

IP audits for franchisors: A checklist

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The franchisor's intellectual property ("IP") forms the backbone of its franchise system. IP creates consumer awareness and recognition for a franchise system. Because the proper use and protection of IP is so vital to a franchisor's success, the following checklist is designed to aid in evaluating a franchisor's IP usage and protection.

Trademarks

Under common law, trademark rights are acquired by public use. Use is not only essential to establishing trademark rights; continued use is essential to preserving trademark rights. Federal registration will only issue after use is made in the ordinary course of trade. However, an application can be started if the franchisor demonstrates a bona fide intent to use the mark. Therefore, franchisors must first clear availability of marks prior to adoption and use and then heed the following recommendations to protect the strength and effectiveness of their trademarks:

Register marks

- Register all trademarks and service marks. Registration is not mandatory, but registration on the Principal Register is prima facie evidence of the validity of the registered trademark, ownership of the mark, and the exclusive right to use the mark in commerce in connection with the specified goods or services. Registration is effective from the date of filing the application, grants the owner nationwide rights against junior users of similar marks and provides constructive notice of the registrant's claim of ownership. It offers several statutory rights in the event of a trademark infringement suit and provides priority rights on foreign filings.
- Register slogans. However, many slogans are likely to be considered "descriptive" by the Patent and Trademark Office. If registration on the Principal Register is refused on the basis of descriptiveness, the franchisor may register the mark on the Supplemental Register. The presumptions accorded to the Principal Register do not apply to registrations on the Supplemental Register. However, registrations on the Supplemental Register may deter others against use or registration.
- Register Internet domain names both in the U.S. and in other countries.

Avoid improper use of trademarks

- Use the trademark as an adjective, not a noun, e.g. Company™ stores
- Use trademark in large type, all caps, initial caps, different colors, or distinctive lettering
- Do not use the trademark in the plural or possessive form
- Do not combine the trademark with other trademarks
- Distinguish between trade name and trademarks
- Monitor franchisees' usage of trademarks and enforce proper usage.

Use Trademark Notices

- Use the "TM" or "SM" symbols to indicate that Company claims the term as a trademark (used on goods) or service mark (used in connection with services). "TM" or "SM" does not mean a trademark application has been filed or a registration has been issued.
- Use the "®" symbol if the trademark is registered. The "®" symbol should not be used until the registration has issued.

Obtain foreign protection

- Identify the countries where the franchisor has an interest in protecting its trademark rights.

- File foreign trademark applications. Depending on the countries of interest, it may be necessary to file separate applications in each country; or the franchisor may file a single European Community (EC) trademark application for protection in several countries.
- Claim the benefit of the filing date of the franchisor's U.S. application for foreign applications. In order to do so, any European or national applications must be filed within six months of the US filing date.

Monitor third party use of similar trademarks

- Monitor the Official Gazette and the Internet on a regular basis. After a trademark application has passed muster in the U.S. Patent and Trademark Office, it is published for opposition in the Official Gazette. If there is a mark confusingly similar to any of the franchisor's marks that are used on similar goods or services, the franchisor should investigate the application to determine if the franchisor has superior rights.

Copyrights

Secure the franchisor's ownership rights in copyrighted works

- Review employment agreements to ensure that all full time and part time employees' work product is considered a work made for hire and owned by, or transferred to, the franchisor company.
- Review the franchise agreement and contracts with consultants, advertising agencies, public relations firms and other third parties to make sure ownership in all IP created or co-created by the third party is transferred to the franchisor company.
- Review architectural plans for buildings, which may be subject to copyright protection.

Use copyright notices

- Place copyright notices on all copyrighted works. Copyright notices are no longer required by statute for protection, though they remain highly recommended. Furthermore, in the event a work is infringed, if the work carries a proper notice, the court will not allow a defendant to claim "innocent infringement." Place "year of first publication, copyright owner, All Rights Reserved" on all copyrighted works, regardless of whether you are obtaining a registration for such works.
- Place full copyright notices at the bottom of every web page.
- Place copyright notices on all ads and brochures.

Secure rights to use and distribute third party works

- Identify all third party works that franchisor uses and/or makes available to others. Review contracts to assure the franchisor has ownership rights in third party copyrighted works. Review contracts where franchisor is licensee to determine restrictions on use and transfer. If there is no contract, obtain license to copy, use and distribute work.
- Draft a standard release that permits the franchisor to use third party works.
- Obtain warranties from third parties to protect franchisor from potential infringement liability. Obtain an indemnity for any breach of such warranties. Include third party copyright notices and make sure to clearly distinguish between the franchisor's material and the third party material.

Patents

Patents are granted for new, useful, and non-obvious inventions. The patent owner is entitled to exclude others from making, using, offering to sell, or selling his or her inventions for a term of 20 years from the date the application is filed. The patent procedure involves a complete disclosure of any and all patentable ideas, concepts and developments. This information is used for a prior art search, a search of prior patents and developments to see if patent protection is available and to circumscribe the possible areas in which to seek patent protection.

- Consider patent applications on the method of conducting the franchise business.

- Assign all inventions to franchisor company. Examine all outside sources and persons that contributed to or were consulted in the creation of the franchisor's method of doing business. Review all third party contracts to which third party contributions were made to the business method.
- Adopt development procedures. Maintain detailed electronic and hard copy records of the invention. Prepare invention disclosures as they occur and update the franchisor's patent counsel every three months on enhancements or upgrades.

Trade Secrets and confidential information

If the franchisor owns valuable information that it does not want to make available to competitors, trade secret protection is available for protecting information for as long as the information is maintained in confidence. Non-confidential or inadvertent release of trade secret information may vitiate the protection and puts the information in the public domain.

Maintain secrecy and awareness of confidential information

- Educate all employees and franchisees about rules and policies concerning confidential information of the franchisor. Require employees, franchisees, consultants and independent contractors to sign confidentiality agreements and restrictive covenants.
- Keep confidential information locked in files.
- Restrict disclosure of trade secrets to parties outside of the U.S.
- Avoid disclosure of trade secrets through patent or copyright applications.
- Conduct exit interviews with employees who had access to confidential information, and execute termination agreements in which employees and franchisees agree to keep confidential and not use the franchisor's IP.
- Document procedures to maintain secrecy, and enforce confidentiality rules.
- Maintain separate formats for non-disclosure agreements for situations where franchisor is disclosing confidential information, receiving confidential information or both.
- Provide non-disclosure rules in easy-to-read format for quick access and use.

Trade Dress

- Evaluate the franchisor's trade dress and determine if it is protectable. Trade dress can include building design, color combinations, graphics, shapes and even textures that characterize a product. In order to be protectable, trade dress must be 1) non-functional, 2) inherently distinctive or have secondary meaning among consumers, and 3) such that its imitation would create a likelihood of confusion.
- Consider registering the trade dress with the Patent and Trademark Office.
- Monitor third party use of similar trade dress. Monitor the Official Gazette and the Internet on a regular basis. If there is an application for trade dress confusingly similar to the franchisor's trade dress, franchisor should investigate the application to determine if the franchisor has superior rights.
- Obtain foreign protection. Identify the countries where the franchisor has an interest in protecting its trade dress rights and file foreign trademark applications.