”

As you may have noticed, these agreements can come across your desk with just about any name on them, and they are often times largely negotiated by the franchisor’s key operations personnel tasked with “running the contract” by legal before signing. In addition to the fear of perceived “over-lawyering” the foregoing context can engender, franchise counsel should be prepared for the supplier to begin any attempt to negotiate insisting that “these are our standard terms since I’ve been here.” While it may not help mitigate any client tension, the foregoing statement is rarely a dead end and is often just the beginning of negotiations. Truth be told, counsel that regularly represents franchisors has likely started many a negotiation in precisely this manner when dealing with counsel for a prospective franchisee that is requesting concessions to franchisor’s standard franchise documents.

The key here is to look for these issues early and, if possible, get your client to have you prepare these documents before engaging any of the third-party providers discussed in this Section. While this may be more difficult when dealing with providers that develop the franchisor’s IP, you should still try to get template contracts in place for all future dealings.

There are numerous benefits that follow if your client is ready with a nearly-completed document in hand when meeting with prospective suppliers, including (a) the client understanding the terms of the overall agreement and having a template from which to create an LOI or other form of non-binding term sheet (if appropriate), (b) putting counsel in a position to turn around an initial draft of the form that it drafted, which can often be very helpful in asserting control at the start of negotiations, and/or (c) having franchisor appear prepared and experienced in these kind of dealings in the eyes of the provider (who may, in turn, think twice before proposing or refusing anything unreasonable).

D. ²⁴⁵Practical Measures and Client Counseling

Even after franchisor's legal documents have been buttoned up to protect franchisor's IP, counsel can provide additional advice and value by analyzing how practical measures and business strategy might play an equal or greater role in protecting a client's IP. Although much of this kind of advice will be based on counsel's own experience and tends to be more client-specific, below are some initial points that (in the collective view of the authors) counsel should impress upon the client.

Before touching on these points, the first and most important "practical" measure that counsel should initially and consistently convey to a franchisor client is to take all necessary measures to monitor and enforce the IP-related obligations of franchisee and any third party that franchisor contracts with using the legal documents that counsel has prepared. Just as franchisor must monitor its franchisees' compliance, it is imperative that franchisor counsel check in with its clients to monitor the franchisor diligence in this regard. Franchisor's routine and uniform enforcement of its franchise agreement is of particular importance, as it will also serve to protect against franchisee claims that franchisor waived certain enforcement rights and/or discriminated against franchisee when enforcing IP-related obligations²⁴⁶.

Once this has been impressed on your client, some or all of the following practical measures may be of interest or value to a given franchisor:

1. *Supply Chain.* In order to help ensure that certain IP (trade secrets and/or other confidential information) is kept secret and not disclosed, franchisor may want to consider using a related entity²⁴⁷ (such as franchisor's affiliate) as its designated supplier²⁴⁸ or split the supply of such items amongst a combination of two (2) or more suppliers so that neither supplier has the "full picture" of the franchisor's proprietary recipe or formula²⁴⁹.
2. *Protecting Against Personnel.* Ensure the franchisor's own personnel execute agreements that require confidentiality, non-disclosure and, if enforceable in the context at issue, non-competition and other restrictive covenants (including non-solicitation of franchisor's vendors for any competitive purpose). At the same time, franchisor must monitor its franchisees to ensure they are having their officers, directors and any management personnel that will have access to franchisor's IP execute a form of agreement containing the foregoing provisions (the "Franchisee Personnel NDA"), which is typically either attached to the franchise agreement that franchisee signs or else set forth in franchisor's operations manual²⁵⁰. Also, franchisor must make sure franchisees have their respective counsel review and modify the prescribed form of Franchisee Personnel NDA to ensure enforceability to the extent permitted by the state laws where the franchisee's franchise is located²⁵¹.

3. *Domain Name Control.* Franchisor should control all domain name registrations for a uniform resource locator (or “URL”) that contains any Mark (or similar variation thereof), and counsel should ensure franchisor is aware of the emergence of “Top Level Domain” names that they may want to (a) register, or (b) monitor to ensure no third-party attempts to register in a manner that might infringe upon franchisor’s Marks given their relevance to the industry, goods or services associated with the franchisor’s franchise concept (such as “.franchise,” “.restoration” or “.painting”).
4. *Controlling Brand-Related Social Media Accounts.* As early as possible in the franchisor’s life cycle, franchisor should attempt to acquire and maintain control over the social media accounts that franchisor permits or requires its franchisees to establish with providers such as Facebook®, Pinterest®, or Etsy®, which will increase franchisor’s ability to (a) control and restrict the kinds of Marks, copyrightable Works and other IP displayed or posted to that account as content, and (b) take back actual control of a franchisee’s social media account upon expiration or termination of that franchisee’s franchise agreement. Counsel should also suggest that franchisor develop (i) a template and/or format for how franchisee’s should set up its social media content with those providers franchisor authorizes franchisee to use to market and promote their franchise²⁵², and (ii) a manual or portion of the Operations Manual that is solely dedicated to setting forth franchisor’s then-current policies on using social media generally and the standards/specifications for the inclusion of any Marks, copyrightable Work and other IP as content on any social media pages.
5. *Establishing Master Accounts with Online Service Providers.* Similarly, counsel should advise franchisor to acquire “Master Accounts” with (i) online service providers such as Google²⁵³, (ii) the website administrator of online directories (Yellowpages.com), review sites (such as Yelp!), and online sites that a franchisee might use to generate business (such as AngiesList and third-party delivery sites such as UberEATS²⁵⁴ that are increasingly popular amongst franchise systems to help increase top-line sales). Controlling a master account with these sites and allowing franchisees to create subaccounts under franchisor is not only a good way to ensure franchisor’s IP is protected when used on those sites, but may also provide franchisor with transactional information that will help confirm and/or monitor the sales levels of its franchisees.
6. *Monitoring Online Advertising and SEO Activities for Potential Infringement; Using Internal Resolution Procedures.* Franchisor should also monitor Google AdWords® and similar services to drive

search engine optimization (or “SEO”) to ensure that no third party is using a Mark owned by franchisor (i) in the content of the third-party’s actual advertisements associated with Google AdWords²⁵⁵, or (ii) on a website that is associated with the SEO-related services in a manner that infringes upon franchisor’s trademark rights. Most of these kinds of services, including Google AdWords®, has defined policies and procedures for contacting the provider and getting infringing advertisements taken down, provided franchisor (or other complaining party) can demonstrate it owns a federal registration for the Mark that is being infringed upon.

7. *Franchisor’s Use of a Cloud-Based System to Distribute and Monitor Materials Containing or Related to IP.* Given technological advances in cloud-based storage over the past few years, counsel should advise or at least mention the possibility of establishing a cloud-based drive, portal or other online system that franchisor controls and to which franchisees will have access to accomplish a number of IP-related actions, such as (a) distributing designated marketing materials that contain Marks and copyrightable Works, (b) distributing templates for social media sites as described above, and (c) posting and distributing updates to the Operations Manual or separate “Social Media Policy Handbook”²⁵⁶ containing any new, refined or otherwise updated policies on how franchisor’s IP must and/or may be used. Using a cloud-based portal to accomplish the foregoing allows franchisor to easily track when a franchisee accesses and exits the portal/system and the kinds of activities that franchisee undertook while logged in, including the downloading and printing of advertisements or other franchisor materials that contain IP.
8. *Due Diligence to Ensure IP Developed on Franchisor’s Behalf is Original and Non-Infringing.* Franchisor must also make sure that any IP it is using in its own advertising, trade dress, signage and System does not violate or infringe upon the IP rights afforded to any third party. We briefly discussed how certain provisions in the contracts with those that create or otherwise prepare franchisor’s IP (e.g., “work for hire” or similar language, representations regarding originality and/or assignability and corresponding indemnification rights) can help proactively protect against third-party infringement claims, but franchisor should also consider conducting independent due diligence to confirm that the work product it is having developed does not substantially copy²⁵⁷, is not confusingly similar to²⁵⁸ and does not otherwise infringe upon using third-party IP. Such due diligence may include the use of free resources, such as Google searches and various other online search tools, as well as

comprehensive searches provided by third parties that specialize in IP due diligence matters²⁵⁹.

9. *Using and Collaborating with Other IP-Related Consultants.* Given the importance of IP and the wide range of franchising issues and activities it affects, counsel should strongly advise franchisor clients to: (i) engage marketing and PR firms, software developers and other consultants to assist franchisor in maximizing the protection and value attributable to its Marks and other IP; and (ii) schedule periodic meetings with such advisors and counsel to proactively analyze all existing and new activities that are being undertaken by these other consultants and service providers to (a) confirm that such activities do not infringe on any third-party IP rights, (b) determine whether any new activities or initiatives involve new or derivative IP that might be entitled to more formal protection, and (c) discuss any potential strategies or contemplated actions on the horizon so that counsel can analyze potential IP issues proactively before these strategies or contemplated actions are fully implemented or taken.

V. REACTIVE PROTECTION OF FRANCHISOR'S IP RIGHTS

No matter what Proactive Protections counsel takes to protect franchisor's IP, franchisor will need to be prepared to react to situations where franchisor's IP might be challenged, infringed or otherwise at risk. Fortunately, the reactive measures franchisor may (or in some situations must) take in these situations are really a combination of (a) applying the legal framework discussed in Section II, and (b) relying upon, and continuing to implement, the Proactive Protection strategies discussed in Section III.

This final portion of the paper recontextualizes the content of these prior Sections with some practical tips and guidelines to create a "roadmap" of sorts that franchisor and/or its counsel can use when facing a handful of the most common "reactive" situations that franchisors typically encounter at one point or another.

These situations will not always involve franchisor defending or enforcing its IP against third parties, as franchisor must also take reactive measures to (a) properly exit non-renewing or terminated franchisees, and (b) respond to third party claims that franchisor is infringing upon a third party's IP.

A. Exiting Former Franchisees

One of the many things that corporate counsel contributed to this paper was emphasizing how important properly exiting franchisees from the System – and actually ensuring post-term compliance under the Franchise Agreement – really is to protecting a franchisor's IP. Given a franchisee's unique position in relation to franchisor's IP, this makes sense. The franchisees should be one of a few select groups of parties that even

has access to a franchisor's IP (albeit through a valid license) and, as a result, former or disgruntled franchisees present one of the biggest obstacles to IP protection.

As outside counsel, we often emphasize the utility of the franchise agreement provisions, particularly the *contractual* obligations of the franchisee and the legal remedies franchisor has for default, termination and/or a lawsuit. From franchisor's (and in-house counsel's) perspective however, one of the most important reactive methods of protection is triggered immediately upon the franchisee's termination.

Making sure a franchisee complies with the post-term obligations previously discussed herein is paramount to protecting franchisor's IP – and allowing franchisee's leaving the System to comply with these obligations with some sense of honor and dignity can be just as important to the image and goodwill of the brand from the perspective of the franchisee network moving forward.

The first step in ensuing post-term compliance is to make sure you (i) have a list of all potential IP that the franchisee may have in its possession (using the kind of IP Chart you have prepared as part of your proactive protection), (ii) compare that list to the recommended IP-related provisions in franchisor's form of franchise agreement, and (iii) prepare a checklist of the actions that franchisor must take as a practical matter to protect that IP and enforce those provisions.

In many instances, and particularly with service-based or businesses, the best way to enforce the post-term de-identification and proprietary product return provisions is to conduct an inspection on-site at the franchised business within a reasonable period (traditionally, 15 to 30 days) following the expiration or termination of the franchise agreement.

If the primary "office" occupied by the franchisee is an "Approved Vehicle" that is branded (Marks, copyrightable Works) or outfitted with (Proprietary Information, Trade Secrets and possibly Patents) IP, then an on-site inspection is likely needed. More than bricks-and-mortar locations, mobile vehicles bearing franchisor's Marks and other IP often have the potential to more persistently infringe upon, and do practical harm to, a franchisor's IP due to their inherent mobility and resulting visibility in the marketplace. De-branding such vehicles and/or purchasing them from franchisee at net book value pursuant to franchisor's post-term option set forth in the franchise agreement should be at the forefront of franchisor's post-term compliance "checklist."

If on-site inspection would involve a home office or otherwise be too costly to justify given the limited branding used on-site at the franchised business, then post-term compliance is largely dependent on these other "checklist" items:

- (i) clearly articulating franchisee's compliance obligations in the termination notice;

- (ii) franchisor and its operations/IT teams working collectively to take assignment or other control of all domain names, social media accounts, and other Internet-related accounts related to the franchised business – which may be easier to accomplish if franchisor has only provided access to these materials via an electronic site with proper limitations on what the franchisee can print and/or copy;
- (iii) ensuring that the franchisee’s access to the Operations Manual, training materials and other System materials is discontinued and that such materials are returned to franchisor. If franchisee is not compliant, franchisor should follow up with a “fire and brimstone” default notice demanding the same and clearly articulating the damages associated therewith;
- (iv) make sure any and all telephone numbers (especially if they also spell out or serve as a Mark for the franchisor) associated with the franchised business are assigned to franchisor; and
- (v) if possible, entering into a mutual termination agreement with the franchisee that reiterates the franchisee’s confidentiality obligations and, if appropriate, includes non-disparagement covenants with liquidated damages provisions that provide some “teeth” (while also getting a release from the franchisee, to the extent permitted under applicable state franchise relationship laws).

Whatever methods franchisor employs specifically tailored to its franchise model and industry, franchisor must react *quickly and with purpose*. Having a checklist and clear communication with counsel and franchisor’s internal teams will not only help facilitate this kind of decisive action, it will also increase the chances that the methodology is uniform and built into the System’s “DNA”.

B. Issuing and Responding to Cease and Desist Letters

Whether franchisor is issuing a cease and desist letter to a perceived infringer or determining how to respond to such a demand letter received from a third party regarding franchisor’s IP, the strategy and response can be broken down into three (3) basic categories: (i) the tone; (ii) the content; and (iii) the ask (or demand).

Tone

Franchisor most times feels a passionate and strong bond with its IP, especially its Marks and the proprietary information that comprises the core of its System. For this reason, most franchisors are “fired up” when it comes to protecting their IP regardless of whether franchisor is seeking to protect against an infringer or respond to allegations that franchisor’s IP is somehow infringing.

Franchisor’s justifiable passion aside, the tone used when issuing or responding to a cease and desist demand letter – which is typically the initial “shot over the bow” in

trademark battles and parlays alike – must be carefully considered before it is prepared and delivered. The most important thing franchisor must evaluate with counsel is whether (a) applicable law does in fact protect the IP at issue, (b) the strength of franchisor’s infringement claim or defense based on the factual context and comparison of the IP, and (c) whether franchisor is prepared to expend time and resources to litigate or enforce the IP claim while also attempting to determine the third party’s appetite to do the same.

On one end of the spectrum are the more traditional “fire and brimstone” letters demanding that the third-party infringer cease using its IP in any manner and threatens litigation and “scorched earth” tactics if franchisor does not get an immediate reply.

On the other end of the spectrum, franchisor’s demand or defense can often times be conveyed with much less bravado – and sometimes with more success – if franchisor or its founder/CEO reaches out to his or her counterpart at the third-party infringer via email, phone call or other less formal method to (a) make sure the third party is even aware of the infringing activity²⁶⁰, and (b) see if they can “chat” about a practical resolution that doesn’t involve either party having to expend considerable resources to conduct a protracted letter-writing campaign.

We recommend that the degree of aggression of a cease and desist demand correspondence – no matter how it is conveyed or who it is conveyed by – be at least somewhat commensurate with (i) the strength of franchisor’s claim or defense, and (b) franchisor’s appetite to argue its position in court or otherwise should the third party not respond as franchisor had hoped or demanded. Simply put, franchisor should be wary of being overly aggressive on the front end of IP infringement demands or defenses if they are not ready to back up that aggression with action and (most times) legal dollars down the road.

To paraphrase U.S. President Theodore Roosevelt’s famous ideology on foreign policy, franchisor should keep the following in mind when engaging in this kind of cease and desist correspondence: Speak as softly or as loudly as you want to, but make sure you have the stick to back it up... and a good attorney to help you wield it!

Content

Each cease and desist demand or response issued by franchisor will likely take on a life of its own depending on the facts, parties and, if responsive, the tone of the third-party demand, but each correspondence has a handful of points and issues that should be covered. Below please find a chart detailing these “content categories.”

Cease and Desist Demand	Response to Demand
Introduction of counsel and background on the franchisor, the IP at issue and the fact that such IP is proprietary and licensed to franchisees subject to a franchise agreement.	Introduction of counsel or specific person responding on behalf of franchisor, along with acknowledgement of the third-party demand letter.
Additional details on the IP at issue, including any formal registrations or filings or other Proactive	A summary of franchisor’s activities, or lack thereof, involving <i>its own IP</i> that the third-party is

Protection measures that franchisor has done to protect the IP.	claiming constitutes infringement, as well as any formal or other protections that franchisor can demonstrate it has under applicable law in that IP.	
Cease and Desist Demand	Response to Demand	
Details on the third-party's infringing activities, including specific examples of how and where the third-party is infringing (e.g., using a TM as part of the URL of a domain name or social media account; use of copyrightable Works in advertising or signage; use of technology/invention that is patented in operations).	Summary of the factual details and specific legal arguments supporting franchisor's position that (a) it is not conducting any activities involving the IP, and/or (b) even if franchisor was/is conducting the asserted activities, such activities do not violate the third-party IP infringements.	In the alternative, a softer approach may be taken where franchisor does appear to be violating the TM or other IP rights of a third party, in which case franchisor should emphasize its belief that its activities were not infringing and conducted in good faith (if accurate).
Brief (or longer) description of how the foregoing actions constitute infringement of franchisor's IP and/or grounds for any related causes of action (e.g., unfair completion, unjust enrichment, violation of the UTSA, etc.). Such causes of action will likely include breach of contract if franchisor if the demand letter is going to a former franchisee. Just remember, franchisor should be in a legal and economic position to back up any allegations set forth in the demand.	In the vein, the next portion of the correspondence is where franchisor respectfully (or not-so-respectfully) advises the third-party to go pound sand.	If there is real exposure to franchisor, then it would serve franchisor well to next advise the third party that (a) it is conducting due diligence to determine what actions might be infringing and how best to handle, and/or (b) any third-party demands with which franchisor is willing to comply
The list of demands or "asks" that the third party must undertake in order to avoid further, more aggressive, action.	A list of any counter-demands or counter-claims the franchisor might have, followed by the relevant portions of the demand letter in the left hand column of this chart (to the extent that information has not already been set forth in the letter).	
A brief (or detailed) description of the actions franchisor intends to take if the third-party does not comply with the demands, as well as language preserving all rights and remedies of the franchisor.	Describe the next steps that franchisor would like to see happen to resolve the purported dispute and, if appropriate, attach any evidence to support franchisor's defense or demonstrate franchisor's compliance with a given demand.	

The "Ask" and/or Responding to the Same

Similar to the "tone" of the demand letter or response thereto, the "ask" is dependent on the strength of franchisor's claim or defense and a careful consideration of how far franchisor is willing to go to follow-up on any demands that are not complied with by the third party. Often, franchisors will want a list of demands that includes everything *plus* the kitchen sink. But overreaching and over-asking may not always be the best

strategy, especially when franchisor's IP-related claim or defense might be uncertain and/or it is more likely that the third party will (a) comply with certain demands and not others, or (b) accept a reasonable compromise proposed by franchisor rather than an outright refusal to comply.

Regardless, any demand letter issued by franchisor should typically afford the third-party a reasonable timeline to review with counsel and circle back with a response (e.g. 10+ days), unless the infringement at issue is egregious or involves other circumstances that require swifter action. Franchisor should be very specific when making or responding to demands in a cease and desist letter.

Depending on the tone franchisor is going for, this demand letter may include photographs, contracts (including franchise agreements if dealing with a former franchisee) and/or other materials that (a) illustrate the infringing activity franchisor is demanding the third party cease and desist in the marketplace (e.g., pictures of the third-party's website containing franchisor's IP), or (b) demonstrate any actions franchisor has or is taking to address any third-party demand.

At the end of the day, franchisor should ensure it doesn't allow its heart to overrule its head when dealing with third-party infringement issues – and part of doing so is making sure that franchisor's specific demand(s) or response(s) are practical and consistent with applicable IP and other law.

C. Keeping up with Franchisor, Technology and Case Law Trends.

Franchisors tend to evolve more than other business owners when it comes to internal growth and the kinds of technology and other tools they incorporate, refine and update over the course of their lifecycles. The following are some common areas where a franchisor and its counsel will particularly benefit from vigilant monitoring and active maintenance.

- As franchisor's IP grows older or evolves, you will need to make sure you are addressing such changes with the appropriate Proactive Protection measures discussed herein, including but definitely not limited to, seeking "formal" protection of any Marks, copyrightable Works and patents.
- Franchisors must also ensure the appropriate maintenance filings necessary to maintain the formal protections for the IP (such as franchisor's registered Marks) are timely filed. For franchisor's Marks, this means between the (a) 5th and 6th anniversary, and (b) 9th and 10th anniversary, of the Mark's registration.²⁶¹
- At the same time, franchisor's System may involve changes to: (i) the ownership of the IP and related licensing relationships between franchisor and its affiliates; and (ii) its designated and other "Approved Suppliers", both of which will require proactive or "triage" drafting to protect franchisor's "trade

secrets,” “confidential information,” “Marks” and copyrightable “Works” that add value and distinctiveness to the franchisor’s System as a whole. Sometimes the relevant IP may not be immediately recognizable, but franchisor and its counsel should always be vigilant in making the appropriate determination.

- Franchisor and counsel should continue to ensure all third-party agreements to develop subject matter that franchisor wishes to claim as “proprietary” or “exclusive” to franchisor contain proper “work for hire” or other provisions designed to ensure (a) franchisor owns the subject matter and related IP, and (b) the subject matter comprising the Mark, Work or other subject matter of the IP is original and not infringing on any third-party IP (with proper infringement provisions in the event of breach).
- Franchisor and its IT/marketing teams should be in constant communication on the new technology that might help franchisor increase brand visibility, promote the franchise system and generally facilitate other “development” activities that the franchise agreement empowers the franchisor to carry out, either utilizing the “Brand Development Funds” or otherwise under the franchise agreement. Chances are franchisor already engages in this activity – but may forget to include you

At the end of the day, franchisor cannot maintain protection over its IP without monitoring the marketplace and taking those actions it deems appropriate (after consulting with counsel) to enforce and defend its IP rights against those that seek to challenge or infringe upon the same. Simply put, a franchisor cannot “stick its head in the sand” like an ostrich once it has acquired certain IP rights and ignore the practicalities of what is going on in the marketplace that may affect that IP. Instead, franchisor should have its head on a swivel when it comes to monitoring its IP and react accordingly, with the support and guidance of counsel, to take appropriate reactive measures based on the context and importance/strength of the IP at issue. Otherwise, certain of Franchisor’s IP rights may be lost or ameliorated over time due to abandonment or “genericide” and/or other legal principles that largely stem from franchisor’s failure to actively monitor, exert control over and/or diligently seek to enforce the IP at issue.

VI. CONCLUSION

The goal of this paper has been to provide an overview of the basic categories of intellectual property, and familiarize you with the scope of legal work that you should be prepared to encounter and undertake on behalf of your franchisor clients. While at first glance the intersections between intellectual property and franchising might seem overwhelmingly varied, once you separate them into conceptual categories – type of IP, requirements for protection, protections afforded – and have been acquainted with some of the more common issues that arise, it becomes easier to formulate a strategy for effectively and proactively managing and protecting your franchisor clients’ IP portfolios.