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A BRAVE NEW WORLD: HANDLING OF TRADEMARKS AND OTHER IP IN VIRTUAL OFFERINGS[1]

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I. INTRODUCTION

Use of franchisor brands and franchisor/franchisee activity in the virtual world is exploding. "NFT" (non-fungible token) was Collins Dictionary's word of the year for 2021. Many franchisor brands have launched NFT promotions of various types, including Taco Bell (selling taco-themed NFTs), Chick'nCone (NFT to buy into franchise territories), Send Me A Trainer (gives franchisees a complementary NFT for becoming a franchise business owner), Bojangles (auction of NFTs based on artwork created by seven North Carolina artists, with proceeds going to the artists). One franchisor, TMON, is "franchising" solely in the metaverse. The uses of NFTs seem limited only by the imagination, with the goal in the franchise world being building and strengthening community around a brand, in the same way social media has been doing for the last 10 years. Other brands have filed applications covering NFTs or virtual products claiming an intent to launch activities in this space. Some, such as those discussed above have already launched virtual offerings. Use of franchisor brands in social media marketing and gaming continues to expand. In addition to NFTs, other virtual offerings being explored by franchisors include in-app gaming purchases where digital brand assets are used to order non-virtual food.

This burgeoning activity raises the question of how current intellectual property law applies to this new world. We will outline the types of intellectual property most relevant to virtual branding, discuss how that law dictates the strategy in selecting, creating, protecting, and enforcing branding and content in this area. Lastly, we provide a general overview of intellectual property as specifically applied to franchising.

This paper (and related panel discussion) focuses on intellectual property in franchising and accordingly does <u>not</u> touch on many regulatory and other issues relating to virtual space, including privacy, oversight by the U.S. Securities Exchange Commission (including whether NFTs are securities), money laundering, cybersecurity, environmental concerns relating to the energy needed to mine cryptocurrencies, or litigation targeting cryptocurrrencies (such as the class action lawsuit against Kim Kardashian and Floyd Mayweather[1]). Nor does this paper cover every type of intellectual property that might be or become relevant to the virtual world (specifically patents and trade secrets), as those types of intellectual property tend to relate more to the service providers in the digital space than the brands.

II. TRADEMARKS

Trademarks, often referred to as brands, are central to nearly all commercial activity. Trademarks and trademark law serve numerous important roles, including: (1) helping consumers avoid confusion by identifying and distinguishing the sources of goods and services; (2) increasing economic efficiency by reducing the time, cost, and effort consumers devote to searching for goods and services; and

[1] Filed January 7, 2022, USDC C.D. Cal. (alleging that they misled investors by promoting a cryptocurrency called EthereumMax).

(3) protecting the goodwill and equity that the providers of these goods and services create for their brands.[1]

While all of these roles serve a valuable purpose, the third role is especially critical to franchising, as the franchise relationship is predicated on the ability of the franchisee to leverage the value that customers associate with the franchisor's brand name. In fact, trademarks are so key to the franchise model, they are explicitly referenced as an element in the Federal Trade Commission ("FTC") definition of a "franchise."[2]

Because trademarks and franchising go hand-in-hand, it is important for franchise attorneys to have a basic understanding of trademarks, and trademark law as a form of intellectual property law. This section will: (1) provide a high-level overview of basic trademark concepts; (2) summarize the legal framework of trademark protection offered under common law, state, federal, and international law; and (3) offer practical guidance to franchisors for selecting and using trademarks.

A. Basic Concepts

1. Distinguishing Trademarks, Service Marks, and Trade Dress

Trademarks are at their most basic level source indicators; however, they come in many different forms.[3] A traditional "trademark" is a word, name, symbol, device, or other designation (or a combination of such designations) that is distinctive of a person's goods and that is used in a manner that identifies those goods and distinguishes them from the goods of others.[4] A "service mark" functions in the same manner as a trademark except that the designator is used to identify services, as opposed to goods.[5]

"Trade dress" is a form of non-verbal trademark that refers to the "image and overall appearance" of a product or service.[6] Trade dress may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques.[7] In other words, trade dress "embodies that arrangement of identifying characteristics or decorations connected with a product,

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3 *See* S. Rep. No. 1333, 79th Cong., 2d Sess. 3 (1946) (explaining that the two primary justifications for trademark protection are to "protect the public so that it may be confident that in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get" and to ensure that "where the owner of a trademark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats"); Daniel M. McClure, Trademarks and Competition: The Recent History, 59 Law & Contemp. Probs. 13, 28-33 (1996) ("The function of trademark law is reduced to a single goal of economic efficiency to maximize wealth"); Jerre B. Swann, Dilution Redefined for the Year 2002, 92 Trademark Rep. 585, 586-618 (2002).

4 16 C.F.R. § 436.1 (h)(1).

5 While there is technically a difference between trademarks, service marks and trade dress (as explained in this paper), the broader terms "trademark" or "mark" is frequently used to refer to all three forms, and is used in that manner in this paper.

6 15 U.S.C. § 1127.

7 15 U.S.C. § 1127.

8 *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 756 n. 1 (1992).

9 *Id.*

whether by packaging or otherwise, [that] make[s] the source of the product distinguishable from another and . . . promote[s] its sale."[8] Ultimately, trade dress functions in a similar manner as a traditional verbal trademark or service mark– it provides a mechanism for consumers to differentiate goods and services and allows manufacturers to advertise their "brand names" through their products' and services' designs without fear of competitors passing off imitation goods as originals.

The purposely broad definitions of trademarks, service marks, and trade dress capture everything from brand names (COCA-COLA®, APPLE®) and logos (the Nike "Swoosh") to colors (the famous "Tiffany" blue) and sounds (the National Broadcasting Company chimes). A handful of industrious brand owners have also managed to obtain trademark protection for scents.[9] Of particular note to franchisors, trade dress protection has also been extended to the shape of a building and a restaurant's decor, menu, storefront, physical layout, and style.[10] Several retail outlets have succeeded in obtaining federal registration of storefronts and physical layouts for their concept stores.[11]

2. Trade Names

A trade name is a word, name, symbol, device, or other designation that is distinctive of a business and is used in a way that identifies the business and distinguishes it from others.[12] Generally, a trade name is the legal name of a business (such as an entity name, the name of a limited partnership, or the names of partners in a general partnership). While the definition of trade name does appear to overlap with the definition of a trademark, trade names serve a different purpose. Trade names are most often used in business filings with state and government agencies as opposed to identifying the goods and services offered by that business. Thus, trade names are not source indicators to consumers and therefore are not eligible for trademark protection (unless of course the trade name

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[10] *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters*, 280 F.3d 619, 629 (6th Cir. 2002).

[11] *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159 (1995) (observing 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. The courts and the United States Patent and Trademark Office ("USPTO") have authorized for use as a mark package/container shapes (such as that of a Coca-Cola bottle), sounds (such as that of NBC's three chimes), and even scents (such as the "flowery musk scent" in Verizon stores).")

[12] *See Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837, 841 (9th Cir. 1987) ("we agree with Fuddruckers that a restaurant's decor, menu, layout and style of service may acquire the source-distinguishing aspects of protectable trade dress such that their imitation is likely to cause consumer confusion."). See, also, *How to Protect Your Concept Store: Interior Design Under Trademark and Copyright Law, Part 1*, INTA Bulletin (January 15, 2020).

[13] *See* U.S. Federal Trademark Registration Nos. 4783688 ("The mark consists of three dimensional trade dress configuration depicting the exterior of a retail beverage store front with the theme of an aviation hangar. The storefront has a prominent elevated crescent shaped archway at its top with nine windows placed along the top of the arch and surrounded by horizontal metal panels. To the right and left of the main entrance to the retail store appears a grid of twenty frosted glass rectangles framed in metal below horizontal corrugated metal framing."), 4948104 ("The mark consists of the design and layout of a retail store…"), and 3956102 ("The mark consists of three-dimensional trade dress for the appearance of a retail bakery shop offering cafe services, produced by a combination of a building with a white exterior, black awnings and significant glass storefront, having visible, through the glass, pink boxes and cupcakes displayed on elevated trays…").

[14] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 12 (1995).

is also used as a trademark).[13] Trade names, unlike trademarks, often include corporate identifiers such as “Inc.” or “Company” and are found together with physical company addresses and domain names.

3. Goodwill

In their role as a source indicator, trademarks convey a multitude of information to consumers and ultimately become intertwined with the goods and services they identify. As consumers begin to recognize and positively associate a trademark with goods and services, the value – or goodwill – of that trademark increases. For companies with particularly strong trademarks, goodwill can often be the companies’ most valuable asset.[14] The Apple® brand, for instance, was recently valued at $322,999,000.[15]

B. Obtaining Trademark Rights and Protection

In the United States, trademarks are distinguishable from other forms of intellectual property in that they contain no intrinsic property value. Instead, the acquisition of trademark rights is predicated on the owner’s use of the mark in commerce in connection with the goods or services sold under a given mark, and not as a contribution to society through creation with independent worth, such as with patentable inventions and copyrightable works.[16] Trademarks also differ from other forms of intellectual property in that consumers pay a crucial role in dictating when and for how long trademark protection exists as well as its strength. Namely, trademark rights only exist so long as the mark serves a source indicator. If the public ceases to recognize a trademark as a source indicator, then the mark will lose protection.[17]

1. Trademarks Must be Distinctive

To avoid confusion in the marketplace, trademarks must be distinguishable from others – they must be distinct. In order to determine whether a particular mark is distinctive, and thus eligible for trademark protection, courts have developed a spectrum within which to classify marks.[18] This spectrum of distinctiveness – commonly referred to as the “Abercrombie Spectrum” – classifies words and marks into the following five categories:

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[15] *See* Trademark Manual of Examining Procedure (“TMEP”), USPTO, TMEP 1202.01 Refusal of Matter Used Solely as a Trade Name.

[16] *See* Emily A. Bayton, United States: The Value of Goodwill in Trademarks (available at: https://www.mondaq. com/unitedstates/Intellectual-Property/698882/The-Value-Of-Goodwill-In-Trademarks).

[17] *See* Interbrand’s annual survey of its “Best Global Brands” report (https://interbrand.com/best-global-brands/apple/).

[18] *See United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918) (“There is no such thing as property in a trade-mark except as a right appurtenant to an established business or trade in connection with which the mark is employed.”)

[19] *See DuPont Cellophane Co. v. Waxed Prods. Co.*, 85 F.2d. 75, 81 (2d Cir. 1936).

[20] *Abercrombie & Fitch Co. v. Hunting World*, 537 F.2d 4, 9 (2nd Cir. 1976).

- *Generic:* A "Generic" word refers to or is understood to refer to the genus or class of which a particular product is a species (i.e., CAR for a car).[19] Put more simply, they are words that people use to describe a particular product or service in a general way. Generic words are never eligible for trademark protection because granting such protection would run counter to the goals of trademark law. Competitors need to be able to describe their goods and services using commonly understood words. Allowing someone to obtain trademark protection for a generic word would decrease economic efficiency and impose unnecessary costs on competitors who would need to find a new term to refer to their products and services. Further, granting one party trademark protection for a generic word like "car" would also almost certainly lead to consumer confusion. (Examples include CAR WASH, RESTAURANT, and GROCERY STORE.)

- *Descriptive:* "Descriptive" marks describe a quality, function, characteristic, or ingredient of a product or service.[20] A classic example of a descriptive mark is "Yellow Pages" for a phone book with yellow-colored pages. Descriptive marks are not inherently distinctive and therefore, are not automatically protectable. (Examples include PARK 'N FLY, COMPUTERLAND, VISION CENTER, and surnames) However, descriptive marks can acquire distinctiveness (obtain "secondary meaning") in the eyes of consumers. Secondary meaning refers to distinctiveness that develops through use of the mark over time (typically at least five years), such that consumers begin to assign a secondary source identifying meaning to the mark beyond its common definition and usage. (Descriptive marks that became distinctive include E*TRADE for electronic trading, THE WEATHER CHANNEL for weather reporting, THE CONTAINER STORE for retail storage, WINDOWS for windowing software, CHAPSTICK for lip balm, AFTERTAN for skin cream, and GENERAL MOTORS for automobiles.)

- *Suggestive*: A "suggestive" mark is a mark that creates an impression of the goods or services it is used in connection with, and therefore "requires the observer or listener to use imagination and perception to determine the nature of the goods."[21] Some examples of suggestive marks are DOORDASH for delivery services, YOUTUBE for a streaming service, OPENTABLE for online reservations, GROUPON for discounted services, ROACH MOTEL for insect control, MICROSOFT for software for microcomputers, and NETSCAPE for scanning the landscape of the Internet. Suggestive marks are deemed inherently distinctive and therefore are protectable without a showing of secondary meaning.[22]

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[21] *Id*.
[22] *Id*. at 10.
[23] *Induct-O-Matic Corp. v. Inductotherm Corp.*, 747 F.2d 358, 362 (6th Cir. 1984).
[24] *Abercrombie & Fitch Co.,* 537 F.2d 4, 10.

- *Arbitrary:* "Arbitrary" trademarks are existing words, with dictionary meanings, but do not describe the goods or services they are used in connection with.[23] Well known examples of arbitrary trademarks include GOOGLE for a search engine, APPLE for computers, AMAZON for online shopping, GAP for clothing, TARGET for department stores, and TIDAL for a music company. Arbitrary marks are inherently distinctive and are automatically protectable.[24]

- *Fanciful:* "Fanciful" trademarks are coined terms that have been "completely fabricated by their owners."[25] Well known examples of fanciful trademarks include XEROX for copying equipment. CLOROX for bleach, ETSY for an e-commerce site, VERIZON for a phone company, ROLEX for watches, and LEXUS for cars. Fanciful marks are the strongest class of trademark and are inherently distinctive.[26]

2. Use in Commerce, Enhanced Rights Through Registration

In the United States, a trademark owner establishes trademark rights simply by being the first to use a distinctive mark in commerce. However, federal registration and, to a lesser extent, state registration, allow owners to bolster those trademark rights.

a. Common Law Rights

In the United States, common law trademark rights arise through (1) first or prior actual use of; (2) a distinctive trademark; (3) in connection with goods or services; (4) in commerce.

Common law trademark rights are established by the person or entity who is the first to make *bona fide* use in commerce of a trademark in connection with the offer of goods and/or services.[27] However, unlike trademark rights bolstered through federal registration, common law rights are limited to: (1) the geographic area in which the trademark is actually being used in association with the actual goods or services provided, (2) the trademark owner's zone of actual goodwill (encompassing the area in which the trademark user has established a reputation or business presence), and (3) the trademark owner's zone of natural expansion.

"Actual use" can generally be shown when use of a mark goes beyond casual, sporadic, or *de minimis* use.[28] Courts will weigh a number of factors to determine whether actual use in a market exists, such as sales figures, number of customers, and potential growth.[29] However, actual sales are not necessary to

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[25] *Moose Creek, Inc. v. Abercrombie & Fitch Co.*, 331 F. Supp. 2d 1214, 1222 (C.D. Cal.).

[26] *Abercrombie & Fitch Co.,* 537 F.2d 4, n. 12.

[27] *Kellogg Co. v. Toucan Golf, Inc.*, 337 F.3d 616, 624 (6th Cir. 2003).

[28] *Abercrombie & Fitch Co.*, 537 F.2d 4, 11.

[29] *Societe de Developments et D'Innovations des Marches Agricoles et Alimentaires-SODIMA-Union de Cooperatives Agricoles v. Int'l Yogurt Co.*, 662 F. Supp. 839, 853 (D. Or. 1987).

[30] *Id*.

[31] *Charles Jacquin Et Cie, Inc. v. Destileria Serrales, Inc.*, 921 F.2d 467, 473-74 (3d Cir. 1990).

establish rights through use in commerce. A business may acquire trademark priority by showing that they have acquired a reputation or business presence in a market, absent any sales.[30] This can be evidenced through pre-sale publicity or advertising, combined with a legitimate intent to continue using the mark.[31] Finally, a business may be able to establish trademark protection in areas contiguous to where they have established actual use or a zone of goodwill.[32] Courts have a number of tests for determining when and where this "zone of natural expansion" exists.[33]

b. State Registration

A trademark owner may also opt to register their mark with one or more states. If a federal registration exists, state registration usually is not necessary; however it does provide a generally less expensive alternative if a mark is only used locally or otherwise is not eligible for federal registration.

A state trademark registration creates benefits under state law by recognizing a trademark owner's rights within a particular state, and it provides notice to other parties who may seek to use that trademark. State trademark registrations also may provide additional remedies not otherwise available at common law.

c. Federal Registration

To be eligible for a federal registration, a trademark owner must be using the mark in interstate commerce – across state lines. Obtaining a federal registration on the United States Patent and Trademark Office ("USPTO") Principal Register provides several significant benefits, including:

- *Presumption of ownership:* Registration confers a presumption of ownership, validity of the mark, and the exclusive right to use that trademark in connection with the goods and/or services for which it is registered.[34] In the event of a dispute with a third party, this shifts the burden of proving trademark rights from the registrant to the party challenging the mark.

- *Incontestability:* Once a trademark has been registered and in use for five years, it becomes eligible to be deemed incontestable (with some limited exceptions). One must file a declaration and pay a fee, it is not automatic. Incontestability is of great value to trademark owners, as it

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[32] *Popular Bank of Fla. v. Banco Popular de Puerto Rico*, 9 F. Supp. 2d 1347, 1355 (S.D. Fla. 1998) ("A party who has established a reputation in an area may acquire exclusive rights to its mark there, even though the product bearing its mark is not sold in the area").

[33] *Societe de Developments et D'Innovations des Marches Agricoles et Alimentaires-SODIMA-Union de Cooperatives Agricoles*, 662 F. Supp. 839, 853.

[34] *Popular Bank of Fla.*, 9 F. Supp. 2d 1347, 1355.

[35] *Id*.

[36] 15 U.S.C. § 1057(b).

makes it difficult for third parties to challenge ownership of the trademark.[35]

- *Constructive Notice:* Registration gives constructive notice to all third parties of the owner's rights in the mark. Unlike under common law, if a third party adopts the same or similar trademark without actual knowledge of the registration, they may not use lack of knowledge as a defense to infringement.[36]

- *Nationwide Priority:* Federal registration expands rights nationwide. However, a registrant may not necessarily enforce its rights nationwide to enjoin use by a junior user who adopted a mark in good faith. Geographic overlap (which can include overlapping internet use) is necessary to show that a likelihood of confusion exists.[37]

- *Remedies:* Once a trademark is federally registered, a trademark owner may bring trademark infringement actions under the Lanham Act, which provides various remedies for infringement including injunctions, damages, recovery of profits and the destruction of infringing materials.[38]

- *Right to Use ® Symbol:* The owner of a federal registration may use the ® symbol, which can have a strong deterrent effect on third party possible adopters of similar brands.

In order to obtain a federal trademark registration, the trademark owner must file an application with the USPTO on the basis of (1) the actual use of a trademark; (2) a bona fide intention to use the mark in commerce; (3) a foreign application or registration; or (4) a combination of (1)-(3).[39] The entire application or prosecution process will take anywhere from nine to 18 months, and generally follows the steps outlined below:

- Within three to four months after filing the application, the USPTO will assign the application to an examiner who will determine whether the application meets the statutory requirements, and thus whether the mark is entitled to registration.[40] More specifically, the examiner will review the application to determine: (1) whether the selected trademark has the requisite distinctiveness to serve as a source identifier (see discussion above); (2) whether the selected mark is confusingly similar to another

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[37] 15 U.S.C. § 1065.

[38] 15 U.S.C. § 1072.

[39] Known as the "*Dawn Donuts Rule*", the owner of a federal registration, theoretically conferring nationwide rights, might not be entitled to an injunction against a user of an infringing mark in a geographic region if the junior user can show that there is no actual overlap because a likelihood of confusion cannot be shown. See *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959); see also, *Guthrie Healthcare System v. ContextMedia, Inc.*, 826 F.3d 27 (2d Cir. 2016).

[40] 15 U.S.C. § 1051; 15 U.S.C. § 1114.

[41] 15 U.S.C. § 1051.

[42] 15 U.S.C. § 1052.

mark that is already registered or pending registration[42], and (3) whether mechanical aspects of the application have been properly prepared. [43] A trademark application may be rejected for a variety of other reasons as well, such as if the USPTO examiner determines the mark is immoral, deceptive, or scandalous.[44, 45]

- If the USPTO examiner determines that any aspect of the application falls short of the requirements for registration, the examiner will issue an "Office Action."[46] An Office Action is a written communication that sets forth the objections or issues the examiner identifies with the mark or the application.[47] The applicant must respond to the Office Action within the stated time (typically six months) in order to avoid abandonment of the application.[48] The amount of time it takes to overcome an Office Action will depend upon the situation. A technical objection (such as disclaiming a descriptive term, or re-wording the description of goods or services) may be processed quickly. A substantive refusal such as the examiner determining that the mark is generic or descriptive, or the examiner finding that the mark is confusingly similar to a prior pending or registered mark, requires submission of evidence and argument to create a record for potential appeal. An applicant may be able to successfully overcome the objections through a written response to the Office Action, or by communicating with the examiner and approving an examiner's amendment to the application. Or, the applicant may seek a solution in the marketplace – such as negotiating a co-existence agreement with the owner of the cited mark.

- If and when the USPTO's examiner finds that the mark is eligible for registration, the USPTO will publish the mark in the *Official Gazette* to notify others of the pending registration.[49] A registrant of a conflicting mark (or any other party that has a valid basis for objecting to registration) has 30 days to file a notice of opposition to the application.[4 10] Upon request, the USPTO can extend this opposition period for additional 30-day periods not to exceed 180 days.[1150] If no one opposes the mark in this period, the USPTO will issue a Certificate

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[43]TMEP 12.07 Likelihood of Confusion, (https://tmep.uspto.gov/RDMS/TMEP/current#/current/TMEP-1200d1e5044.html). *In re E. I. du Pont de Nemours & Co.*, 476 F.2d 1357, 177 USPQ 563 (C.C.P.A. 1973) (seminal case involving likelihood of confusion under § 2(d), the US Court of Customs and Patent Appeals discussed the factors relevant to a determination of likelihood of confusion).

[43] *Id*.

[44] 15 U.S.C. § 1052(a).

[45] *In re McGinley*, 660 F.2d 481, 486 (C.C.P.A. 1981) (mark comprising a photograph of a nude, reclining man and woman, kissing and embracing, for a "newsletter devoted to social and interpersonal relationship topics" and for "social club services" held to be scandalous).

[46] 15 U.S.C. § 1062(b).

[47] *Id*.

[48] *Id.*

[50] 15 U.S.C. § 1062(a).

[51] 15 U.S.C. § 1063(a).

[52] 37 CFR § 2.102.

of Registration for marks that are in use or a Notice of Allowance for "intent to use" applications.[1251]

- Once the mark is registered, any senior trademark owners have five years to petition the Trademark Trial and Appeal Board ("TTAB") to cancel the mark's registration.[1352] Further, between the fifth and sixth years after registration, the trademark owner must file a Declaration of Use to maintain the registration or the mark will automatically be canceled.[1453] If eligible, the registrant can file a combined Declaration of Use and Incontestability.

- Assuming that the mark is not cancelled by the TTAB or otherwise abandoned, and the mark owner makes the requisite declaration, the registration on the Principal Register will become incontestable after five years.[1554] As discussed above, once a mark becomes incontestable it becomes very difficult for a third party to successfully bring an infringement claim.

- A U.S. trademark registration is valid for a period of 10 years. A trademark owner may renew its registration between the ninth and tenth years after the original registration issued, and every 10 years thereafter.

d. USPTO Supplemental Register

If the USPTO examiner finds that a mark is not eligible for registration on the Principal Register because it is descriptive (lacks distinctiveness), a mark owner may nonetheless opt to register the mark on the USPTO's "Supplemental Register."[1655] The Supplemental Register is for descriptive marks that have not yet acquired secondary meaning. While the Supplemental Register confers fewer rights than registration on the Principal Register, such registration does allow the owner to use the federal registration symbol, ®, and can block applications for similar marks that are filed later.[1756]

If the mark acquires secondary meaning at any point after registration on the Supplemental Register, the owner may submit a new application for registration on the Principal Register. Typically, five years of consistent use of a mark capable of acquiring distinctiveness will provide the presumption of acquired distinctiveness; however, further evidence is sometimes required.[1857]

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[53] 15 U.S.C. § 1063(a).

[54] 15 U.S.C. § 1064(1).

[55] *Id.* §§ 1065, 1058.

[56] *Id*.

[57] 15 U.S.C. § 1091.

[58] *See* INTA Bulletin, *The U.S. Trademark Registers: Supplemental vs. Principal* (May 1, 2012).

[59] 15 U.S.C. § 1052(f).

e. International Trademark Protection

Trademark rights are geographically and jurisdictionally limited (unless a mark is so strong and well-known that it gains additional protection through the Paris Convention). Thus, outside the U.S., rights in a mark are acquired by country or region (where there is a regional registration scheme, such as the European Union or the Organisation Africaine de la Propriete Intellectuelle, known as OAPI) as dictated by the applicable law.

Depending upon the country or region, trademark rights can be acquired by the first to use a mark (as in the U.S., Canada, and Australia) or by the first to file an application that matures into a registration. This means that in some circumstances a third party can acquire legitimate trademark rights in a country to which your franchise system seeks to expand.

3. How to Identify, Clear, Register, and Maintain a Trademark

There are four basic steps in obtaining and retaining trademark protection: (1) selecting a mark; (2) checking availability of the mark; (3) registering the mark; and (4) managing the mark, i.e. correctly using the mark, maintaining the registration, and enforcing the owner's rights in the mark. As discussed above, the strength of a trademark can vary substantially from weak, descriptive marks, to strong, arbitrary or fanciful marks. Putting aside issues of eligibility for trademark protection, the Abercrombie Spectrum serves as a useful guide for selecting a trademark.

Franchisors can select their own marks or engage a third party, like a branding company. It is not uncommon for a company to lean instinctively towards a mark that is weak and descriptive due to a worry that the public will not know what the company does if the name is too creative. There are times when selecting a mark that is not inherently distinctive is a reasonable business decision. Taglines also can be used together with distinctive marks with the tagline serving as the "informative" element. For example, Verizon's CAN YOU HEAR ME NOW? GOOD. and Carvel's AMERICA'S FRESHEST ICE CREAM slogans educate the consumer about the products offered by the brand.

Federal trademark law is designed to protect rights in distinctive marks and avoid confusion in the marketplace as to the source, origin, sponsorship, or affiliation of the goods or services associated with those marks. The legal standard, used by both the USPTO in reviewing applications for registration of trademarks and courts in deciding suits for trademark infringement is "likelihood of confusion." While there are a variety of factors employed in comparing competing marks, the similarity of the marks and the similarity of the goods or services are the two key factors. Similarity of the marks includes the appearance, sound, connotation, and commercial impression created. Therefore, selecting a mark that avoids confusion with another user's mark should be a key focus when evaluating a proposed mark.

When selecting a new mark, a franchisor or its attorney often begins by conducting a general search online (e.g. Google search) to see if there are any obvious competing or uses with undesirable affiliations (e.g. a disreputable site). A next step is to conduct a screening search of the online records of the USPTO (www.uspto.gov) to determine whether an identical or similar mark has already been applied for or registered by another user for the same or related goods and services. The USPTO (as well as many trademark offices outside the U.S.) uses the International Classification system that categorizes goods and services into 45 different classes.[58]

Thus, if a restaurant company is interested in using the mark TAMA for a sandwich, it will be interested in discovering whether another user has registered the mark TAMA in class 30 (which includes certain food products such as sandwiches) or class 43 (which includes a variety of services including restaurant services). The fact that another party has registered the mark TAMA in class 15 for drums is unlikely to prevent the use and registration of TAMA for a sandwich. Drums and sandwiches are not typically related nor offered by the same types of retail outlets and thus consumers are not likely to be confused by use of the same mark.[1959]

If the screening search finds that there are no obvious bars to registration at the USPTO, a franchisor or its counsel should perform additional more thorough searches over the Internet and through domain name registries to determine if there are any other prior users of the mark that may not have sought federal trademark registration. The standard in the industry prior to adopting a mark for use on the national level is to obtain a full US availability clearance search from vendors such as Corsearch or Compumark. These professional search companies conduct comprehensive searches that identify registered and pending marks at the federal and state level as well as marks with common law rights. These searches include state and federal trademark databases as well as business listings, journals, industrial indexes, company names, domain names, web pages, and yellow and white page listings among many others. These services identify not only identical (and phonetically equivalent) marks but also marks that are similar to the proposed mark. The time and expense in clearing a proposed mark is money well spent, considering the negative ramifications of developing a product or a service offering and discovering later that the mark conflicts with the trademark rights of a prior user. A prior user, whether discovered or not by even the most thorough search, has priority and can prevent confusingly similar uses by a later diligent user.[2060]

One common obstacle business owners who are considering franchising face is discovering that another business owner is using the same or a similar trademark or trade name for a similar type of business in a geographically remote area. For example, if there is a TURTLES ice cream shop in the Southeast and a TURTLES ice cream shop in the Northeast, which business has the right to use

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[60] TMEP 1401 Classification (https://tmep.uspto.gov/RDMS/TMEP/current#/current/TMEP-1400d1e1.html).

[61] INTA Bulletin, *Branding the Sandwich: Establishing Trademarks in Restaurant Menu Items*, Valerie Brennan (March 15, 2009).

[62] See *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959).

the mark and to obtain a federal trademark registration? In the United States, priority is given to the first TURTLES business that used the mark in interstate commerce. This is true even if the second user of the mark was the first business to file an application to register the mark with the USPTO. Accordingly, prior to franchising, even if a business owner has already started using a mark, they should conduct a trademark clearance search to determine whether anyone else is concurrently using the same or a similar mark for similar goods and services. And, if so, the business owner will need to determine who has priority as the first interstate user of the mark. If a prior user exists, then the business owner should consider adopting a new mark to represent its goods or services or explore purchasing the mark from the prior user.

4. Trademark Infringement Claims

Because trademarks are often the lifeblood of a franchise system, trademark infringement claims are among the most common, and most important, claims asserted in the franchise context. It is critical for a franchisor to protect the strength and value of its trademarks in order to protect its brand. That in turn allows the franchisor and its franchisees to identify themselves and differentiate themselves from competitors. Maintaining a strong brand reinforces the association between the franchisor's trademarks and its quality products and services. Trademark infringement claims can arise in a variety of contexts, such as when a franchisee continues to use the franchisor's trademarks following expiration or termination of the franchise agreement, where the franchisee transfers its franchise to a third party without authorization, where a franchisee exceeds the scope of its authorization to use the franchisor's trademark under the franchise agreement, or where an unaffiliated third party infringes the franchisor's trademarks. Trademark and unfair competition laws provide an important tool for franchisors to protect their trademarks from infringement and other misuse.

Trademarks are primarily protected from infringement by federal law, but certain states also provide common law and statutory remedies for trademark infringement and unfair competition. Under federal law, the Lanham Act provides strong protection for franchisors' registered and unregistered trademarks.[21][61] Among other things, the Lanham Act prohibits the use, without consent from the trademark owner, of any registered trademark in commerce in a manner that "is likely to cause confusion, or to cause mistake, or to deceive" the public.[22][62] The Lanham Act also prohibits the use in commerce of "any false designation of origin, false or misleading description of fact, or false or misleading representation of fact," which "is likely to cause confusion, or to cause mistake, or to deceive" as to the origin of the goods or services.[23][63]

A trademark owner (senior user, first to use a mark) may bring a trademark

[63] *See* Lanham Act, 15 U.S.C. § 1051, *et seq.* The Lanham Act also creates a claim for trade dress infringement when the trade owner can show that the defendants' use of its trade dress is likely to confuse consumers as to the source of the defendants' products and services. *See Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769-70 (1992).

[64] 15 U.S.C. § 1114(1) (protecting registered trademarks).

[65] 15 U.S.C. § 1125(a) (protecting both registered and unregistered trademarks).

infringement claim against a junior user (later adopter of a mark) of a "confusingly similar" mark. Whether a mark is confusingly similar is a question of fact based upon different factors depending upon which federal circuit a case is brought before.[2464]The 9th Circuit considers the following factors: (1) the similarity of the overall impression of the marks, encompassing their look, sound, or meaning; (2) the similarity of the underlying goods and services; (3) the strength or weakness of the plaintiff's mark (that is, the distinctiveness of plaintiff's mark); (4) any evidence of actual confusion by consumers; (5) the defendant's intent in adopting the mark; (6) the proximity of goods in the retail marketplace (such a similarity of trade channels or overlap of customers); (7) the degree of care exercised by the consumer (for example, are the consumers sophisticated or are the purchases impulse buys); and (8) the likelihood of expanding the lines of goods and services.[2565]

Section 43(c) of The Lanham Act (15 U.S.C. § 1125(c)) provides for additional relief for the owners of "famous" trademarks. That provision establishes an independent claim for trademark dilution, pursuant to which owners of a famous mark can obtain injunctive relief against use of another trademark or trade name that commences after the owner's mark has become famous and "that is likely to cause dilution by blurring or dilution by tarnishment of the famous mark." Depending upon the trademark and the nature of the conduct at issue, franchisors have multiple potential remedies at their disposal to protect their trademarks.

The touchstone of a trademark infringement claim is "likelihood of confusion" among consumers caused by the misuse of the franchisor's trademark.[66] The likelihood of confusion analysis is usually very fact specific, sometimes making it difficult to predict how a court will decide a case. While the Lanham Act requires only a showing of likelihood of confusion, evidence of actual customer confusion is even more persuasive, as it reduces the need for courts to speculate about the theoretical likelihood of confusion. In litigation, a franchisor's burden of showing likelihood of confusion can be lower with respect to terminated hold-over franchisees who continue to use the franchisor's trademarks in the same location because courts sometimes presume a likelihood of confusion in that context.[67] Franchisors can use a wide range of evidence to prove customer

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[66] First Circuit 8 Factors (*Pignons S. A. de Mecanique de Precision v. Polaroid Corp*., 657 F.2d 482, 487 (1st Cir. 1981); Second Circuit 8 Factors (*Polaroid Corp. v. Polarad Electronics Corp*., 287 F.2d 492, 495 (2d Cir. 1961); Third Circuit 10 Factors (*Interpace Corp. v. Lapp, Inc*., 721 F.2d 460, 463 (3d Cir. 1983); Fourth Circuit 11 Factors (*Pizzeria Uno Corp. v. Temple*, 747 F.2d 1522, 1527 (4th Cir. 1984); Fifth Circuit 7 Factors (*Roto-Rooter Corp. v. O'Neal*, 513 F.2d 44, 45 (5th Cir. 1975); Sixth Circuit 8 Factors (*Frisch's Restaurant, Inc. v. Shoney's Inc*., 759 F.2d 1261, 1264 (6th Cir. 1985); Seventh Circuit 7 Factors (*Helene Curtis Indus., Inc. v. Church & Dwight Co*., 560 F.2d 1325 (7th Cir. 1977); Eighth Circuit 6 Factors (*Helene Curtis Indus., Inc. v. Church & Dwight Co*., 560 F.2d 1325 (7th Cir. 1977); Ninth Circuit 8 Factors (*AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979)); Tenth Circuit 6 Factors (*Universal Money Centers, Inc. v. AT&T Co*., 22 F.3d 1527, 1530 (10th Cir. 1994) Eleventh Circuit 7 Factors (*Wesco Mfg., Inc. v. Tropical Attractions of Palm Beach, Inc*., 833 F.2d 1484, 1488 (11th Cir. 1987); Federal Circuit and the USPTO The 13 DuPont Factors *In re E.I. du Pont de Nemours & Co*., 476 F.2d 1357, 1361, (C.C.P.A. 1973).

[67] *AMF Inc. v. Sleekcraft Boats,* 599 F.2d 341, 348-49 (9th Cir. 1979).

[68] 15 U.S.C. §§ 1114(1), 1125(a).

[69] *Burger King v. Mason,* 710 F.2d 1480, 1492 (11th Cir. 1983) ("Common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks.").

confusion, including expert testimony, visual comparisons of trademarks, presenting live testimony or affidavits from customers as to their confusion, and relying on customer complaints or surveys that demonstrate confusion.[68] In addition to evidence of actual confusion, courts often consider a variety of other factors in analyzing whether use of a trademark is likely to cause customer confusion, including the strength or distinctiveness of the plaintiff's trademark, the similarity of the two marks, the similarity of the goods and services at issue, the similarity of the parties' respective advertising utilizing the marks, and the defendant's intent.[69]

Because franchisors asserting trademark infringement claims often seek injunctive relief, another critical factor is whether the franchisor can establish the likelihood of irreparable harm flowing from the infringement. The Trademark Modernization Act of 2020[70] ("TMA") provides that a trademark owner seeking injunctive relief is entitled to a rebuttable presumption of irreparable harm upon a finding of infringement or a likelihood of success on the merits. This uniform rule resolved a split in the Circuits and will help trademark owners enforce their rights against infringers in federal court.

Common defenses to trademark infringement claims can include, but are not limited to, the assertion that the owner abandoned the trademark at issue or that the alleged use is fair use. "Fair use" occurs where the alleged infringer has used another's mark as a descriptive term and "nominative fair use" is where an alleged infringer has used another's mark to make a statement about the other's product or service (such as in comparative advertising). Another defense is that the mark has become generic. Equitable defenses such as laches (an unreasonable delay in enforcing trademark rights that causes prejudice to the alleged infringer) and acquiescence (implied or actual consent to the alleged infringer's use of the mark) may also be available. 15 U.S.C. § 1115(b) contains a list of defenses that would invalidate the plaintiff's rights in the claimed trademark registration.

A successful trademark infringement plaintiff can obtain injunctive relief, including an order that the infringing conduct be stopped.[71] The trademark owner may also be able to recover monetary damages. Under the Lanham Act, an infringing defendant may be ordered to pay the trademark owner's actual damages or treble damages in extreme cases; it may be required to disgorge its

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[70] Defendants may object to the franchisor's reliance on out-of-court statements, such as customer surveys, as hearsay. Certain courts have, however, allowed such evidence to be admitted, either concluding that such statements are not hearsay or allowing the admission of the statements under exceptions to the hearsay rule. *See, e.g., HLT Existing Franchise Holding, LLC v. Worcester Hospitality Group, LLC,* 994 F. Supp. 2d 520, 535 (S.D.N.Y. 2014) (considering guest satisfaction surveys because they were not admitted to prove the truth of the matter asserted in the statement, but rather solely to prove what the guests reported to the hotel), *aff'd by* 609 Fed. Appx. 669 (2d Cir. 2015); *Schering Corp. v. Pfizer Inc.,* 189 F.3d 218, 226-28 (2d Cir. 1999) (surveys can be admissible in Lanham Act cases to establish customer confusion because they report customers' present-sense impressions).

[71] *Syngergist Intl, LLC v. Korman,* 470 F.3d 162, 170 (4th Cir. 2006).

[72] The TMA amends Section 34 of the Trademark Act of 1946 (15 U.S.C. § 1116) to provide for the presumption of irreparable harm in trademark actions.

[73] 15 U.S.C. § 1116(a).

profits or pay the costs of the action. In exceptional cases, the court may award reasonable attorneys' fees to the prevailing party.[72] Punitive damages are not available under the Lanham Act, although punitive damages may be available under certain states' laws if the infringement is willful. Courts may also order other relief, such as seizure and destruction of infringing goods. Except in certain cases, only injunctive relief is available to a trademark holder prevailing on a trademark dilution claim.

5. Best Practices for Managing Trademarks

Properly managing a mark is essential to preserving rights. This includes using a trademark notice, making appropriate use of the mark, and enforcing a trademark owner's rights.

A trademark notice informs others that the owner is claiming rights in the trademark and discourages others from adopting a similar or infringing mark. Trademark notice is not mandatory, however, when an owner can assert that the notice routinely appears with the mark, it is good evidence that a junior user may not be acting innocently. For common law marks, the TM notice is appropriate.[73] For trademarks registered with the USPTO, the "®" symbol is the most commonly used.[74]

The ® notice may not be used unless the USPTO has issued a certificate of registration for the mark. If the owner of a federally registered mark fails to use a trademark notice, no profits or damages may be awarded in a trademark infringement case unless the defendant had actual notice of the registration.[75]

There is no uniformity concerning use of marking symbols abroad. While many countries have specific symbol requirements, many have no marking requirements at all.

Properly using a mark in commerce also helps reinforce trademark owners' rights. Some practical tips include:

- Use trademarks as adjectives and never as nouns or verbs. To this end, avoid:
  - making a mark plural by adding "s". Rather, make the common or generic word after the mark plural (NIKE sneakers, not NIKES).
  - adding endings or punctuation to the mark such as "ing" or "ed" (conducted a GOOGLE search, not GOOGLED the term).

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74 *Id. at §* 1117(a).

75 Some owners use the "SM" notice for service marks.

76 *See* 15 U.S.C. § 1111. "Registered in U.S. Patent and Trademark Office" and "Reg. U.S. Pat. & Tm. Off." are less common but also acceptable for federally registered marks.

77 See *Id*.

- Display a mark consistently (*e.g.*, in the same font, style, and color) to reinforce (and so as not to self-dilute) recognition by consumers. This is especially necessary if the registration is for a stylized version of the mark.

- Make the mark stand out from surrounding text (such as through use of capital letters, bold print, color, or italics).

- Provide regular training on trademark basics and proper use to the company's internal teams, such as the marketing, communications, or training departments. Doing so is critical to protecting the marks and can help speed the legal review of the materials created by these teams. Additionally, training on intellectual property rights is important to ensure that employees don't inadvertently infringe upon the rights of others and that they understand the process and timing for conducting trademark searches whether it is for routine advertising and sales materials or for the roll out of a new mark, big promotional campaign or re-branding effort. Encourage all employees to become brand ambassadors and watch for proper use of the franchisor's brand, and notify management of any potential improper or infringing use by others.

A mark whose use is ubiquitous risks becoming generic for the good or service it is associated with. Former trademarks that are now generic include Aspirin, Escalator, Teleprompter, Linoleum, Laundromat, and Cellophane. To avoid this, use a common descriptor or generic word after the trademark to prevent it from becoming the generic word for the product or service. In some cases, trademark owners follow the mark with "brand" to reinforce the trademark nature, such as LEVI'S brand jeans.

Finally, trademark owners need to enforce their trademark rights in order to protect them. Knowingly allowing others to use infringing marks diminishes the strength of a mark and risks the loss of rights. This does not mean that the owner needs to file lawsuits against every potential infringer. However, trademark owners should make a rational business decision based upon the facts and risks. Responses can range from sending demand letters to challenging applications at the USPTO, filing cancellation proceedings at the USPTO, or pursuing federal trademark infringement lawsuits.

III. <u>COPYRIGHTS</u>

The role of copyrights is to protect and promote creative and original expression of ideas. As a general rule, copyrights are less critical to the franchised business model than trademarks and trade secrets. However, most franchised businesses create and use original works in the form of brand manuals, promotional materials, and even software applications, and such works are entitled to copyright protection.[114] This section will provide an overview of (1) the elements

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[78] *See* Mark S. VanderBroek and Jennifer M. D'Angelo, *Copyright Protection: The Forgotten Stepchild of a Franchise Intellectual Property Portfolio*, 28 FRANCHISE L.J. 84 (2008).

of a copyright; (2) copyright protection under U.S. and international law; and (3) the copyright infringement cause of action.

A. **Basic Concepts**

Copyrights protect original, minimally creative authored works that are fixed in a tangible medium of expression, such as writings, music, images, audio or audiovisual recordings, and architectural works.[115] Only the copyrighted expression is protected, not the underlying ideas, methods, or concepts. These are always in the public domain, unless protected under other intellectual property rights, like patent or trade secret protection.[116]

A copyright is an exclusive right to copy, distribute, perform, display, and make derivative works of the copyrighted work, or to authorize others to do so.[117] Generally, the author of the protected work owns the copyright, but under the "works-made-for-hire" doctrine, that ownership can pass to an employer or commissioning party. An employee's work automatically belongs to her or his employer if it was made within the scope of the employee's employment. In the case of a work commissioned from an independent contractor, a work that falls within certain statutory categories and is the subject of a written agreement between the parties is a work-made-for-hire and the property of the commissioning party.[118]

The term of a copyright varies depending on the nature of the work and the date of publication.[119] For works published after 1978, copyright generally extends from creation and for 70 years following the death of the author. For works made for hire, the copyright extends for the lesser of: (1) 95 years from first publication; or (2) 120 years from creation.[120]

B. **Copyright Protection**

1. United States

To register a copyright with the U.S. Copyright Office, the owner must file an application form, pay a modest fee, and "deposit materials" representing the best edition of the copyrighted work.[121] Once the Copyright Office approves the application, it will issue a registration certificate, enabling the holder to enforce the copyright through federal litigation, record assignments and transfers of the copyright, and record the copyright with U.S. Customs to prevent importation of infringing material.

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[79] 17 U.S.C. § 102.

[80] *See id*.

[81] 17 U.S.C. § 106.

[82] 17 U.S.C. § 101.

[83] "Publication" is a term of art defined by statute as the distribution or offer to publicly distribute copies of a work to the public. Mere performance or display of the protected work falls outside this definition. *Id*.

[84] 17 U.S.C. § 302.

[85] *See generally* US Copyright Office Circulars

Registration is not required for a copyright to attach – the property right is created as soon as the work is fixed in a tangible medium of expression. However, copyright registration *is* required to bring suit for copyright infringement in the U.S.[122] Moreover, prompt registration enables the would-be infringement litigant to avoid the additional cost associated with expediting registration applications and can entitle the owner to statutory damages and attorneys' fees (which can far outweigh actual damages in certain cases).[123] The prospect of $150,000 per infringement in statutory damages can be a powerful deterrent to potential willful infringers.

Copyright notice is another useful tool which, though not legally required,[124] is highly advisable for copyright protection. Including the year of publication, owner's name, and a © or other copyright designation on copyrighted material puts the public on notice that the work is protected and precludes the "innocent infringer" defense to infringement. (© Year Owner)

2. International

A number of treaties govern international cooperation for copyright protection, including the Berne Convention for the Protection of Literary and Artistic Works,[125] the related World Intellectual Property Organization ("WIPO") Copyright Treaty ("WCT"),[126] and TRIPS,[127] among others. The majority of countries recognize automatic copyright protection for nationals of treaty member states without any registration requirements.

The Berne Convention, in fact, contains language prohibiting member states from conditioning copyright protection on "formalities."[128] However, many countries have individual voluntary copyright registration mechanisms that can simplify copyright use and enforcement for U.S. copyright holders abroad.

C. Copyright Infringement

The elements of a copyright infringement claim are: (1) ownership of a valid copyright; and (2) copying by defendant of constituent elements of the work that are original.[129] In the absence of direct evidence of copying, an infringement

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[86] 17 U.S.C. § 411. *See also Fourth Estate Pub. Ben. Corp. v. Wall-Street.com, LLC*, 139 S. Ct. 881, 892 (2019) (holding that registration for purposes of 17 U.S.C. § 411 does not occur when "an application for registration is filed, but when the Register has registered a copyright after examining a properly filed application."

[87] 17 U.S.C. § 504.

[88] Except for works published prior to March 1, 1989.

[89] 828 U.N.T.S. 221 (1886).

[90] 2186 U.N.T.S. 121 (1996).

[91] Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 3 (1994).

[92] The United States requirement that a copyright be registered before its owner can pursue copyright infringement litigation in US federal courts is inapplicable to foreign nationals for this reason.

[93] *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

plaintiff can show evidence that the defendant had access to the protected work and that the infringing work is substantially similar.

Copyright infringement litigants must contend with a number of copyright-specific affirmative defenses including the notable fair-use doctrine, which permits limited use of a copyrighted work for "purposes such as criticism, comment, news reporting, teaching, scholarship, or research."[130] Courts assess fairness case-by-case based upon four factors: "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work."[131]

IV. RIGHTS OF COMMERCIAL EXPLOITATION / PUBLICITY

Rights of commercial exploitation are more commonly referred to as "rights of publicity". The right refers to one's right to profit from or control the exploitation of one's name, nickname, pseudonym, signature, likeness, recognizable voice, image, or persona. Although the right is most commonly invoked by celebrities, in most states, any individual can claim a right of commercial exploitation if one's persona is used to endorse a product or in another commercial manner.

In the U.S., rights of publicity are governed and created by state (or territorial) law. Accordingly, there are variants on whether such a right exists, how and when the right is created, how long (and whether) it endures after one's death, whether the right is assignable or descendible, whether one must have exploited one's persona prior to unauthorized use by others, and whether the right applies to or varies for non-celebrities. Some states have passed statutes creating and regulating these rights[26], while others[27] rely on common law rights of publicity, established under caselaw. In states where the right of commercial exploitation endures past one's death and is thus descendible, often the law responds to a person of significant fame living or dying in that state, such as Elvis Presley in Tennessee, Dr. Martin Luther King, Jr. in Georgia, and Marilyn Monroe in California. In some states[28], the right applies only to soldiers.

Although there is no Federal right of publicity, there is overlap in some cases between state rights of publicity and the right under unfair competition law to protect one's persona against false endorsement, association, or affiliation.

The International Trademark Association ("INTA") supports the enactment of a Federal statute governing the right of commercial exploitation and passed a

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94 17 U.S.C. § 107.

95 *Id*.

96 Alabama, Arkansas, California, Florida, Hawaii, Illinois, Indiana, Kentucky, Massachusetts, Nebraska, Nevada, New York, Ohio, Oklahoma, Pennsylvania, Puerto Rico, Rhode Island, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, and Wisconsin. Source: INTA 2019 Right of Publicity Survey.

97 Connecticut, Georgia, Michigan, Missouri, New Hampshire, New Jersey, New Mexico, South Carolina, and West Virginia. Source: INTA 2019 Right of Publicity Survey.

98 Arizona, Louisiana. Source: INTA 2019 Right of Publicity Survey.

Board Resolution[29] in 2019 that proposed minimum standards for a right of publicity. That Resolution reads[30]:

the International Trademark Association recommends that in providing protection for a right of publicity, all governments and relevant international institutions adopt the following minimum standards:

1. The right of publicity is reserved to natural persons and not companies, animals or objects.

2. The right of publicity would prohibit others from making an unauthorized use of a person's name, likeness, voice or other personal characteristic that identifies that individual to an ordinary and reasonable viewer or listener.

3. To be actionable, the use at issue should be for commercial purposes, and a direct connection between the use and the commercial purpose must exist. The claimant must establish that the use of his or her persona results in injury or damage to the claimant and/or unjust enrichment to the defendant.

4. An individual claimant need not make commercial use of his or her persona to have a right of publicity. The commercial value of a persona may have an impact on any damage amount claimed in a dispute.

5. An individual should have post-mortem rights for a defined term. The rights should be freely transferable, licensable and descendible property rights.

6. Where practicable, a non-mandatory post-mortem registration system would assist an individual's heirs, descendants, survivors, agents or other rights holders in providing public notice that such rights are being claimed, and provide contact information for the use of such rights. There could be incentives to register the claim of rights, such as reserving the ability to obtain monetary relief to only those valid rights holders who registered their claim prior to the commencement of the unauthorized use.

7. There should be general exceptions to publicity rights so as to permit fair use of an individual's persona in protected speech or expression. These exceptions may include uses in:

a. News, public affairs and sports reporting or commentary;
b. Dramatic, literary, artistic, or musical works, so long as the use has artistic relevance to the work and does not explicitly mislead as to endorsement or approval by the individual;
c. Works that parody, criticize, satirize or comment upon the individual;
d. Advertising and promotion for (a)-(c); and
e. Any other noncommercial use, including, but not limited to, education and

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[99] Board Resolution of the International Trademark Associate, titled *Right of Publicity Minimum Standards*, passed March 27, 2019.
[100] Id.

research.

Under the law in most, if not all, states, there is a First Amendment-based exception for use of an individual's persona in non-commercial matters, such as in connection with a news article relating to that person.

V. INTELLECTUAL PROPERTY IN NEW TECHNOLOGIES

A. NFTs and other Virtual Offerings

1. Identifying Offering

There are multiple ways for brand owners (including franchisors) to engage in the virtual or digital technology space. Brand owners can create virtual products that mirror their physical brands. These virtual products can be non-fungible tokens or, more commonly, NFTs (unique digital files that use blockchain technology) or can be other types of digital assets that are bought, sold or used in gaming or other virtual worlds.

Virtual offerings also can be used more as marketing efforts than ongoing engagement. Franchised brands who have begun engaging with fans in the digital world include McDonalds (a McRib NFT tied to the sandwich's 40th anniversary), Papa Johns (handbag design NFTs), Wingstop (NFTs that can be redeemed for food), and Taco Bell (selling taco-themed NFTs). Other brands entering the space include Wrangler, the NBA, Kendra Scott, the Grammy Awards, and Acura.

Some brands are using NFTs for charitable purposes. Franchisor Bojangles launched a NFT promotion in December 2021 tied to the North Carolina artist community, with proceeds going to the artists. A United Kingdom organization called Betterverse is, in Spring 2022, launching an NFT promotion designed to support the planting of trees.

The issuer that sells the digital asset typically determines what rights are transferred with the sale. The rights transferred in the sale are limited by the rights that the issuer holds; the issuer may not have created the content incorporated into the digital asset, for instance, and thus would transfer only a license. Moreover, the owner of a digital asset does not necessarily acquire broad intellectual property rights in that asset and, therefore, may be limited in how it may use the asset. As an example, the owner of a NFT of an image may not have the right to modify that image so as to create a new work because such a modification would constitute the creation of a derivative work.

2. Terminology within Virtual Space

Digital assets and virtual offerings have "minted" an entirely new vocabulary. We provide definitions of some basic terminology below:

Blockchain: Defined by Oxford Languages as "a system in which a record of transactions made in bitcoin or another cryptocurrency are maintained across several computers that are linked in a peer-to-peer network". Decentralized and based on open source technology. Examples of blockchain offerings are: Ethereum, EOS, Cardano, Flow, and Tron.

Coin: Digital assets created on their own blockchain and used to store value and exchange value on that blockchain. Distributed through mining. Valid with any merchant who uses the currency.

Cryptocurrencies: Cryptocurrencies are alternative currencies digital means of exchange that are created by private companies, individuals, or groups, on contrast to those created or regulated by national governments. Bitcoin, created in 2009, was the first widely used and remains the most recognizable cryptocurrrencies. Other examples of cryptocurrencies are Litecoin, Ethereum, Bitcoin Cash, Ethereum Classic, Zcash, Stellar Lumen, Bitcoin Sathshi's Vision, and Chainlink.

Digital Assets: Anything that is uniquely identifiable, stored digitally, and used to realize value.

Digital Wallet: Aka e-wallet. A software-based system that stores users digital assets and is used to maintain balances and make transactions. The term "digital wallet" is not unique to cryptocurrencies; the term also is used to refer to systems for making payments and engaging in transactions using mainstream currencies, such as those offered by ApplePay, PayPal, Google Wallet, Venmo, etc.

Minting: The process of creating or launching an NFT, which embeds a smart contract into the blockchain.

NFTs: NFTs (or non-fungible tokens) are a type of digital asset, which, unlike other blockchain tokens, are unique (non-fungible) and verifiable using metadata and a cryptographic key.

Primary Market: The market for first sale of a digital asset (typically by the creator).

Secondary Market: The market for all resales of a digital asset. Examples of secondary markets are OpenSea and Solanart.

Smart Contract: A computer program that embeds self-executing instructions relating to an NFT into the blockchain.

Token: Built on top of an existing blockchain; valid with one merchant.

3. Rights Creation and Clearance

Virtual product offerings rely on, and consist of, intellectual property (photos and other images, videos, or digital graphic representations of physical products) and therefore rights creation and clearance must be considered as with any other product or service launch.

Ownership of the intellectual property in content is not different in the virtual space. As discussed previously, generally, the author of the protected work owns the copyright, but under the “works-made-for-hire” doctrine, that ownership can pass to an employer or commissioning party. An employee’s work automatically belongs to her or his employer if it was made within the scope of the employee’s employment. In the case of a work commissioned from an independent contractor, a work that falls within certain statutory categories and is the subject of a written agreement between the parties is a work-made-for-hire and the property of the commissioning party. The nine types of works that can be viewed as authored by the commissioning part are:

1 as a contribution to a collective work,

2 as a part of a motion picture or other audiovisual work,

3 as a translation,

4 as a supplementary work,

5 as a compilation,

6 as an instructional text,

7 as a test,

8 as answer material for a test, or

9 as an atlas.

This extremely narrow listing will not in most cases cover the type of virtual content we are discussing and, thus, ownership in such works created by anyone other than employees creating within the scope of employment must be assigned, in writing, in order for rights to transfer from the creator.

Content clearance in materials to be distributed digitally is no different than clearance for materials to be distributed more conventionally. Any copyrightable content should be original works or should be owned or appropriately licensed. Any third party content – whether brands, copyrightable content, or rights of publicity or commercial exploitation – must be cleared. Moreover, the owner of the content that will be the basis of an NFT should ensure that the copyright is registered prior to launch, as further discussed in Section VI.B.2.

4. Agreements with Platforms, Creators/Minters, Service Providers, Artists, and Buyers

Multiple parties must be involved in any virtual offering, in addition to the brand or franchisor and the creator or artist of the content or image. If NFTs are involved, there also will be a creator of the NFT – the digital embodiment of that content or image – called “minters”. In addition, there will be a platform or service provider to support the offering, which could be a digital gaming space (either a third party space or one created uniquely for the offering) or a blockchain provider and/or marketplace. Traditional brand or marketing support providers also might be involved, such as branding, advertising, and media agencies.

The offeror will need to ensure that there are appropriate contracts in place with all of these stakeholders. For NFTs in particular, there will be an agreement governing the sale of the NFT (both the initial sale and then if re-sale is allowed, sale in secondary markets), known as "smart contracts." Equally important is determining what rights the buyers or licensees of the digital assets will obtain.

Minters should be specific about what rights are being granted, specifically addressing any rights that the NFT buyer acquires in the content associated with the NFT, whether the owner of the NFT may create derivative works, whether commercial use is permitted, whether rights in the underlying content transfer on assignment or resale of the NFT, and what rights, if any, the content owner has to terminate the NFT or its resale. Minters may write their own smart contract code (which then must be added to the blockchain), may use an existing smart contract template (typically available under an open source license), or may use an existing smart contract available through a specialized platform, such as OpenSea.

Platform operators need to ensure compliance with the Digital Millennium Copyright Act ("DMCA") (discussed in more detail in Section VII.D.) and implement terms of service that limit the platform's liability. While minting an NFT does not create a copy of the underlying work or content, use of the NFT after minting can infringe intellectual property rights. Platform users, including minters, must accept these terms of service before using the platform.

From the perspective of the acquirer, obtaining an understanding what one has purchased is similar to the analysis in understanding the right to use open source software. There are a multitude of license options, each granting the user different rights and imposing different obligations. Misuse of an NFT can both constitute a contract violation and copyright infringement if the scope of use of the content associated with the NFT surpasses the use authorized by the license.

5. Brand and IP Protection

Brand offerings that are made virtually can be protected as trademarks, both through common law (created by use) and registration. The USPTO has created multiple pre-approved goods and services in its ID Manual[31], including the following for NFTs specifically:

International Class	Description
009	Downloadable music files authenticated by non-fungible tokens (NFTs)
009	Downloadable audio and video recordings featuring {specify subject matter, e.g., sports highlights, movie clips, memes, etc.} authenticated by non-fungible tokens (NFTs)

[101] USPTO, Acceptable Identification of Goods and Services Manual (ID Manual) Next Generation.

009	Downloadable image files containing {indicate subject matter or field, e.g., trading cards, artwork, memes, sneakers, etc.} authenticated by non-fungible tokens (NFTs)
009	Downloadable multimedia file containing artwork, text, audio, and video relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
009	Downloadable multimedia file containing artwork relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
009	Downloadable multimedia file containing text relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
009	Downloadable multimedia file containing audio relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
009	Downloadable multimedia file containing video relating to {indicate field or subject matter of file} authenticated by non-fungible tokens (NFTs)
009	Downloadable audio recordings featuring {specify subject matter, e.g., music, poetry, etc.} authenticated by non-fungible tokens (NFTs)
009	Downloadable video recordings featuring {specify subject matter, e.g., sports highlights, movie clips, memes, etc.} authenticated by non-fungible tokens (NFTs)
035	Provision of an online marketplace for buyers and sellers of downloadable digital art images authenticated by non-fungible tokens (NFTs)
035	Provision of an online marketplace for buyers and sellers of downloadable digital {indicate type of downloadable digital goods, e.g., art images, music, video clips, etc.} authenticated by non-fungible tokens (NFTs)

Fewer pre-approved descriptions have been created for virtual versions of physical products, but some include the following:

International Class	Description

009	Downloadable virtual goods, namely, computer programs featuring {specify nature, type, e.g., articles of clothing} for use in online virtual worlds
035	On-line retail store services featuring physical and virtual merchandise for use by members of an online community in connection with a designated website featuring fictional characters
035	Retail store services featuring virtual goods, namely, {specify type, e.g., clothing} for use in online virtual worlds
041	Entertainment services, namely, providing on-line, non-downloadable virtual {indicate goods, e.g., clothing, pets, furniture, etc.} for use in virtual environments created for entertainment purposes

Many brands have begun seeking registration of their virtual offerings, such as the following:

MCDONALDS

Mark	Int'l Class: Goods/Services
McDonald's	IC 009. Virtual food and beverage products. Downloadable multimedia files containing artwork, text, audio and video files and non-fungible tokens IC 035. G & S: Online retail services featuring virtual goods IC 041. G & S: Entertainment services, namely, providing on-line actual and virtual concerts and other virtual events IC 043. G & S: Operating a virtual restaurant featuring actual and virtual goods, operating a virtual restaurant online featuring home delivery

NIKE

Nike, Inc. has filed applications covering the following virtual offerings:

Mark	Int'l Class: Goods/Services
NIKE and NIKE Swoosh Logo	IC 009. G & S: Downloadable virtual goods, namely, computer programs featuring footwear,

	clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories for use online and in online virtual worlds IC 035. G & S: Retail store services featuring virtual goods, namely, footwear, clothing, headwear, eyewear sports bags, backpacks, sports equipment, art, toys and accessories for use online; on-line retail store services featuring virtual merchandise, namely, footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories IC 041. G & S: Entertainment services, namely, providing on-line, non-downloadable virtual footwear, clothing, headwear, eyewear, bags, sports bags, backpacks, sports equipment, art, toys and accessories for use in virtual environments

PANERA

Mark	Int'l Class: Goods/Services
PANERA	IC 009. G & S: Downloadable virtual goods, namely, food items and beverages for use in virtual worlds; downloadable virtual goods, namely, computer programs featuring access tokens for use in online virtual worlds; downloadable computer software, namely, non-fungible tokens (NFTs) for facilitating commercial transactions; downloadable software for viewing non-fungible tokens (NFTs); downloadable software for use in electronically storing, sending, receiving, accepting and transmitting non-fungible tokens (NFTs); downloadable software for use in creating and participating in virtual environments; downloadable software for use in creating, editing and modifying avatars and virtual images that can be posted, shared and transmitted via multi-media messaging (MMS), text messaging (SMS), email, online chatrooms, global communication networks, and other communication networks; downloadable software for creating and broadcasting avatars across online social media and digital platforms; blockchain software; software for use with digital currency, crypto currency and virtual currency; software which facilitates the ability of users to view, analyze, record, store, monitor, manage, trade and exchange digital currency, virtual currency, cryptocurrency, digital and blockchain assets, digitized assets, digital tokens and crypto tokens; downloadable

	cryptographic keys for receiving and spending crypto assets; downloadable loyalty cards, incentive cards, reward cards that may be redeemed for or used towards the purchase of menu items; downloadable mobile application for ordering food; downloadable mobile applications for ordering food and drink, viewing menu options, GPS navigation for tracking orders and delivery of food and drink, and facilitating payment for food and drink; downloadable mobile applications for ordering and managing customer accounts; none of the aforesaid relating to watches and jewelry IC 035. G & S: Advertising; retail store services featuring virtual goods, namely, food items and beverages; digital retail store services featuring downloadable and non- downloadable virtual goods in the nature food items and beverages; retail store services featuring virtual goods, namely, access tokens for use in online virtual worlds; conducting an incentive program whereby individuals can earn real world and virtual rewards; arranging and conducting incentive reward programs to promote the sale of food and beverages; providing a website featuring consumer product information in the fields of food and beverage, restaurants and food services; computerized online ordering services in the field of restaurant take-out and delivery; administration of a customer loyalty program which provides registered customers with free and discounted menu items; administration of a rewards program featuring virtual rewards that can be redeemed in the real or virtual world; customer loyalty services and customer club services for commercial, promotional and/or advertising purposes in the field of food and beverage sales and service; organizing and conducting volunteer and community services programs; subscription-based order fulfillment services in the field of coffee; retail store services featuring coffee, coffee subscriptions, promotional apparel, mugs, tumblers, and coffee brewing equipment; computerized online ordering services in the field of retail and restaurant take-out and delivery; none of the aforesaid relating to watches and jewelry IC 041. G & S: Entertainment services, namely, providing on-line virtual restaurants and cafes in virtual environments created for entertainment purposes; entertainment services, namely, providing on-line, non-downloadable virtual food items and beverages for use in virtual environments; education and entertainment services, namely, arranging, organizing, and conducting cooking instruction classes in bakery cafes; arranging, organizing and conducting bakery-cafe tours for

	educational and recreational purposes; entertainment services, namely, providing an on-line virtual restaurant wherein users can earn reward points and virtual currency which may be used to purchase food and beverages; entertainment services, namely, providing on-line, non-downloadable virtual gifts, gift certificates, rewards, points, incentives, prizes and emotes for use in virtual environments created for entertainment purposes
PANERAVERSE	IC 009. G & S: Downloadable virtual goods, namely, food items and beverages for use in virtual worlds; downloadable virtual goods, namely, computer programs featuring access tokens for use in online virtual worlds; downloadable computer software, namely, non-fungible tokens (NFTs) for facilitating commercial transactions; downloadable software for viewing non-fungible tokens (NFTs); downloadable software for use in electronically storing, sending, receiving, accepting and transmitting non-fungible tokens (NFTs); downloadable software for use in creating and participating in virtual environments; downloadable software for use in creating, editing and modifying avatars and virtual images that can be posted, shared and transmitted via multi-media messaging (MMS), text messaging (SMS), email, online chatrooms, global communication networks, and other communication networks; downloadable software for creating and broadcasting avatars across online social media and digital platforms; blockchain software; software for use with digital currency, crypto currency and virtual currency; software which facilitates the ability of users to view, analyze, record, store, monitor, manage, trade and exchange digital currency, virtual currency, cryptocurrency, digital and blockchain assets, digitized assets, digital tokens and crypto tokens; downloadable cryptographic keys for receiving and spending crypto assets; downloadable loyalty cards, incentive cards, reward cards that may be redeemed for or used towards the purchase of menu items; downloadable mobile application for ordering food; downloadable mobile applications for ordering food and drink, viewing menu options, GPS navigation for tracking orders and delivery of food and drink, and facilitating payment for food and drink; downloadable mobile applications for ordering and managing customer accounts; none of the aforesaid relating to watches and jewelry IC 035. G & S: Advertising; retail store services featuring virtual goods, namely, food items and beverages; digital retail store services featuring downloadable and non-downloadable virtual goods in the nature food items and beverages;

	retail store services featuring virtual goods, namely, access tokens for use in online virtual worlds; conducting an incentive program whereby individuals can earn real world and virtual rewards; arranging and conducting incentive reward programs to promote the sale of food and beverages; providing a website featuring consumer product information in the fields of food and beverage, restaurants and food services; computerized online ordering services in the field of restaurant take-out and delivery; administration of a customer loyalty program which provides registered customers with free and discounted menu items; administration of a rewards program featuring virtual rewards that can be redeemed in the real or virtual world; customer loyalty services and customer club services for commercial, promotional and/or advertising purposes in the field of food and beverage sales and service; organizing and conducting volunteer and community services programs; subscription-based order fulfillment services in the field of coffee; retail store services featuring coffee, coffee subscriptions, promotional apparel, mugs, tumblers, and coffee brewing equipment; computerized online ordering services in the field of retail and restaurant take-out and delivery; none of the aforesaid relating to watches and jewelry IC 041. G & S: Entertainment services, namely, providing on-line virtual restaurants and cafes in virtual environments created for entertainment purposes; entertainment services, namely, providing on-line, non-downloadable virtual food items and beverages for use in virtual environments; education and entertainment services, namely, arranging, organizing, and conducting cooking instruction classes in bakery cafes; arranging, organizing and conducting bakery-cafe tours for educational and recreational purposes; entertainment services, namely, providing an on-line virtual restaurant wherein users can earn reward points and virtual currency which may be used to purchase food and beverages; entertainment services, namely, providing on-line, non-downloadable virtual gifts, gift certificates, rewards, points, incentives, prizes and emotes for use in virtual environments created for entertainment purposes

TACO BELL

Mark	Int'l Class: Goods/Services

TACO BELL	IC 009. G & S: Virtual food and beverage products; downloadable multimedia files containing artwork, text, audio and video relating to restaurants, foods, and beverages, authenticated by non-fungible tokens (NFTs); downloadable virtual goods, namely, non-fungible tokens (NFTs), digital tokens, digital collectibles, and digital art; downloadable loyalty cards, incentive cards, and reward cards that may be redeemed for or used towards the purchase of food, drink, and restaurant services in the virtual and real world; downloadable software and downloadable video game software featuring non-fungible tokens (NFTs) and other virtual goods IC 035. G & S: Online retail services featuring non-fungible tokens (NFTs) and other virtual goods; administration of a customer loyalty program featuring virtual rewards that can be redeemed in the real or virtual world; provision of an online marketplace for buying virtual goods and services in the nature of food and drink items, restaurant services, and non-fungible tokens (NFTs); providing incentive award programs for customers through issuance and processing of loyalty points for goods in the virtual and real world IC 041. G & S: Entertainment services, namely, providing online virtual restaurants and food and drink items for use in virtual environments; entertainment services, namely, providing an online virtual restaurant where users can earn reward points and virtual currency which may be used to purchase food and beverages in the real or virtual world; entertainment services, namely, providing online actual and virtual concerts and other virtual events; entertainment services, namely, providing online video games; entertainment services, namely, providing online non-downloadable software featuring non-fungible tokens (NFTs) and other virtual goods IC 043. G & S: Operating a virtual restaurant featuring actual and virtual goods; operating a virtual restaurant featuring home delivery in the real and virtual world

WINGSTOP

Mark	Int'l Class: Goods/Services
WINGSTOP	IC 009. G & S: Downloadable virtual goods, namely, non-fungible tokens and digital tokens; downloadable virtual goods, namely, virtual food and drink; downloadable software for providing access to virtual restaurants, foods, and drinks;

	downloadable software for creating, buying, selling, trading, sending, receiving, transmitting and using crypto currency, non-fungible tokens and digital tokens; downloadable software for providing access to virtual environments; digital media, namely, digital collectibles, digital tokens, non-fungible tokens (NFTs), and digital art; downloadable loyalty cards, incentive cards, reward cards that may be redeemed for or used towards the purchase of food, drink, and restaurant services in the virtual and real world; downloadable mobile application for ordering food and drink, viewing menus, GPS navigation for tracking orders and delivery of food and drink, and facilitating payment for food and drink; software for use with digital currency, crypto currency and virtual currency; software which facilitates the ability of users to view, analyze, record, store, monitor, manage, trade and exchange digital currency, virtual currency, and crypto currency IC 035. G & S: Online retail services featuring virtual goods; provision of an online marketplace for buyers, sellers, and traders of downloadable digital goods; provision of an online marketplace for buyers, sellers and traders of virtual and digital assets, artwork, collectibles, and non-fungible tokens; providing a website featuring an online marketplace for buying, selling and trading virtual goods with other users; provision of an online marketplace for buyers and sellers of downloadable digital art images authenticated by non-fungible tokens (NFTs); provision of an online marketplace for buying virtual goods, namely, food and drink items and restaurant services; administration of incentive awards programs through issuance and processing of loyalty points for goods in the virtual and real world IC 041. G & S: Entertainment services, namely, providing online virtual worlds featuring restaurants, food, and drink

As with all federal trademark applications, applicants can base an application on actual use or their intent to use the claimed mark(s). As discussed previously, filing claiming an intent to use a mark requires a bona fide intent to do so, which is more than a desire to reserve rights. While not a particularly high standard, applicants must have an actual plan to launch the claimed product or service offering, such as creating business plans, conducting discussions with vendors or distributors, engaging in promotional activities, re-branding an existing product or service lines, conducting product and market research, and/or taking steps to obtain government approval (and should have documentation at the ready to demonstrate such plans if challenged by a third party).[32] The requisite intent must exist at the time of filing of the application.

B. <u>Influencers</u>

Many brands are engaging with social media influencers to expand their brand reach. Careful thought should be given to the guide rails for these relationships. From an intellectual property perspective, influencers can have a (positive or negative) impact on the brand. An agreement with any influencer should cover:

- Manner of allowed us of the brand (such as compliance with style guidelines).
- Creation of content that the brand might want to own or that it might want to prohibit the influencer from using outside the scope of the relationship.
- The brand's right to terminate the relationship unilaterally if the influencer's connection with the brand is no longer in the brand's interest (so called "morality" clauses).
- Liability in the event of intellectual property claims based on influencer's activity, such as if an influencer uses an unlicensed song in a video that results in a copyright claim, or captures in a photo artwork that's copyright-protected.
- Limits on influencer's right to engage with competing brands.

In addition, in the U.S., these relationships are typically governed by FTC rules on endorsements or FTC Endorsement Guides[33]. The FTC Endorsement Guidelines apply to all endorsers (not just influencers) and to all media, not just social media. Generally speaking, influencers (or anyone endorsing a product or brand through social media) need to make it obvious that they have a connection with the brand. This relationship could be that the brand is paying the influencer or that the influencer receives free or discounted products or services. The FTC website includes helpful materials explaining these rules, such as "Disclosures 101 for Social Media Influencers."[34] , which is targeted to influencers rather than the brands they endorse. The rules apply even if the influencer is not posting from the U.S., provided that "it's reasonably foreseeable that the post will affect U.S. consumers."[35]

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[102] *Bona Fide Intention to Use the Mark in Commerce*, TMEP 1101. *See, e.g., M.Z. Berger & Co. v. Swatch AG*, 787 F.3d 1368, 114 USPQ2d 1892 (Fed. Cir. 2015) (affirming a finding that applicant merely intended to reserve a right in the mark and thus lacked the requisite intent).

[103] Federal Trade Commision, 16 CFR Part 255, Guides Concerning the Use of Endorsements and Testimonials in Advertising ("FTC Endorsement Guides").

[104] *Disclosures 101 for Social Media Influencers* At https://www.ftc.gov/system/files/documents/plain-language/1001a-influencer-guide-508_1.pdf , November 2019.

[105] Id.

In short, the guidance from the FTC is:

- "Place it so it's hard to miss."[36]
- "Use simple and clear language."[37]
- "The disclosure should be in the same language as the endorsement itself."[38] and
- "Don't assume that a platform's disclosure tool is good enough, but consider using it in addition to your own, good disclosure."[39]

The FTC recently has stepped up enforcement regarding fake reviews and other misleading endorsements, sending a Notice of Penalty Offenses to more than 700 companies in fall of 2021.[40] Shortly thereafter, the FTC issued a second round of notices, targeted to businesses that market money-making ventures.[41] Violations of the FTC Act can lead to civil penalties of up to US$43,792 per knowing violation of a clearly unfair or deceptive practice. States' attorneys generals also may enforce against the same behavior using their states' laws, with some states also having a private right of action.

C. Celebrities

Like influencers, celebrities used in brand promotion also might need to comply with the FTC Endorsement Guides. As with influencers, agreements with celebrities are key to managing a successful relationship and any negative impacts on the brand. Most of the contract issues that should be addressed in an agreement with an influencer also apply to agreements with celebrity endorsers.

D. Athletes

Use of athletes in endorsements and brand materials raise many of the same issues as with influencers and other celebrities. Post-*NCAA v. Alston*[42] certain states and the U.S. Congress have already enacted[43] or are further considering laws that give student athletes more control over the use of their likeness. Depending on the changing legal landscape in this area, brands that use

[106] Id.

[107] Id.

[108] Id.

[109] Id.

[110] FTC Press Release, dated October 13, 2021, *FTC Puts Hundreds of Businesses on Notice about Fake Reviews and Other Misleading Endorsements: Notice of Penalty Offenses can trigger steep penalties for recipients who use endorsements to deceive consumers*, https://www.ftc.gov/news-events/news/press-releases/2021/10/ftc-puts-hundreds-businesses-notice-about-fake-reviews-other-misleading-endorsements

[111] FTC Press Release, dated October 26, 2021, *FTC Puts Businesses on Notice that False Money-Making Claims Could Lead to Big Penalties: Notice of Penalty Offenses can trigger large civil penalties for companies from multi-level marketers to providers of "gig" work*, https://www.ftc.gov/news-events/news/press-releases/2021/10/ftc-puts-businesses-notice-false-money-making-claims-could-lead-big-penalties

[112] NCAA v. Alston, 141 S. Ct. 2141 (2021) (upholding a district court rulling that the National Collegiate Athletic Association rules limiting education-related compensation for college athletes violated section 1 of the Sherman Act).

[113] E.g., California's "Fair Pay to Play Act", passed September 30, 2019.

college athletes may need to consider the rights of publicity of individual athletes instead of working solely with the National Collegiate Athletic Association ("NCAA"). The NCAA has already adopted an interim policy that would allow college athletes to exploit their rights of publicity without NCAA penalty, avoiding a conflict with those states that have already enacted laws prohibiting colleges from restricting compensation to student athletes.

VI. FRANCHISING AND INTELLECTUAL PROPERTY

A. Ownership of IP

1. Separate entity or franchisor entity

There are multiple ways to structure intellectual property ownership for a franchise company. For instance, franchisors may own intellectual property or may create an intellectual property holding company to own the intellectual property. Using an intellectual property holding company can insulate the franchisor from certain types of liability and/or protect the intellectual property from the bankruptcy of a franchisor. Moreover, having all intellectual property owned by one holding company, then licensed down to more than one franchisor entity, enables the holding entity to use the consolidated intellectual property as collateral, rather than obtaining financing through each separate franchisor entity. Holding companies also are often used strategically for tax benefits. A franchisor may gain tax advantages by locating the holding company in a tax-friendly country (such as Bermuda, Cayman Islands, or Ireland), or, if in the United States, a tax-friendly state (such as Nevada or Delaware), and licensing the intellectual property to the franchisor entity in exchange for royalties.

2. Intercompany License Agreements

If any intellectual property to be licensed to franchisees is not owned by the franchisor, the holding company and the franchisor should enter into a written license agreement or license agreements that permit the franchisor to sublicense the intellectual property to the franchisees. Different types of intellectual property might need to be licensed separately so the parties need to address issues clearly and appropriately. For instance, trademark licenses must include appropriate quality control restrictions and address good will to avoid the license being deemed a naked license whereby the trademark owner loses its rights.[157] In contrast, other types of intellectual property licenses may not need these same provisions.

B. Protecting Intellectual Property prior to Franchising

1. Trademark Registration

A franchisor should ensure that all key trademarks to be used by franchisees in the franchised business are federally registered before moving forward with a franchise offering. Because trademark rights in the U.S. are based

[114] *See, e.g.*, *Freecycle Sunnyvale v. Freecycle Network*, 626 F. 3d 509 (9th Cir. 2010) (finding a mark abandoned based on licensing without adequate quality controls).

upon use, not registration, owning a federal registration does not ensure protection from a third party with prior use. However, the trademark registration process does typically identify marks that third parties have registered, providing some comfort to both licensors and users. Moreover, a federal registration enables nationwide expansion with less risk, because any user who adopts the same or a similar mark after the registration issued must stop using the mark once the geographic territories of use overlap.[158]

Several states have business opportunity laws that apply to relationships where a purchaser acquires, for a fee, the right to operate a business selling products and services and the seller agrees to provide marketing assistance, site selection assistance, a market for the products or services and to re-purchase unused inventory. Although business opportunities are different from franchises, due to the broad way in which a "business opportunity" is defined under some of these state laws, franchises can be included within that definition. And similar to franchise registration laws in certain states,[159] several state business opportunity laws require sellers of business opportunities to comply with registration or disclosure requirements in order to offer or sell a business opportunity in their state. Franchise sales do not typically come under the reach of business opportunity statutes, however, if a franchisor does not have a registered trademark in Connecticut, Georgia, Louisiana, Maine, North Carolina or South Carolina, the franchisor must comply with the business opportunity law prior to selling any franchises in the state. Once a franchisor obtains a federal registration for the principal mark used to identify the franchise brand, and assuming that the franchisor offers franchises in compliance with the Federal Trade Commission Franchise Rule, the states with business opportunity laws will no longer be a concern with the exception of Connecticut, Florida, Kentucky, Nebraska, Texas, and Utah where the franchisor needs to obtain an exemption from the reach of the business opportunity law.

2. Copyright Registration and other IP Protection

Franchisors should obtain, or file applications for, copyright registration for all key content that will be provided to franchisees including, but not limited to, content that franchisees will use publicly. As discussed previously, in order to bring suit for copyright infringement, the copyright owner must have registered the copyrights. Thus, registering copyrights in content before it is distributed both places the franchisor in a position to take action quickly in the event of infringement and creates a strong disincentive for unauthorized copying. Damages for infringement of copyrights that were registered prior to the commencement of infringement are significantly higher than those available for copyrights registered after the fact and can include attorneys' fees. Unless copyrights are registered early and kept up to date (by registering subsequent versions), enforcement might not be cost-effective. Franchisors should consider protecting both public content

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[115] *See Dawn Donut Co. v. Hart's Food Stores, Inc.*, (267 F.2d 358 (2d Cir. 1959); *see also*, *Guthrie Healthcare System v. ContextMedia, Inc.*, 826 F.3d 27 (2d Cir. 2016).

[116] California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Virginia, Washington, and Wisconsin.

(such as websites) and behind-the-scenes content (such as operations and training manuals or proprietary software) through copyright registration.

There often is a hesitation to register copyrights in certain works due to concern that the submission to the Copyright Office makes the proprietary information public. Copyright deposits (the copy of the material for which protection is sought that one submits to the Copyright Office) do not become public; only the fact of the registration and basic information does.[160] Third parties may obtain copies only in the context of litigation relating to the copyright.[161] Software may be registered with a claim of trade secret protection.[162] If any non-software deposits contain trade secrets, consider redacting the trade secrets from the deposit copy. In many cases, what would be claimed as a trade secret (formulas or data) are not protectable under copyright law.[163]

Franchisors also should consider what other types of intellectual property protection are appropriate and ensure that any necessary steps are taken to obtain that protection before embarking on franchising. While some kinds of intellectual property are not obtainable before a launch (such as certain kinds of trade dress that rely on secondary meaning created through use), many kinds of intellectual property (patent protection and trade secrets for example) must be properly handled initially or they will become unavailable or subject to validity challenges when it comes time to enforce them.

VII. ENFORCEMENT OPTIONS AND STRATEGIES

At some point, most franchisors will necessarily need to enforce their intellectual property rights. Disputes most often arise between franchisors and franchisees at the end of the franchise relationship, but can also arise with current franchisees during the franchise relationship or at any time with unaffiliated third parties outside of the franchise system. In all instances, it is important for the franchisor to take prompt action to protect its most important intangible assets—its intellectual property, including trademarks and trade secrets—and to protect against improper and unauthorized competition, which could threaten the franchisor's own business, that of its franchisees, and the value of the franchise system as a whole. Among other things, the misappropriation of a franchisor's intellectual property and the disclosure of its confidential information can harm the franchisor's goodwill, dilute the value of the brand, and discourage potential franchisees from entering the franchise system. A franchisor that fails to protect its intellectual property risks its entire system.

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[117] Circular 18, *Privacy: Copyright Public Records*, U.S. Copyright Office (https://www.copyright.gov/circs/circ18.pdf).

[118] Circular 6, *Obtaining Access to and Copies of Copyright Office Records and Deposits*, U.S. Copyright Office (https://www.copyright.gov/circs/circ06.pdf).

[119] Circular 61, *Copyright Registration of Computer Programs*, U.S. Copyright Office (https://www.copyright.gov/circs/circ61.pdf).

[120] Circular 33, *Works Not Protected by Copyright*, U.S. Copyright Office (https://www.copyright.gov/circs/circ33.pdf).

A. Potential Infringers

Franchisors typically find themselves in an intellectual property dispute with franchisees when the franchise agreement is terminated, and the franchise relationship ends. In these disputes, typically, the now-former franchisee continues using the franchisor's intellectual property after the relationship ends. When that happens, the franchisor must carefully evaluate its available remedies. Such options may include: (i) seeking injunctive relief; and (ii) filing suit or initiating an arbitration seeking monetary damages to compensate the franchisor for its losses.[170]

To protect the franchise brand, a franchisor may also be required to enforce its intellectual property rights against third parties who are not franchisees. As discussed below, cease-and-desist letters are typically used to put the infringing party on notice of the franchisor's intellectual property rights and demand a stop to the infringement. Unlike a franchisee, a third-party infringer may truly be unaware of the franchisor's existence or the existence of a particular mark. Depending on the magnitude of the third party's infringement, a franchisor may consider seeking injunctive relief. Damages against third-party infringers may also be available.

A franchisor may also find that third-parties may sell infringing products on third-party platforms, such as eBay, Amazon, and Etsy. These platforms argue they are not liable for the infringement on the theory that they are not the actual seller but merely the platform for the third-party to sell the goods. Rather than incurring additional cost and expense arguing with the online retail giants on the merit of their defense, these platforms typically provide a portal to file formal complaints. The platform will typically remove the listing from the platform's website. This can be an effective strategy, especially when there are multiple cases of infringement on a particular platform.

B. Enforcement Options

1. Cease and Desist Letters

Upon learning of the infringement of its intellectual property rights, a franchisor's first step is usually to send the infringing party—whether a current or former franchisee or a third party—a cease-and-desist letter demanding that the infringing conduct stop, unless the nature of the infringement is such that the franchisor cannot afford to wait to see if the infringing party complies. Depending upon the circumstances and the nature of the infringement, however, franchisors may want to consider other steps prior to sending a cease-and-desist letter such as contacting the infringer by telephone or email to seek compliance, particularly with a third party who may be unaware of a franchisor's ownership of the trademark

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[121] It is also not uncommon for a current franchisee to violate the franchisor's intellectual property right—for example, by using the franchisor's name and trademarks in connection with unauthorized products or services, or by disclosing the franchisor's confidential information and trade secrets to a competing business. If a breach of any restrictive covenant related to intellectual property occurs during the term of the franchise agreement the franchisor might also declare a default and terminate the agreement. This should only be attempted if the agreement allows for termination under the circumstances and if the franchisor first complies with any applicable notice and cure provisions required by the franchise agreement or state law.

or other intellectual property. Also, when sending cease-and-desist letters, franchisors should consider the tone of the letter, particularly if the infringer is a small business or other sympathetic party (versus a large corporation or competitor), again depending on the nature of the infringement. Recipients of a demand letter may post it on social media to try to demonstrate how unnecessarily aggressive a trademark owner was, when a simple phone call or less aggressively worded letter would have netted the desired results. And while a franchisor may successfully deal with an infringer through a strongly worded cease-and-desist letter, it may have needlessly cause damage to the goodwill of the brand if there is backlash from the posting of the more formal and intimidating cease-and-desist letter on social media. If the franchisor is unable to quickly gain compliance with less formal demands, then proceeding with a formal demand letter may be in order.

The demand letter should set forth the franchisor's ownership of the trademark or other intellectual property at issue, explain that the infringing party's conduct constitutes improper infringement or misappropriation, and demand cessation of such conduct. The letter should set a prompt deadline to stop the infringing activity (with evidence of compliance). If the infringer does not comply or does not respond to the demand letter, the franchisor must decide whether to proceed with legal action. The purposes of sending a demand letter include putting the infringing party on notice of the franchisor's intellectual property rights, demanding cessation of the infringing conduct, and documenting the franchisor's efforts to protect its intellectual property rights and resolve the dispute without the need for judicial intervention. In addition, if the infringement continues following delivery of the cease-and-desist letter, the plaintiff can argue that treble damages are appropriate because the continued use shows that such infringement is willful. In its demand letter, the franchisor should instruct the infringing party to preserve all documents relevant to the dispute, including emails and other electronic documents. Upon sending a demand letter, the franchisor should also take appropriate steps to ensure preservation of its own documents, given its anticipation of the possibility of future litigation.

If the dispute solely involves an Internet service provider, in-house counsel can forward the demand letter to the ISP who will, through the take down procedures, remove the image or use.

Sending a strongly drafted cease-and-desist letter to a franchisee (who would be aware of the franchisor's rights) to stop the infringement is typically a helpful and cost-effective first step. This will put the infringer on formal notice of the infringement, and usually, will be effective in stopping the infringement if properly drafted. However, there is no requirement that a cease and desist letter be sent as a prerequisite to filing suit, so sometimes franchisors will file a lawsuit contemporaneously with sending the cease and desist letter. In other circumstances, franchisors will opt to enclose a copy of the proposed lawsuit to the infringer with the explanation that the suit will be filed if the franchisee does not cease and desist, which could be more impactful.

2. Injunctive Relief

A franchisor must take prompt action to stop improper and unauthorized competition and misappropriation and disclosure of its intellectual property. This is especially crucial for trade secrets and other proprietary information. Lack of immediate attention could imperil the franchisor, the franchise system, its franchisees, and the brand's value. Moreover, if such activities dilute the franchisor's brand, prospective franchisees may be discouraged from entering the franchise system.

Therefore, if sending a strongly worded cease-and-desist letter does not stop the conduct, a franchisor's next step is to pursue legal action. The relief a franchisor seeks will often include an injunction because stopping the infringing conduct is often the franchisor's most important business objective. An injunction is an order from the court requiring the infringer to stop the infringing conduct. Often, a franchisor's ability to obtain an early injunction is critical to the ultimate resolution of the case. If a franchisor intends to seek injunctive relief, it is important for the franchisor to act quickly. A franchisor's failure to act promptly could be used against it to demonstrate a lack of irreparable harm resulting from the conduct at issue or to support a laches or estoppel argument. In addition, because damages from certain types of infringement or misappropriation can be difficult to prove with certainty, obtaining early injunctive relief is often the most effective remedy available to a franchisor.

Although the terminology and specific requirements differ somewhat between jurisdictions, the typical forms of injunctive relief available include emergency temporary restraining orders ("TRO"), preliminary injunctions, and permanent injunctions. Federal Rule of Civil Procedure 65 governs TROs and injunctions in the federal courts.

3. Temporary Restraining Orders

A TRO preserves the *status quo* until adjudication of the plaintiff's preliminary injunction request. Courts can enter TROs either with or without notice to the adverse party. Under appropriate circumstances, a TRO can be entered *ex parte* without notice to the defendant. Under Rule 65(b), a federal district court may issue a TRO without prior notice to the adverse party only if:

> (A) specific facts in an affidavit or a verified complaint clearly show that immediate and irreparable injury, loss, or damage will result to the movant before the adverse party can be heard in opposition; and
>
> (B) the movant's attorney certifies in writing any efforts made to give notice and the reasons why it should not be required.[171]

A movant in federal court typically seeks a temporary restraining order simultaneously with, or very close in time to, filing its initial complaint. The movant

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[122] FED. R. CIV. P. 65(b)(1).

must verify the facts upon which the temporary order is sought, either by filing a verification of the facts in the complaint or one or more affidavits. If the order is sought without notice, the movant must also file a certification regarding steps taken to notify the adverse party of the motion or reasons why notice should not be required.

Ex parte TROs issued by federal courts must be endorsed with the date and hour of issuance, must describe the injury and state why the injury is "irreparable," and must state why the order was issued without notice.[172] TROs issued without notice may not extend longer than 14 days, unless the court extends the order prior to expiration or unless the adverse party consents to an extension.[173]

Rule 65 provides that where the court issues an *ex parte* TRO, the motion for a preliminary injunction "must be set for hearing at the earliest possible time, taking precedence over all other matters except hearings on older matters of the same character."[174] Similarly, when a party challenges an *ex parte* TRO entered against it, the court must "hear and decide the motion as promptly as justice requires."[175] Generally, TROs should be granted without notice only in "extraordinary situations."[176] Where the adverse party has received advance notice of the hearing, the district court has discretion to convert the hearing into a preliminary injunction hearing.[177]

4. Injunctions

A preliminary injunction is an injunction that remains in effect until the case is finally determined on the merits. Obtaining a preliminary injunction can often be one of the most critical steps in intellectual property infringement, misappropriation, or unfair competition cases. A permanent injunction is a final, and permanent, ruling on the merits of the plaintiff's injunction claim.

Rule 65(a) governs preliminary injunctions, which require advance notice to the adverse party. The purpose of a preliminary injunction is to preserve the positions of the parties until trial, provided that the court finds, among other things, that the plaintiff has a substantial likelihood of success on the merits and that the plaintiff is likely to suffer irreparable harm if an injunction is not issued.

Generally, a franchisor seeking a preliminary injunction must establish each of the following four factors: (1) that the franchisor is substantially likely to succeed on the merits of its claims; (2) that the franchisor will suffer irreparable harm if the injunction is not entered; (3) that a balancing of the harms and equities favors issuing the injunction; and (4) that issuance of the injunction would be consistent

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[123] *See id.* at 65(b)(2).

[124] *See id.*

[125] *See id.* at 65(b)(3).

[126] *See id.* at 65(b)(4).

[127] *See, e.g., U.S. v. Kaley,* 579 F.3d 1246, 1261 (11th Cir. 2009).

[128] *See, e.g., Burk v. Augusta-Richmond County,* 365 F.3d 1247, 1262 (11th Cir. 2004).

with the public interest. This is a heavy burden, but one that is achievable in intellectual property and unfair competition cases, where the harm from infringement or misappropriation is often great. In order to obtain a permanent injunction at the conclusion of the litigation, franchisors generally must satisfy the same elements, but must have actually prevailed on the merits of their claims.

The two most critical factors are usually a determination of whether the party seeking the injunction is likely to succeed on the merits and whether the plaintiff can establish the likelihood it will suffer irreparable harm without an injunction. While courts employ different standards in analyzing likelihood of success, generally a franchisor must be prepared to present compelling and actual evidence of the infringement or evidence sufficient to establish a substantial likelihood that infringement is occurring in order to receive a preliminary injunction. Franchisors can accomplish this by submitting affidavits or declarations outlining the evidence of the infringement or, if a hearing is held, by presenting live witness testimony. If additional evidence is needed for a franchisor to meet its burden at the preliminary injunction stage, the franchisor should consider moving to take expedited discovery, even if prior to the normal discovery period. A franchisor seeking temporary or preliminary injunctive relief should be able to point to specific evidence and not rely merely on conclusory allegations. Documents and photographs confirming the defendant's wrongful conduct can be particularly persuasive.

Historically, courts often presumed the existence of irreparable harm in cases involving infringement of intellectual property, provided the other elements for injunctive relief were met. In 2006, however, the United States Supreme Court decided *eBay, Inc. v. MercExchange, L.L.C.* and reversed the long-standing rule that courts could presume irreparable harm in patent cases.[178] While *eBay* clearly applies in patent cases, lower courts have been divided in their application of *eBay* to other intellectual property cases. Though several courts have applied *eBay's* rejection of an irreparable harm presumption to copyright cases, courts had been split on the extent to which *eBay* applies to trademark cases.[179] The 2020 TMA amended Section 34 of the Trademark Act of 1946 (15 U.S.C. § 1116) to provide for the presumption of irreparable harm in trademark actions. Even so, a prudent franchisor seeking an injunction in a trademark case will, like in any other injunction case, make an affirmative showing that infringement of its trademarks poses a risk of irreparable harm, including harm to the franchisor's reputation, goodwill, the brand, and the franchise system as a whole. Presenting evidence of customer confusion, which is critical to establishing the merits a trademark infringement claim, will also be important to establishing the likelihood of irreparable harm. To bolster its showing of irreparable harm, a franchisor should also present evidence of its significant investment of time and resources in establishing the value of its trademarks and in obtaining the confidential information at issue. Including an acknowledgement by the franchisee in the

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[129] *See* 547 U.S. 388 (2006) (requiring patent plaintiffs to establish irreparable harm before an injunction may be granted).

[130] *Compare Audi AG v. D'Amato*, 469 F.3d 534 (6th Cir. 2006) with *N. Am. Med. Corp. v. Axiom Worldwide, Inc.*, 522 F.3d 1211 (11th Cir. 2008); *Rebel Debutante LLC v. Forsythe Cosmetic Group, Ltd.*, 799 F. Supp. 2d 558 (M.D.N.C. 2011).

franchise agreement that unauthorized use of the franchisor's trademarks will cause irreparable harm and entitle the franchisor to injunctive relief can be helpful, but is likely not binding on the courts.

Rule 65(c) provides that courts may issue preliminary injunctions or TROs only if the movant provides security in an amount deemed proper by the court. Therefore, in order to obtain such injunctive relief, a franchisor may be required to post a bond or other security in a sufficient amount to protect the enjoined party if it is later determined it was wrongfully restrained. While including a provision in the franchise agreement that the franchisor is not required to post a bond when seeking injunctive relief can be helpful, courts are generally not bound by such provisions.[180]

Common defenses asserted by franchisees to franchisor injunction claims include that the franchisor failed to submit sufficient evidence to show irreparable harm, the franchisor's unreasonable delay in bringing its claim, the franchisor's failure to take sufficient steps to stop other similar prior infringement, or that the franchisor has an adequate remedy at law (i.e., monetary damages), and, therefore, injunctive relief is not appropriate or necessary. In the case of improper competition by a former franchisee, if the franchisor has not taken reasonable efforts to try to re-establish a franchise location in the territory, the franchisee may point to that fact as evidence of lack of irreparable harm. Franchisees often also try to argue that a balancing of the equities requires denying the injunction because an injunction will cause greater damage to the franchisee than to the franchisor if the injunction is denied. If, however, the harm to the franchisee that would result is due to the franchisee's own wrongdoing, this argument often fails.

An injunction from a federal court "binds only the following who receive actual notice of it by personal service or otherwise": (a) the parties; (b) the parties' officers, agents, servants, employees, and attorneys; and (c) "other persons who are in active concert or participation" with the parties or their representatives.[181] Some courts have applied an aiding and abetting or privity analysis to this "active concert" standard.[182] Given the notice requirement, franchisors should, upon obtaining an injunction, immediately notify the enjoined party, if the injunction was entered on an *ex parte* basis, and any third parties with whom the enjoined party is believed to be involved with respect to the infringing contact.[183] Rule 65(d)(2) allows courts to enforce injunctions more broadly than just against the enjoined entity itself, such as, for example, to enjoin associates and family members of franchisees from operating competing businesses in contravention of a non-

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131 *See, e.g., Winmark Corp. v. Brenoby Sports, Inc.,* 32 F. Supp. 2d 1206, 1225 (S.D. Fla. 2014).

132 Fed. R. Civ. P. 65(d)(2).

133 *See Merial, Ltd. v. Cipla Ltd.,* 681 F.3d 1283, 1304 (Fed. Cir. 2012); *Blackard v. Memphis Area Med. Ctr.*, 262 F.3d 568 (6th Cir. 2001). The privity concept is generally restricted to the person so identified in interest with those named in the order that it would be reasonable to conclude that their rights and interest have been represented and adjudicated in the original injunction proceeding. However, non-parties generally are not bound if they acted for their own purposes wholly independent of the named party. *See Merial*, 681 F.3d at 1304-05.

134 While parties can and should communicate the contents of an injunction to involved third parties, they should be careful when communicating with third parties, particularly if communicating beyond the terms of the order itself, to minimize the risk of a defamation or tortious interference claim.

competition covenant entered by the franchisee. Similar to enjoined parties, non-parties can be held in contempt of court for violating an injunction if they had notice of the injunction and acted in concert or participated with the enjoined party.[184]

If violated, injunctions may be enforced through either civil or criminal contempt proceedings. A civil contempt proceeding is initiated by filing a contempt motion. The movant bears the burden of proving, generally by clear and convincing evidence, that the defendant has ignored an order of the court.[185] Therefore, before moving for contempt, a franchisor should investigate, adequately document, and, if necessary, take discovery, including of third parties, to establish that a violation of an injunction has occurred. If the plaintiff meets this burden, the burden then shifts to the enjoined party to establish a valid defense, such as that compliance with the injunction was not possible, or that the enjoined party made reasonable efforts to comply, lack of notice of the order, or to dispute the plaintiff's interpretation of the scope or meaning of the injunction.

Generally, only civil contempt sanctions are awarded upon the showing of a violation of a civil injunction. The court's authority to levy sanctions is, however, generally broad, provided the sanctions are compensatory in nature. Among other relief, courts in civil contempt proceedings can issue fines to coerce the defendant to comply with the order and to compensate the plaintiff for its losses.[186] Depending upon the circumstances, various other contempt sanctions might also be available, including an award of lost profits, reasonable royalties, seizure of infringing products, treble damages, and an award of attorneys' fees and costs. A franchisor will be in a stronger position to seek meaningful contempt sanctions if it obtains evidence establishing the extent of the infringement and the specific amount of damages the franchisor has suffered, in addition to the fact that a violation has occurred.

5. Damages

As discussed above, the Lanham Act, DTSA, and various state statutes authorize recovery of monetary damages in the event of trademark infringement and trade secret misappropriation.

Before seeking to recover monetary damages from a franchisee, franchisors should first evaluate whether the franchisee or any guarantors have collectible assets. While concrete and quantifiable damages resulting from improper competition or intellectual property infringement or misappropriate can be difficult to prove (which is why injunctive relief is a critical remedy in this context), franchisors that are able to prove specific damages can seek

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[135] *See Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.,* 96 F.3d 1390, 1395-96 (Fed. Cir. 1996); FED. R. CIV. P. 71 ("When an order . . . may be enforced against a nonparty, the procedure for enforcing the order is the same as for a party.").

[136] *See Marshak v. Treadwell,* 595 F.3d 478, 485 (3d Cir. 2009) ("A plaintiff must prove three elements by clear and convincing evidence to establish that a party is liable for civil contempt: (1) that a valid order of the court existed; (2) that the defendants had knowledge of the order; and (3) that the defendants disobeyed the order."); *FTC v. Trudeau,* 579 F.3d 754, 776 (7th Cir. 2009); *Thomas v. Blue Cross & Blue Shield Assoc.,* 594 F.3d 814, 821 (11th Cir. 2010).

[137] *See Int'l Union, United Mine Workers of Am. v. Bagwell,* 512 U.S. 821, 829 (1994).

compensatory damages under the breached contract.[187]

Many franchise agreements contain liquidated damages provisions providing for a specific measure of recoverable damage upon termination of the franchise agreement. These calculations are often based on a percentage of past sales or royalties for a certain duration. Some franchise agreements similarly provide for liquidated damages in the event the current or former franchisee breaches the franchise agreement's confidentiality or non-compete provisions, though the ability to recover an agreed-upon amount of damages may undermine a franchisor's ability to obtain injunctive relief for such violation. State law governs liquidated damages provisions. Generally speaking, liquidated damages provisions are more likely to be enforced if they closely approximate the actual damages the franchisor is likely to suffer upon termination or if they, in good faith, attempt to estimate those damages.

Finally, if a franchisor terminates the franchise agreement as a result of the franchisee's breach, the franchisor may, depending on the jurisdiction, be able to recover lost future royalties as damages for the franchisee's breach.[188] Where available, the franchisor bears the burden of presenting sufficient evidence to calculate the lost future royalties in order to recover.[189]

C. IP Protection in the Internet Age

Consumers rely increasingly on the Internet to obtain information about businesses and their products and services. Indeed, the Internet has fundamentally changed the way consumers interact with and relate to businesses and, as a result, their brands. The importance of the commercial Internet is reflected in the increasingly large amounts of time, effort, and resources businesses—both new and established—dedicate to developing and enhancing their online presence through the design and creation of websites, social media platforms, blogs, and other means.

The foundation of every business's online presence is its domain name; this is one of the primary ways consumers search for a business, its products, or its services. As a general rule, a business's domain name(s) should correspond to its trademarks, allowing each to reinforce the other and strengthen a business's branding and Internet presence.

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[138] Punitive damages are generally not available for breach of contract claims.

[139] Courts differ on whether a franchisor can recover lost future royalties following termination of a franchise agreement. In *Postal Instant Press, Inc. v. Sealy,* 43 Cal. App. 4th 1704 (Cal. Ct. App. 1996), the California Court of Appeals held that the franchisor was not entitled to recover lost future royalties from the terminated franchisee because (1) it was the franchisor's decision to terminate—not the franchisee's underlying breach—that was the proximate cause of the franchisor's loss of future royalties, and (2) an award of lost future profits would be unconscionable. On the other hand, applying a traditional contract analysis, other courts have held that a franchisor is entitled to all damages necessary to put it in a position equivalent to if the franchise agreement had remained in effect but for the franchisee's breach. *See, e.g., American Speedy Printing Ctrs., Inc. v. AM Mktg., Inc.*, 69 Fed. Appx. 692, 698 (6th Cir. 2003); *Legacy Academy, Inc. v. JLK, Inc.*, 330 Ga. App. 397, 402 (Ga. Ct. App. 2014) (holding franchisor was entitled to recover lost future royalties it would have received if the franchisee's breach had not prompted early termination of the franchise agreement).

[140] *See Legacy Acad.*, 330 Ga. App. at 402-405.

Business owners frequently ask how many domain names they should register. There is no correct answer. Many businesses choose to register their company names as well as significant brand names—and often, even frequently-used marketing terms and slogans—as domain names. For example, Nike, Inc.'s primary website resides at its domain name <nike.com>; however, the domain name <justdoit.com> (reflecting Nike, Inc.'s famous slogan) redirects to the primary site, and Nike, Inc. operates a separate site at air.jordan.com (also redirected from <airjordan.com>) dedicated to its AIR JORDAN line of basketball shoes.

Recently the selection of the top-level domains ("TLD") for which a company should register has risen in importance. At one time, the universe of common TLDs available to a business was small and relatively manageable: for example,.com, .net and .org. Today, there are more than 1,000 TLDs available and deciding where to register can be a time-consuming and difficult process. Many businesses continue to register first under the .com TLD and, indeed, .com remains the most popular top-level domain. Many generic specialty TLDs that correspond to particular products or services are available including, .restaurant, .food, .retail, .hotel and .cars. Businesses can even, given significant resources, establish their own brand's TLD, such as Barclay's Bank, PLC did with <.barclays>. In addition to establishing a presence in the TLDs, businesses should consider registering under individual country-code top-level domains ("ccTLDs") if, for example, a business has a significant presence or customer base in a particular country.

A substantial amount of trademark infringement today occurs on the Internet—and frequently involves domain names. Businesses should take proactive measures by registering obvious misspellings and alternate uses of their trademarks and corporate names. Another important reason for adopting domain names that correspond to a business's trademarks is that it allows a business to rely on its trademark rights to address unauthorized registration and use of domain names that conflict with those trademark rights. The most common legal avenues for addressing trademark infringement arising from registration and use of domain names are the Uniform Domain-Name Dispute-Resolution Policy (UDRP), an administrative proceeding under the auspices of the Internet Corporation for Assigned Names and Numbers ("ICANN"), and The Anti-Cybersquatting Consumer Protection Act (ACCPA), a federal law that is part of the Lanham Act.

The UDRP is a rapid arbitration procedure designed to address situations in which infringing domain names are registered and used in bad faith specifically to take advantage of and trade on a trademark owner's rights. UDRP proceedings are conducted on a limited, written record and offer no opportunity to take discovery. By their very nature, UDPR proceedings tend to be significantly less expensive than a suit filed under the ACCPA and are resolved relatively quickly. The sole remedy in an UDRP proceeding is the transfer of the domain name(s) at issue to the complainant. The ACCPA also prohibits bad faith registration of domain names that conflict with a trademark owner's rights. A suit brought under the ACCPA is filed in federal court and provides remedies unavailable in a UDRP proceeding such as allowing for discovery, injunctive relief and monetary damages. An ACCPA claim against a ".com" domain name may be brought in federal court in Virginia even if the owner of the domain name is in a foreign jurisdiction—a significant advantage in pursuing foreign infringers. The costs associated with an ACCPA claim tend to be significantly higher than an arbitration brought under the UDRP, and ACCPA cases usually take longer to resolve. As this cursory comparison shows, both the UDRP the ACCPA have advantages and drawbacks, and consideration should be given to which will best serve the needs of a trademark owner in a particular situation.

Another tool available to trademark owners to combat infringing domain names is the more recently introduced "Uniform Rapid Suspension" ("URS"), also administered by ICANN. A URS proceeding is seen as a more streamlined, less expensive alternative to a UDRP proceeding. A URS proceeding provides only for suspension—rather than transfer—of the unauthorized domain name. Moreover, URS proceedings are available only for TLDs introduced after 2012 and are not applicable, for example, to domain names registered under the .com TLD.

D. <u>Online Take-downs</u>

Franchisors should familiarize themselves with online sites (Facebook or Meta) and apps (Instagram) and be prepared to submit take-down requests if their marks or content or proprietary information are misused on the sites. The policies and procedures for reporting misuses and request take-downs change frequently but links can generally be found on website footers or in the "Legal Information" or "Abuse" sections of various platforms.

The three primary justifications are: Violations of a platform's Terms of Use or Community Guidelines, copyright infringement, and trademark infringement.

Take-downs based on Terms of Use and/or Community Guidelines violations can be used, for instance, to remove phishing sites that mimic a legitimate site and that include links that either are designed to obtain information or that might include malware.

Copyright infringement is often the easiest way to achieve a successful take-down. Under the "safe harbor" provisions of the Digital Millennium Copyright Act ("DMCA")[44] minimizes or eliminates the liability that platforms might otherwise have for infringing content hosted on their sites. Accordingly, in order to obtain the protections of the DMCA safe harbor, most platforms have a clear policy and procedure for removing such content (or the entire post or, if the DMCA take-down is submitted to the website host, the site) and act quickly. Such take-downs can be used, for instance, in instances where a website that contains copyrighted content (such as photos or drawings or graphics or a significant amount of text) has been mimicked or where a post copies such content. Typically copyright take-down forms require the submitter to identify the copyrighted work and where/how it's been copied and provide information regarding the copyright owner. That a copyright have been registered is typically not required. Take-down request forms often must be completed by an employee of a brand or, if by outside counsel,

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[141] 17 U.S.C. §§ 512.

require the submission of a written power of attorney granting authorization to that counsel.

Trademark misuse often is troubling to franchisors and other brand owners but can be most challenging to get removed from an online platform. While many sophisticated platforms have trademark take-down policies, others do not as generally platforms are not liable for trademark misuse that appears on a site or post. For that reason, platforms have less incentive to respond to trademark take-downs unless the misuse is a true counterfeit. Take-downs based on trademark infringement typically require the submitter to identify the trademark, to provide trademark registration information, and the specifics of the misuse.

E. Risks of Failure to Enforce

A franchisor must police its brand and maintain quality control to ensure the continued protection of its principal trademarks, trade secrets, and other proprietary information. If a franchisor fails to do so, then it may lose its rights in its mark by abandonment or its rights in its trade secrets by disclosure. In addition, failing to act to stop infringing conduct or improper competition in one instance could allow future infringers to argue waiver or lack of irreparable harm.

For example, if a franchisee begins using the franchisor's principal trademark in connection with unauthorized goods or services and the franchisor does nothing, the franchisee may be deemed to have obtained a "naked license." Under the Lanham Act, a mark may be deemed abandoned "[w]hen any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name or otherwise lose its significance as a mark."[190] Federal courts have deemed a mark abandoned based on licensing with inadequate quality controls.[191]

Trademark owners are required to use reasonable business efforts to police unauthorized and improper uses of their marks, and they may use reasonable business judgment in determining which infringements to pursue. The risk of unauthorized use is that a mark either will be accorded an increasingly narrow scope of protection as similar marks encroach on and weaken its distinctiveness, harming the brand and the goodwill associated with it or, in extreme cases, causing the mark to cease functioning as a source indicator entirely. Thus, while a trademark owner is not required to search out and stop all cases of infringement, it cannot disregard infringing uses that come to its attention during its normal business activities.

VIII. CONCLUSION

Prudent franchisors maintain an updated intellectual property plan spanning all of their sundry property interests and license agreements. They docket due dates or work closely with outside intellectual property counsel to manage

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[142] 15 U.S.C. § 1127.

[143] *See, e.g., FreecycleSunnyvale v. Freecycle Network,* 626 F.3d 509, 515 (9th Cir. 2010).

registrations and renewals. Further, they review their intellectual property portfolio annually when they conduct their financial audit and franchise registration renewals and confirm that their current use aligns with any development plans. And finally, they include an intellectual property review as part of their renewal process for franchise agreements. They check that the franchisees are compliant with directives regarding notices and proper use of all intellectual property and that the franchise is on brand for the next term. Lastly, if they choose to engage in the virtual world, they obtain guidance on how to clear, protect, and enforce intellectual property that they use or develop in connection with those activities.