

2018 IFA

# LEGAL SYMPOSIUM

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# BASICS TRACK: FRANCHISOR'S INTELLECTUAL PROPERTY AND HOW TO PROTECT IT

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# Intellectual Property

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- Property of the mind and intellect, vital to a franchise system
- Intellectual property protection serves to prevent and protect against unfair competition and consumer confusion

# Types of Intellectual Property

- Trademarks, including Trade Dress
- Trade Secrets, Confidential Information and other kinds of Proprietary Information
- Copyrights
- Patents

# Trademarks & Service Marks

- A trademark is a word, phrase, symbol, and/or design that identifies and distinguishes the **source** of the **goods** of one party from those of others
- A service mark is a word, phrase, symbol, and/or design that identifies and distinguishes the **source** of a **service** rather than goods

# A Trademark Can Be....

## A Word or Group of Words

- LEGO®
- Starbucks®
- *America Runs on Dunkin'*®

# A Trademark Can Be....

## A Design, Symbol or Pictorial Representation




# A Trademark Can Be...

A Combination of Words and Pictorial/Design Elements



# A Trademark Can Be A Sound:

- McDonald's Jingle for Tagline:  
“A B C E D” notes played in succession (dada da da daaaaah)
- Mister Softee Jingle 
- Taco Bell's “Bong” sound

# A Trademark Can Be... a Color, Scent, Motion, Taste or Shape

- Boise State's Blue Football Field



- UPS TM Registrations Claiming “Pullman Brown” Color Starting in 1998 – Used in Conjunction with Primary Tagline WHAT CAN BROWN DO FOR YOU?<sup>®</sup>
- Tiffany & Co.’s TM Registration for “Tiffany Blue” Color (for boxes and packaging)



- Scent of sewing thread (high impact, floral fragrance reminiscent of plumeria blossoms)
- Ornamental (non-functional) design elements – does it “quack like a TM”?



# Trade Dress

- Must be Non-Functional to be Afforded Trademark Protection
- Not Always Registered with USPTO and Sometimes Challenging to Do So
- Examples
  - Cinnabon's TM Registration for Cinnamon Roll Configuration
  - Mister Softee's TM Registration for the Overall Truck Design/Configuration of Various Marks (including "blue bottom")
  - Appearance/Design of the Interior of Chipotle Restaurants

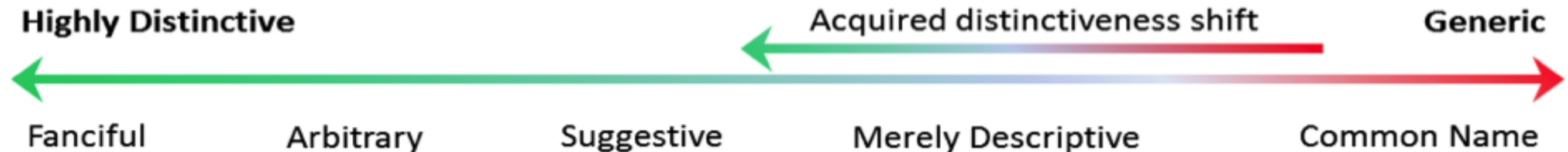


# Eligibility for Trademark Protection

## “Distinctiveness” Analysis and the “Trademark Continuum”

### Distinctiveness / Descriptiveness Continuum

*(from TMEP § 1209.01)*



In order to function as a trademark, a mark must have distinctiveness so that it is capable of identifying franchisor as source of the goods/products.

# TM Eligibility: Breaking Down Distinctiveness

- **Generic** (TOY STORE): Common word used to identify the good or service - **no protection**
- **Merely Descriptive** (ROWING STUDIO): Describes the goods/services or other essential characteristic of the same or of the audience- **no protection typically afforded unless “secondary meaning” is acquired**
- **Suggestive** (BLIZZARD for frozen confections): Suggests something about the product or service, but requires consumer to exercise some imagination
- **Arbitrary** (APPLE for computers): Common words that have nothing to do with the good or service provided under the mark.
- **Fanciful** (KODAK film): Made up or “coined” terms created to identify a source

# TM Eligibility: Establishing Distinctiveness

- Depends on How the Mark Relates to the Specific Goods or Services
- Suggestive, Arbitrary and Fanciful Marks are Deemed “Inherently Distinctive”
- Descriptive Marks may Acquire Distinctiveness via Secondary Meaning (Section 2(f) of Lanham Act)
- Potential Loss of Distinctiveness – Monitoring to Avoid “Genericide”
- The “Battle Lines” Between Suggestive and Descriptive
- Descriptiveness of Individual Mark Components

# TM Eligibility: Adopting Mark and Commencing Use

- Adopt a Clean Mark – First in time, First in Right
  - In the United States, an owner of a mark acquires rights in that mark through **first use in commerce**.
  - The use must rise above the level of casual, sporadic and *de minimis* use
- First “Use in Commerce” Dependent on the Products or Services Offered under the Mark at Issue

# TM Eligibility:

## Due Diligence to Determine Eligibility

### STEP ONE: “Preliminary” or cursory Search

- ✓ Quick Search of USPTO TM Database using online search functions
  - ✓ Using different search tools made available to USPTO
  - ✓ Comparing recited goods/services and noting prior registrations of franchisor
- ✓ Utilize Google or other search engine to perform a search for the exact “Mark”
  - ✓ Look for direct hits in first 3-5 pages
  - ✓ Separate TM use from ornamental or other ineligible use on the Internet (i.e. domain name URLs containing a Mark without Mark in content)

# TM Eligibility: USPTO Search Functions



United States Patent and Trademark Office

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## [Trademarks](#) > Trademark Electronic Search System (TESS)

Welcome to the **Trademark Electronic Search System (TESS)**. This search engine allows you to search the USPTO's database of registered trademarks and prior pending applications to find marks that may prevent registration due to a **likelihood of confusion** refusal.

**WARNING:** Before conducting your search, you must understand the following: (1) what the database includes; (2) how to construct a complete search; and (3) how to interpret the search results. Click **TESS TIPS** for detailed information on these and other important search topics.

Trademark images do not appear when viewing search results, clear the cache in the Internet browser. If you need detailed instructions for clearing the cache, contact [tess@uspto.gov](mailto:tess@uspto.gov). Thank you.

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Select A Search Option
<a href="#">▶ Basic Word Mark Search (New User)</a> This option cannot be used to search design marks.
<a href="#">▶ Word and/or Design Mark Search (Structured)</a> This option is used to search word and/or design marks. <b>NOTE:</b> You must first use the <a href="#">Design Search Code Manual</a> to look up the relevant Design Codes.
<a href="#">▶ Word and/or Design Mark Search (Free Form)</a> This option allows you to construct word and/or design searches using Boolean logic and multiple search fields. <b>NOTE:</b> You must first use the <a href="#">Design Search Code Manual</a> to look up the relevant Design Codes.

Additional Search Options
<a href="#">▶ Browse Dictionary (Browse Dictionary)</a> This option browses all fields in the database unless you limit to a particular field. Results are returned in a dictionary-style (alphabetic) format.
<a href="#">▶ Search Of Publication Date or Registration Date (Search Of)</a>

# TM Eligibility: Stepping up the Due Diligence

## STEP TWO: Third-Party Comprehensive Searches

- ✓ Comprehensive TM Searches
  - ✓ Different Scopes with Different Prices
  - ✓ Legal Review and Analysis
  - ✓ Truncated Search Report and Opinion Call/Letter/Email
- ✓ Design Elements: To Search or Not to Search?
- ✓ Other Potential Third-Party Searches

# TM Protection: Potential Pitfalls of Adopting “At Risk” Marks

- Risk Can be Concerning Distinctiveness or Senior Use
- Narrow Scope of Protection
- Difficulties in Preventing Senior or Junior Users from Using Mark or Confusingly Similar Mark
  - Damage to or Devaluation of Mark Goodwill (consumers; franchisees)
  - May Impact Where Franchisor Can Develop if Not Senior User
- Rebranding Costs and Other Franchise System Implications

# Benefits of Federal TM Registration with USPTO

- Prima Facie evidence of:
  - Validity of a trademark
  - Owner's ownership of the mark
  - Exclusive right to use the mark nationwide (assuming no prior users)
- Right to use the ® symbol (instead of "TM" designation) to provide constructive notice to the public of the registrant's claim of ownership in the mark
- Standing to bring a lawsuit in federal court to protect a mark, enjoin infringers from using the mark, and to obtain recovery of profits, damages and other remedies not available under common law
- Incontestability of the mark after five years of continuous registered use

# Proactive TM Protection: Filing Federal Trademark Application

- Owner/Applicant Information
- Mark Information
- Additional Statements Regarding the Mark
- Goods and Services Recitation
- Primary Bases for Filing Application and VALID SPECIMENS
- Attorney Information and Filing Party's Certifications
- Signing and Payment

# Proactive TM Protection: Prosecuting Federal Application

- Battling with the Examiners
  - Substantive Refusals vs. Procedural Refusals
  - Two Primary Substantive Refusals
    - Descriptiveness and other Refusals under Section 2(e) of Lanham Act
    - Likelihood of confusion (or “LOC”) Refusal with Prior Registration or *Pending Application*
  - General Considerations
    - TTAB Appeals: Get it on the Record First!
    - Overall Timeline and Costs

# Proactive TM Protection: Proper Use

- Franchisors must ensure proper and consistent use of trademarks
  - Franchisees – restrictions on use in company names, email addresses
  - Employees
  - Vendors – be careful with language in vendor agreements!

# Proactive TM Protection: Proper Use

- Brand Use Manual
  - Specifications on how to use the Mark properly
  - Distinctive type to distinguish from other words
  - Appropriate use of ® or ™ symbols
  - Avoid “Genericide”- avoid use of a Mark as a common noun or verb [examples: Xerox; Google]

# Proactive TM Protection: Franchise Agreement Provisions

- Franchise Agreement
  - Reps, Warranties and Acknowledgements Regarding Marks
  - Dispute-Related Provisions
  - Right to Modify Marks (and Franchisee Alignment)
  - Inspection Rights; Practical Monitoring/Enforcement
- Personal Guarantee and Other FA Exhibits

# Proactive TM Protection: Monitoring

- Monitoring Begins at the Start with Third-Party Development of TMs – Ownership and Non-Infringing Reps
- Enforcing FA Terms and Implementing Monitoring Methods
  - TM and trade dress use at Premises and/or Approved Vehicle (i.e. Mister Softee)
  - Purchasing branded apparel from designated or approved source
- Social Media Policies, Guidelines and/or Manuals
  - Implement and police policies, procedures and/or templates for use of Marks in social media and otherwise online
  - Franchisor efforts to register or otherwise control accounts

# Reactive TM Protection: Preventing Infringement or other Unauthorized Use

- Cease and Desist Notices (Do Your Homework and Focus on the “Tone” and the “Ask”)
- TTAB Proceedings to Oppose or Cancel Mark
- Trademark Infringement Actions
  - Access to Federal Court under the Lanham Act
  - Injunctive Relief
  - Damages

Mister Softee silences copycat jingle used by rival ice cream tru... <http://www.nydailynews.com/new-york/mr-softee-silences-copy...>

ADVERTISEMENT

NEW YORK BROOKLYN ICE CREAM

## Mister Softee silences copycat jingle used by rival ice cream truck in Brooklyn court

By JOHN MARZULLI | NEW YORK DAILY NEWS | JUN 27, 2016 | 7:01 PM



The Mr. Softee truck seen here parked in front of Carroll Park. Mr. Softee prevented a rival ice cream vendor from playing the famous musical jingle and chimes from his knockoff truck. (Marino, Joe/NY Daily News)

Mister Softee is no softy when it comes to protecting his tune.

# Proactive TM Protection: Item 13 Compliance

- Principal Marks: Avoid Negative Disclosure if Possible
- Registration/Application Chart
- Affidavits and Maintenance Filings
  - Section 8 and 15 between 5<sup>th</sup> and 6<sup>th</sup> anniversary (incontestable)
  - Section 8 and 9 renewal between 9<sup>th</sup> and 10<sup>th</sup> (renewal)
- License Agreement and other Agreement Disclosures
- Summary of Determinations and Actions involving Marks
- Third-Party Use of Marks and Franchisor Responses
- Indemnification and Related Provisions

# Trade Secrets: Overview

- A trade secret is confidential Information that derives independent economic value from not being generally known and in which the owner takes reasonable steps to ensure its secrecy
- What gives you a competitive advantage over your competitors and is not generally known in the public domain

# Trade Secrets: Examples

- Examples:
  - Recipes, financial information, pricing information, proprietary software, distribution techniques, marketing strategies, sales methods, customer preferences, operations manual, pricing techniques, customer lists

# Trade Secrets: Recent Changes in Legal Framework

- Defend Trade Secrets Act (“DTSA”), enacted on 05/11/2016 (amendment to Economic Espionage Act)
  - Creates a new private, federal cause of action for misappropriation of trade secrets
  - Does not preempt existing state laws
  - Provides potential for quicker relief – speed is key

# Trade Secret Protection: DTSA Definition

## – Defines a “trade secret” as:

- all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if — (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

# Trade Secrets

- DTSA defines “misappropriation” to include
  - Acquiring a trade secret with knowledge or reason to know it was acquired by improper means
  - Disclosing or using a trade secret without consent: (a) when obtained by improper means, or (b) with knowledge or reason to know it was acquired: (i) from someone who used improper means to acquire it (knowledge/reason to know), (ii) under circumstances giving rise to duty to maintain secrecy, (iii) by accident or mistake

# Trade Secrets

- DTSA Actions
  - Brought within 3 years after discovery or reasonably should have been discovered
  - Misappropriation occurred after enactment (05/11/2016)

# Trade Secrets

- Remedies available under the DTSA
  - Damages for actual loss; Unjust enrichment damages
  - Imposition of a “reasonable royalty”
  - Twice damages if willful and malicious misappropriation
  - Attorneys’ fees if willful and malicious misappropriation
  - Injunctive relief (injunction may be limited by state law constraints)
  - Seizure of misappropriated trade secret information without prior notice. Requires heightened showing of immediate, irreparable injury that cannot be addressed through normal procedures due to risk of moving, hiding, destroying information if given notice

# Trade Secrets

- Whistleblower Protection under DTSA: Consider adding notice provision to franchise agreements, employee confidentiality agreements, possibly certain vendor agreements, and Manuals regarding whistleblower immunity (preserves right to pursue exemplary damages and attorneys' fees):

*“Nothing in this Agreement is intended to prohibit you from exercising your rights under the Defend Trade Secrets Act of 2016. You have the right to disclose our trade secrets in each of the following circumstances without incurring criminal or civil liability: (a) you may disclose our trade secrets (i) in confidence to a federal, state or local government entity, or to an attorney solely for the purpose of reporting a suspected violation of law or in an investigation of a suspected violation of law; or (ii) in a legal proceeding under seal; (b) you may disclose our trade secrets in a complaint or other document filed in a lawsuit or other proceeding so long as the filing is made under seal. This includes a lawsuit you may file for retaliation by us for your reporting a suspected violation of law to a government entity. You may not otherwise disclose any trade secret or confidential information except pursuant to court order.”*

# Trade Secrets

- DTSA Case Law
  - Since enactment, over 360 DTSA claims have been filed (as of 03/2018), with more than 343 filed in federal court: *Waymo v. Uber*
  - Tips:
    - Sufficiently allege connection to interstate or foreign commerce
    - Mark Trade Secret Information – Don't over-designate
    - Have written policies outlining how TS are safeguarded
    - Tracking mechanisms
    - Monitoring
  - *Ex parte* seizure rarely sought and courts almost (to date) never issue them

# Practice Tips in Protecting Trade Secrets

- Identify with Reasonable Particularity - “Everything in our Manual” isn’t sufficient
  - Identify the development process for each trade secret including time, costs and manpower
  - Keep track of who has access to the trade secret, where it is stored and what measures are being taken to protect the trade secret
  - Be prepared to identify independent economic value

# Practice Tips in Protecting Trade Secrets & Other Proprietary Information

- Create culture of security and safeguarding
  - EDUCATE, EDUCATE, EDUCATE! Ensure franchisees and franchisees' employees are actively protecting trade secrets
  - Restrict Access

# Practice Tips in Protecting Trade Secrets & Other Proprietary Information

- Franchise, Employment & Vendor Agreements
  - Use well-crafted non-competition and confidentiality provisions. Careful in structuring timing of execution
  - Follow through on collecting signed copies of confidentiality/non-competition agreements
  - Vendor Agreements
- Use “CONFIDENTIAL” markings

# Copyrights

- Copyrights are the federal statutory rights of an “original work of authorship fixed in a tangible medium of expression” protected under the Copyright Act (17 U.S.C.§102)
  - Rights include reproduction, preparing derivative works, distribution, performance and display
  - Copyright Act provides owners with ability to bring a claim based on infringement
  - Registration provides tools for enforcement and protection, but is not required to obtain rights in a copyright

# Copyrights

- Digital Millennium Copyright Act (“DMCA”)
  - Extends the reach of digital copyright protection
  - Provides those who maintain websites and social media platforms with a safe harbor against liability from content posted by users on these sites and platforms

# Copyrights

- To take advantage of the safe harbor:
  - Must provide a “takedown” mechanism allowing a copyright owner to request removal of infringing material
  - Designate an agent to receive notices of claimed infringement
  - Provide notice to the public (Terms of Use)
  - Notify U.S. Copyright Office of its agent and contact info
  - Inform account holders their service may be terminated if repeat infringer

# Copyrights

- Examples of potential copyright works in the franchise context:
  - Manuals
  - Menus
  - Templates (i.e. painting templates)
  - Computer Programs and Software
- Work for Hire clause providing for franchisor's ownership of any creation a franchisee, employee or contractor develops

# Copyrights

- Defenses: Fair Use
  - Criticism
  - Comment
  - News
  - Teaching
  - Scholarship
  - Research

# Patents

- Patent rights may be granted to an applicant that invents or discovers any new and useful process, machine, manufacture or composition of matter or any new and useful improvements thereof
  - Novel
  - Useful
  - Not Obvious

# Patents

- Patent Rights
  - Excludes others from making, using, selling, offering for sale, and importing products according to the invention
  - Rights do not begin until patent is granted

# Patents

- Types
  - Utility patents: useful machines, articles of manufacture, compositions of matter, methods for making or using them, improvements
    - Protection for up to 20 years from date of filing
  - Design patents: ornamental designs of articles of manufacture
    - Protection for up to 14 years from granting of the patent

# Patents

- Protects functional features
  - Used to protect “spaceship-shaped” restaurant building design and service station design

# Patents

- Do not appear often in franchising
- Patent application requires description of the discovery which is made publically available
  - Consideration: If the patentable invention involves trade secrets, all secrecy is destroyed when the application is filed, as the details are made publically available.

# Copyrights, Patents, Proprietary Information: FDD Disclosures

- Item 14: Patents, Copyrights and Proprietary Information
  - Whether the franchisor owns any rights in, or licenses to, patents or copyrights that are material to the franchise; pending patent apps
  - Material determinations of USPTO, US Copyright Office, or a court regarding the patent or copyright; Limiting agreements; Franchisor's obligation to protect the patent/copyright and to defend the franchisee
  - Franchisor's knowledge of patent or copyright infringement that could materially affect the franchisee
  - Description in general terms of proprietary rights in confidential information/trade secrets

# International IP Considerations

- Understand enforcement in foreign jurisdiction
  - Seek advice on national variations and ways in which IP may be protected
  - Engage local counsel

# International IP Considerations

- Trademark Protection
  - First to use, or first to file jurisdiction
    - Consider defensive filing of applications in other countries to prevent others from obtaining rights to your brand
    - Many countries offer little or no protection for unregistered marks

# International IP Considerations

- Trademark Protection (continued)
  - Translation or transliteration concerns
    - Offensive or negative meaning
- International Registration
  - Madrid System
  - African Intellectual Property Organization

# International IP Considerations

- Practice Tips
  - Investigate how IP is protected in the jurisdiction before entering
  - Tailor methods of protection accordingly
    - Advanced TM Registration Filings
    - Re-structuring agreement provisions