

# The Wheels on the Bus: Is There Protection for the Franchise Operating System?

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A business format franchise is a license to use the franchisor's intellectual property (i.e., trademarks and copyrights); trade secrets (e.g., recipes); and, in some instances, patentable inventions or business processes. It is also a license to use the franchisor's operating system, i.e., access to supplier relationships; industrial design; operating procedures; processes; and marketing strategies that maximize operating efficiencies, attract customers, and drive sales. While intellectual property laws serve to protect the franchisor's intellectual property, the franchisor's operating system assets, which are as utilitarian as the wheels on the bus, often lie outside the protections of intellectual property law. This article analyzes the scope and limitations of intellectual property law protection as it applies to the franchise operating system and examines the role that contract law may play in enhancing protection.



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## I. Statutory and Common Law Intellectual Property Protection

At one end of the spectrum, trademark laws promote competition by protecting trademarks and other source identifiers, including distinctive trade dress, and copyright laws protect original works of authorship in a fixed tangible medium of expression. At the other end of the spectrum, patent laws promote new invention by providing a temporary monopoly over novel, useful, and non-obvious inventions, including some types of business methods; and trade secret laws protect qualifying "trade secret" information. We discuss, in turn, each of these laws and the protections they afford to a franchise system.

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### A. Trademarks

Trademark laws protect the franchisor's trademarks from infringing use. The Lanham Act defines the term "trademark" as any word, name, symbol, or device, or any combination thereof,<sup>1</sup> which includes both traditional trademarks such as logos and slogans as well as nontraditional trademarks such as shapes (Coca-Cola bottle), sounds (NBC's three chimes), fragrances (plumeria blossoms on sewing thread), and colors (green-gold pads for use with dry cleaning).<sup>2</sup> A trademark owner has exclusive rights to its trademark and can enforce its rights against third parties that use similar trademarks that are likely to cause confusion as to the source of goods or services in the marketplace. To succeed on a claim for trademark infringement, a trademark owner must prove: (1) that it has a valid and legally protectable mark, (2) that it owns the trademark, and (3) the third party's use of the trademark causes likelihood of confusion.<sup>3</sup> Trademark enforcement rights are expanded once a mark has become "famous," in that Section 43(c) of the Lanham Act prohibits another person from using the famous mark in a way that dilutes or tarnishes the distinctive quality of the mark.<sup>4</sup>

### B. Trade Dress

Trademark law also can protect distinctive trade dress elements in a franchise system.<sup>5</sup> Trade dress is the "total image" of a product or service and "may include features such as size, shape, color or color combinations, texture, graphics, or even particular sales techniques."<sup>6</sup> As the Supreme Court stated in *Qualitex Co. v. Jacobson Products Company*, "almost anything at all that is capable of carrying meaning" may be used as a "symbol" or "device"<sup>7</sup> that constitutes trade dress under the Lanham Act.<sup>8</sup> In the franchise sector, there are countless examples of protection afforded to distinctive building elements, such as McDonald's Golden Arches, Pizza Hut's roofline,

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1. 15 U.S.C. § 1127.

2. See, e.g., Coca-Cola Bottle Shape Design, Registration No. 696,147; NBC Chimes, Registration Nos. 523,616 and 916,522; *In re Clarke*, 17 U.S.P.Q.2D 1238, 1240 (TTAB 1990) (registration for scent of Plumeria blossoms used in connection with sewing thread). See also *Qualitex v. Jacobsen Prods. Co., Inc.*, 514 U.S. 159, 160 (1995) (concluding that the Lanham Act permits the registration of a trademark that consist purely of color).

3. See *A&H Sportswear, Inc. v. Victoria's Secret Stores, Inc.*, 237 F.3d 198 (3rd Cir. 2000).

4. 15 U.S.C. § 1125(c); see, e.g., *Hormel Foods Corp. v. Jim Henson Prods., Inc.*, 73 F.3d 497, 507 (2d Cir. 1996) ("[t]he sine qua non of tarnishment is a finding that plaintiff's mark will suffer negative associations through defendant's use").

5. 15 U.S.C. § 1125(a)(3); 15 U.S.C. § 1125(c)(4).

6. See *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 764 n.1 (1992). See also *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*, 684 F.2d 821 (11th Cir. 1982), involving the sale of soft-sculpture dolls through a marketing technique comprised of adoption procedures and a birth certificate. There, the Eleventh Circuit held that the adoption procedure qualified as protectable trade dress because it was part of the dolls' "packaging," "both in the sense that dolls are never sold without the adoption papers and birth certificate and because the adoption procedure is designed to make [the plaintiff's] dolls distinctive in the marketplace." *Id.* at 831.

7. 514 U.S. 159, 160 (1995).

8. TMEP § 1202.02 (Oct. 2015).

IHOP's blue roof, and even Apple's minimalist retail store design.<sup>9</sup> Floor cleaning franchisor, Stanley Steemer, claims trademark protection in the color of its van.<sup>10</sup> Mobile ice cream franchisor, Mister Softee, claims trademark protection in its famous jingle.<sup>11</sup>

To qualify as protectable trade dress, the trade dress must be distinctive. Like a trademark, it may be inherently distinctive or may acquire distinctiveness.<sup>12</sup> It must also be nonfunctional.<sup>13</sup> If the trade dress is not registered on the Principal Register of the U.S. Patent and Trademark Office, the person seeking trade dress protection bears the burden of proving that the trade dress is nonfunctional.<sup>14</sup> If there is no registration, or if the plaintiff has only a Supplemental Register registration, the burden is on the plaintiff to prove that the trade dress is nonfunctional.<sup>15</sup> A plaintiff who brings a trade dress infringement act has the burden to prove the following: "(1) the defendant's product is confusingly similar to its product; (2) the similar features of the two products are primarily nonfunctional; and (3) the plaintiff's product is distinctive."<sup>16</sup>

The first form of trade dress functionality (sometimes referred to as traditional functionality) says that a feature is functional if "it is essential to

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9. See, e.g., *Villa Enters. Mgmt. LTD. v. Fed. Ins. Co.*, 821 A.2d 1174 (N.J. 2002) (symbols like McDonald's Golden Arches are trademark protected); *McDonald's Golden Arch Design*, Registration No. 0893440; *Pizza Hut Stylized Roof Design*, Registration No. 3595346; *Design and Layout of Apple Retail Store*, Registration No. 1060320; *IHOP Corp. v. Langley*, 2008 U.S. Dist. LEXIS 112056, at \*4 (E.D.N.C. Apr. 11, 2008) (fact that defendant repainted the roof of his breakfast restaurant "in the same shade of blue as is common to see on the roofs of IHOP restaurants" contributed to a finding of likelihood of confusion).

10. The color yellow-orange, which is the approximate equivalent of Pantone Matching System 143C, Registration No. 3182240.

11. Musical jingle, Registration No. 2218017.

12. *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 210 (2000) ("Although the text of Section 43(a) does not explicitly require a producer to show that its trade dress is distinctive, courts have universally imposed that requirement, since without distinctiveness the trade dress would not 'cause confusion as to the origin, sponsorship, or approval of the goods.'"); *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763 (U.S. 1992) (holding trade dress of a business may be protected under § 43(a) of the Lanham Act, based on a finding of inherent distinctiveness, without proof that the trade dress has secondary meaning); *Miller's Ale House, Inc. v. Boynton Carolina Ale House, LLC*, 702 F.3d 1312, 1322 (11th Cir. 2012) ("Other trade dress, though not inherently distinctive, can become distinctive if it acquires 'secondary meaning, which occurs when, in the minds of the public, the primary significance of [trade dress] is to identify the source of the product rather than the product itself'" (quoting *Wal-Mart Stores, Inc.*, 529 U.S. at 210)).

13. 15 U.S.C. § 1052(f) (prohibiting trademark registration for marks that are functional); 15 U.S.C. § 1115(b)(9) (adding to the defenses of incontestability allegations that a trademark has become functional). See also *TraFFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23, 29 (2001) (holding trade dress protection may not be claimed for product features that are functional). See also *Dippin' Dots, Inc. v. Frosty Bites Distrib., LLC*, 369 F.3d 1197 (11th Cir. 2004) ("Functional features are by definition those likely to be shared by different producers of the same product and therefore are unlikely to identify a particular producer.").

14. 15 U.S.C. § 1125(a)(3) (added Nov. 29, 1999).

15. *Vuitton et Fils S.A. v. J. Young Enters., Inc.*, 644 F.2d 769 (9th Cir. 1981) (holding that if plaintiff has a federally registered trademark or design feature, the burden of proof on functionality shifts to the defendant).

16. *Dippin' Dots, Inc.*, 369 F.3d at 1202.

the use or purpose of the article or it affects the cost or quality of the article.”<sup>17</sup> The second form of trade dress functionality (sometimes referred to as competitive functionality) says a feature is functional if the “exclusive use of [the feature] would put competitors at a significant non-reputation-related disadvantage.”<sup>18</sup> In *Abercrombie & Fitch Stores, Inc. v. American Eagle Outfitters, Inc.*, the Sixth Circuit explained the two most common methods for determining functionality under the competitive functionality test:

“The test for ‘comparable alternatives’ asks whether trade-dress protection of certain features would nevertheless leave a variety of comparable alternative features that competitors may use to compete in the market. If such alternatives do not exist, the feature is functional; but if such alternatives do exist, then the feature is not functional.” Wong, 83 CORNELL L. REV. at 1144–45 (noting that “the comparable alternatives requirement may necessitate more than the mere existence of one alternative, and may instead require a number of alternatives from which competitors may choose” (footnotes omitted)). “The ‘effective competition’ test asks . . . whether trade dress protection for a product’s feature would hinder the ability of another manufacturer to compete effectively in the market for the product. If such hindrance is probable, then the feature is functional and unsuitable for protection. If the feature is not a likely impediment to market competition, then the feature is nonfunctional and may receive trademark protection. *Id.* at 1146.<sup>19</sup>

Determining the functionality of a product feature (as opposed to product or service trade dress), while not a bright line test, is fairly straightforward. In an oft-cited case involving the product design of the ice cream product known as “dippin’ dots,” for example, the Eleventh Circuit held each element of the product’s design (i.e., size, color, and shape) to be functional: the color is functional because it indicates the flavor of the ice cream (for example, pink signifies strawberry, white signifies vanilla, brown signifies chocolate);<sup>20</sup> size is functional because it contributes to the product’s creamy taste, which would be different in a larger “dot”<sup>21</sup>; and shape is functional because “dripping the ice cream composition in the freezing chamber creates a ‘bead’ that facilitates the product’s free flowing nature.”<sup>22</sup>

Determining the functionality of product or service trade dress is not so straightforward. This is because trade dress often includes functional features that by themselves are functional, but which in combination with each other may be protectable. To further complicate the analysis, as stated by the Fifth Circuit, “a particular arbitrary combination of functional features, the combination of which is not itself functional, properly enjoys protection.”<sup>23</sup> In other words, a competitor can use elements of another’s trade dress, but the owner can protect a combination of visual elements that, taken together, may create

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17. *Qualitex Co. v. Jacobson Prods. Co.*, 514 U.S. 159, 169 (1995).

18. *Id.* at 165.

19. *Abercrombie & Fitch Stores, Inc. v. Am. Eagle Outfitters, Inc.*, 280 F.3d 619, 642 (6th Cir. 2002).

20. *Id.* at 1204.

21. *Id.* at 1206.

22. *Id.*

23. *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1119 (5th Cir. 1991).

a distinctive visual impression.<sup>24</sup> Functionality in the franchising context, however, can be summarized according to four general guidance principles.

### 1. Trademark Law Will Not Protect a Method or Style of Doing Business

In *Denton v. Mr. Swiss of Missouri, Inc.*,<sup>25</sup> an early case involving the franchisor of fast food stores serving primarily soft ice cream and sandwiches, the district court enjoined a former licensee from using the franchisor's trademarks and "standardized system," defined as the "distinctive store design."<sup>26</sup> The Eighth Circuit, on appeal, reversed the district court's order. Citing 1 J. McCarthy, *Trademarks and Unfair Competition*<sup>27</sup> and the cases cited therein for the proposition that "a franchisor has no protectable interest in the mere method and style of doing business," the Eighth Circuit remanded the case to the district court to determine, among other things, the protectability of the franchisor's store design.<sup>28</sup>

### 2. Trademark Law Will Not Protect the "Core Concept" of a Business

Almost ten years after the *Denton* decision, the Eighth Circuit had an opportunity to revisit the issue of trade dress functionality, this time relating to a restaurant concept. In *Prufrock Ltd., Inc. v. Lasater*,<sup>29</sup> which involved the trade dress utilized by the BLACK-EYED PEA and DIXIE HOUSE restaurant chains, the district court enjoined the defendants, which operated several BLACK-EYED PEA restaurants under licensing agreements with Prufrock and which had opened a third restaurant featuring a full service country cooking concept, from operating any restaurant, other than its existing BLACK-EYED PEA restaurants, using Prufrock's "distinctive" trade dress or any trade dress confusingly similar to Prufrock's. The district court defined Prufrock's trade dress as follows:

[A] full-service restaurant, serving down home country cooking, in a relaxed and informal atmosphere, with a full-service bar, and which employs all or any of the following items:

- (a) church pews or church pew replica booth seating;
- (b) small print wallpaper;
- (c) antique or antique replica wooden drop leaf tables;
- (d) exposed kitchen area;
- (e) large open dining room with booths on sidewalls;
- (f) antique or antique replica light fixtures;
- (g) antique or antique replica bar; and
- (h) country wall décor including old or antique kitchen implements, small farm implements, photographs, quilts and the like.

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24. *Id.*

25. 564 F.2d 236, 1977 (8th Cir. 1977).

26. *Id.* at 237.

27. 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 18:20 at 647-48 (1973).

28. *Denton v. Mr. Swiss of Mo., Inc.*, 564 F.2d 236, 243 (8th Cir. 1977).

29. 781 F.2d 129 (8th Cir. 1986).

On appeal, the Eighth Circuit held that the district court's protection of Prufrock's "core concept" (i.e., "a full-service restaurant, serving down home country cooking, in a relaxed and informal atmosphere, with a full-service bar") was in error. The court reiterated that "a franchisor does not have a business interest capable of protection in the mere method and style of doing business"<sup>30</sup> and then proceeded to analyze the eight listed décor elements to determine whether they, by themselves or in combination, were protectable under Section 43(a) of the Lanham Act. After carefully reviewing the entire record, the Eighth Circuit reversed the district court's holding and held that all of the evidence presented described a functional trade dress, supported in part by the following evidence:

Mr. Richardson, Prufrock's Vice President of Systems and Services, testified on direct examination for Prufrock that the sole reason Prufrock uses the various appointments and décor items is to "enhance our down home country look" and to "give the customer that country feel." Mr. Richardson testified that Prufrock used the exposed kitchen to entertain the customer as well as to show the customer the high quality of Prufrock's food preparation. According to Mr. Richardson, the large open dining area serves the purpose of allowing the customers to see the activity of the restaurant. Indeed, Prufrock states in its brief that all of the trade dress elements were chosen to portray the down home country look to Prufrock's customers.

As [the defendant] states in its brief, "it would be difficult to invent evidence more supportive of a finding that décor items were selected for and serve a functional purpose. They have a "clear commercial appeal." The district court's finding that Prufrock's trade dress is distinctive has no support in the record and thus we find it to be clearly erroneous.

The consumer demand for the concept of "down home country cooking" includes the demand for the trade dress that creates the concept. [The defendant] and others would be severely handicapped in their ability to compete with Prufrock in the field of country cooking if they were prohibited from using any or all Prufrock's trade dress. The [test] for nonfunctionality does not permit Prufrock to protect the trade dress which creates the informal country dining concept and which is an "important ingredient in the commercial success of the concept."<sup>31</sup>

Another case illustrating the functionality of "core concept" trade dress is *Taj Mahal Enterprises v. Trump*.<sup>32</sup> There, the owners of an Indian-themed restaurant called the "TAJ MAHAL" sued the owners of the "TRUMP TAJ MAHAL," an upscale Indian-themed casino and hotel facility in the U.S. District Court for the District of New Jersey. On motion for summary judgment, the district court refused to extend trade dress protection to the plaintiff's Indian-themed trade dress (described as "an Indian motif, images of the eponymous Indian mausoleum, the name TAJ MAHAL set out in stylized print on signs, napkins and menus, and images of minarets"<sup>33</sup>), characterizing them as "functional":

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30. *Id.* at 131–32.

31. *Id.* at 134.

32. 745 F. Supp. 240, 252 (D.N.J. 1990).

33. *Id.* at 252.

In addition, much of plaintiff's trade dress appears to be functional. To create a demand for Indian cuisine and culture, it follows that a business's trade dress should engender images and impressions of things Indian. Accordingly, elements of a trade dress which relate to the concept or theme of a restaurant are functional as they enhance consumer demand for the restaurant's food. . . . In this regard, we must be concerned with placing limitations on the alternative ways to communicate and promote general themes and concepts. "Any element of a restaurant's trade dress that advances the concept cannot be protected because those elements are related to the consumer demand for the concept."<sup>34</sup>

### 3. Trademark Law Will Protect the Look and Feel of Business, As Distinguished from Its Core Concept, But the Elements Must Be Distinctive and Nonfunctional

In the 2011 decision, *Pure Power Boot Camp, Inc. v. Warrior Fitness Boot Camp, LLC*,<sup>35</sup> the U.S. District Court for the Southern District of New York extended trade dress protection to the "military-theme" of a fitness facility, thereby distinguishing "theme" or "trade dress" from "core concept." There, the defendants (while still employed by Pure Power) began planning their own military-themed gym—Warrior Fitness Boot Camp—which also featured a military theme. They also took Pure Power's client list and used it to recruit clients. Pure Power sued, among other things, for trade dress infringement. At trial, Pure Power attempted to expand the description of its trade dress to include elements listed in its business plan, such as the size of fitness classes, programs, corporate team-building, and a description of consumer markets. The court characterized this attempt as "inappropriate" and reiterated that trade dress law does not "protect an idea, a concept, or a generalized type of appearance."<sup>36</sup> According to the court, the "general idea or concept of a fixed indoor obstacle course . . . is not protectable as trade dress. Rather, it is the particular 'look and feel' of Pure Power's facility that is protectable as trade dress."<sup>37</sup>

The court concluded, however, that the aesthetics of the facility, including its military theme, were entitled to trade dress protection:

The "essence" of this "look and feel" . . . is a fixed indoor obstacle/confidence course, surrounded by a running track in which the floor of the obstacle course is covered in crushed shredded rubber tire material to simulate dirt, with obstacles, including military hurdles arranged in ascending order, a low crawl apparatus, scaling walls of different heights, monkey bars, a traverse wall, a rope climb, parallel or dip bars, a rope swing over a water pit, a tire run, a cargo net climb, and rolling logs used in a "belly robber," coupled with special design features inspired by the United States Marine Corps, including green camouflage netting hanging from the ceiling, changing rooms that are World War II tents, flooring that is bordered by military-looking sandbags, eleven standing pillars stenciled with principles of leadership derived from the Marine Corps, and a life-size statue of a

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34. *Id.*

35. 813 F. Supp. 2d 489 (S.D.N.Y. 2011).

36. *Id.* at 539.

37. *Id.*

screaming marine carrying a machine gun. It is this combination of elements that defines Pure Power's protectable trade dress, as it is this combination that a customer observes upon entering the Pure Power facility.<sup>38</sup>

Perhaps outcome determinative in this case was that the military-themed trade dress had been registered on the Principal Register of the U.S. Patent and Trademark Office, as follows:

Word Mark: DESIRE COURAGE<sup>39</sup>

Description of Mark:

COLOR IS NOT CLAIMED AS A FEATURE OF THE MARK. THE MARK CONSISTS OF A DRAWING OF AN EXERCISE FACILITY, STYLED TO LOOK LIKE A MILITARY BOOT CAMP TRAINING COURSE COMPRISED OF CAMOUFLAGE WALL AND CEILING DÉCOR, CRUSHED RUBBER FLOORING, A TIRE RUN, CLIMBING WALLS, CLIMBING NETS, AND HURDLES, WITH THE TERMS "DESIRE," "STRE," "COURAGE," AND "UTY."

In 2012, however, the Eleventh Circuit denied trade dress protection to a restaurant chain on grounds that it lacked distinctiveness. In *Miller's Ale House, Inc. v. Boynton Carolina Ale House, LLC*,<sup>40</sup> the plaintiff restaurant chain sued a licensee of a competing restaurant chain for infringement of its floor plan copyrights and unregistered trade dress. The Eleventh Circuit affirmed the district court's grant of summary judgment on grounds that there were no protectable trade dress, stating:

We find nothing particularly unique in a restaurant fixing its name in red letters on the outside of its building and on its menu, branding items it sells with that name, dressing its staff in khakis and a polo shirt, featuring a center bar with a soffit, offering seating at "high top" tables, and paneling its walls with wood. These are the prototypical features—what we might call the "common . . . design," [citation omitted] of a standard sports bar or brew pub. The particular name affixed on the wall and to menu items, the specific color of the polo shirts, the type of wood on the walls, the placement of the "high-top" tables, and the openness of the kitchen, "even if they are in combination and could be deemed unique," [citation omitted] are all "mere refinement[s]" of this "commonly adopted and well-known form of ornamentation" [citation omitted].<sup>41</sup>

Even distinctive trade dress, however, will be denied protection if the trade dress is determined to be "functional." In *Abercrombie & Fitch Stores, Inc. v. American Eagle Outfitters, Inc.*,<sup>42</sup> Abercrombie & Fitch (A&F) sued American Eagle Outfitters to stop American Eagle from infringing what A&F described as its unregistered trade dress, i.e., designs of certain articles of clothing, in-store advertising displays, and a catalog. The district court granted summary judgment in favor of American Eagle on grounds that

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38. *Id.*

39. DESIRE COURAGE, Registration No. 3580542.

40. 702 F.3d 1312, 1324 (11th Cir. 2012).

41. *Id.* at 1324.

42. 280 F.3d 619 (6th Cir. 2002).

A&F sought protection of its marketing theme. The Sixth Circuit reversed the order, holding that A&F properly sought protection of trade dress elements (not its marketing theme), but further held that most of the elements for which A&F sought protection (i.e., use of the words “performance,” “authentic,” “genuine brand,” “trademark,” and “since 1892,” alone and in combination with “primary color combinations in connection with solid, plaid and stripe designs” and made from “all natural cotton, wool, and twill fabrics” as well as its in-store designs and use of college students as sales associates) were functional and thus not entitled to trade dress protection.<sup>43</sup>

The court analyzed A&F’s clothing features and concluded that “[t]here can be no dispute that preventing other producers from combining these design elements in the way A&F does would prevent them from competing effectively in the market for casual clothing aimed at young people.”<sup>44</sup> The court reached the same conclusion with respect to A&F’s claim of trade dress in its in-store display setups and use of college students as sales associates, holding that “[f]orbid[ding] clothiers to use college students to sell garments to or for college-age people indubitably prevents them from effectively competing in the market for casual clothing directed at young people.”<sup>45</sup>

#### 4. Trademark Law May Protect Marketing Themes and Sales

##### Techniques That Directly Relate to the Product If Infringement Is Likely to Cause Consumer Confusion

Generally, a marketing theme or technique will not qualify for trade dress protection where copying does not result in consumer confusion. This is best illustrated by *Haagen-Daz, Inc. v. Frusen Gladje, Ltd.*,<sup>46</sup> where the plaintiff ice cream manufacturer sued to enjoin a competitor from using a similar Scandinavian marketing theme on its own ice cream product packaging. In denying the motion, the court held that the “[product] containers, as well as their trade dress, were clearly distinguishable and would appear so to all but the most obtuse consumer”<sup>47</sup> and characterized the action as being “grounded in plaintiff’s failure to appreciate the difference between an attempt to trade off the goodwill of another and the legitimate imitation of an admittedly effective marketing technique.”<sup>48</sup>

In a 1982 decision, *Original Appalachian Artworks, Inc. v. Toy Loft, Inc.*,<sup>49</sup> the Eleventh Circuit extended trade dress protection to an adoption procedure for soft-sculpture dolls that included providing a birth certificate and “official adoption papers.” There, the defendant, after seeing the OAA’s dolls on display, copied both the dolls and OAA’s adoption procedures.

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43. *Id.* at 648.

44. *Id.* at 644.

45. *Id.*

46. *Haagen-Dazs, Inc. v. Frusen Gladje, Ltd.*, 493 F. Supp. 73, 74 (S.D.N.Y. 1980).

47. *Id.* at 75.

48. *Id.*

49. *Original Appalachia Artworks, Inc. v. Toy Loft*, 684 F.2d 821 (11th Cir. 1982).

OAA sued for copyright and trade dress infringement and unfair competition. After a bench trial, the district court found, among other things, that the defendants had infringed on OAA's copyright for the dolls and on OAA's distinctive trade dress and thus had committed unfair competition. The Eleventh Circuit affirmed. With respect to the trade dress infringement claim, the Eleventh Circuit recognized that OAA's adoption procedure was "truly part of the 'packaging' of OAA's product both in the sense that dolls are never sold without the adoption papers and birth certificate and because the adoption procedure is designed to make OAA's dolls distinctive in the marketplace."<sup>50</sup> Relying on prior court decisions, which recognized that an unfair competition claim can extend to marketing techniques, the Eleventh Circuit concluded that the adoption procedures used by OAA in the sale of its dolls qualified as protectable trade dress.<sup>51</sup>

In 1995, in *Philip Morris Inc. v. Star Tobacco Corp.*,<sup>52</sup> the U.S. District Court for the Southern District of New York extended trade dress protection to Philip Morris's western marketing theme for its MARLBORO brand of cigarettes. The brand was marketed through advertising the featured cowboys in the American West since 1964, which respectively came to be known as the "Marlboro Man" and "Marlboro Country."<sup>53</sup> Phillip Morris sued its competitor, Star Tobacco Corp., which had begun marketing "GUNSMOKE" cigarettes in packs featuring an image of a cowboy holding a rifle in his right hand and his left hand resting upon a holstered pistol.<sup>54</sup> The competitor's packaging also featured the words "Western blend," and its display advertisements featured the phrase "New Man in Town" next to the cowboy figure. One trade magazine advertisement used the phrase "Welcome to Gunsmoke Country."<sup>55</sup>

The district court found the Marlboro Country trade dress inherently distinctive, calling the juxtaposition of the product and setting arbitrary and possibly fanciful.<sup>56</sup> Star conceded that the Marlboro Country theme was distinctive, but argued that there was no likelihood of confusion between it and the GUNSMOKE trade dress and advertising materials. Star argued that the differences were so vast that the only common point is the Western motif, which is so diffuse that it is not protectable.<sup>57</sup> The court disagreed, characterizing Star's argument as being "more rhetoric than substance" because the

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50. *Id.* at 831.

51. *Id.* (citing *Artus Corp. v. Nordic Co.*, 512 F. Supp. 1184, 1191 (W.D. Pa. 1981) ("likelihood of confusion" test extends to labeling and marketing techniques); *Manley & James Labs., Ltd. v. Approved Pharm. Corp.*, 438 F. Supp. 1061, 1066 (N.D.N.Y. 1977) ("Unfair competition . . . relates to the product as a whole, as it is marketed, and the public's general impression of it.")).

52. *Philip Morris Inc. v. Star Tobacco Corp.*, 879 F. Supp. 379 (S.D.N.Y. 1995).

53. *Id.* at 383.

54. *Id.* at 382.

55. *Id.*

56. *Id.* at 383.

57. *Id.*

Marlboro Country trade dress consisted of “specific manifestations of a Western motif: the picture of a cowboy on a cigarette pack; figures of cowboys who have come over time to be known as the “Marlboro Man”; and those evocative stretches of the Western landscape, not to be found on any map or ordnance survey, called “Marlboro Country.”<sup>58</sup> Ultimately, the court concluded there was likelihood of confusion and granted Philip Morris’s motion for a preliminary injunction.<sup>59</sup>

### C. Copyright

Copyright protection may protect certain elements of a franchise system, such as the design portion of logos, design and content of the franchisor’s website and marketing materials, and even the architectural designs of roof-lines and buildings. It protects “original works of authorship” that are fixed in any tangible medium of expression.<sup>60</sup> Because a copyright is secured when it is in a fixed tangible medium of expression for the first time, registration is not required to secure protection. However, in order to file a copyright infringement lawsuit, the copyright must be registered.<sup>61</sup> Copyright protection does not extend to ideas,<sup>62</sup> and like trade dress, copyright does not protect functional elements.<sup>63</sup>

Generally, copyright owners enjoy the exclusive rights to the registered work, including the right to do or authorize the following: (1) reproduce the copyrighted work; (2) prepare derivative works based on the copyrighted work; (3) distribute copies of the copyrighted work; and (4) for particular works, perform the copyrighted work in public.<sup>64</sup> Copyright infringement is established by proving two elements: “(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original.”<sup>65</sup> However, not all copying constitutes infringement; the copied material must be copyrightable and the similarities between the works must be substantial from the point of view of the lay observer.<sup>66</sup> If there is no direct proof of copying, “the plaintiff may show copying by demonstrating that

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58. *Id.* at 385.

59. *Id.* at 389.

60. 17 U.S.C. § 102(a) (1990).

61. 17 U.S.C. § 411(a) (2008).

62. 17 U.S.C. § 102(b) (1990). *See, e.g.,* Ale House Mgmt. v. Raleigh Ale House, Inc., 205 F.3d 137, 143 (4th Cir. 2000) (affirming grant of summary judgment on claim that defendant copied plaintiff’s use of “an island or peninsula-shaped bar to bisect a seating area which has booths on one side and stool seating on the other” because, “at this level of generality, [plaintiff’s] design is nothing more than a concept”); Wickham v. Knoxville Int’l Energy Exposition, Inc., 739 F.2d 1094, 1097 (6th Cir. 1984) (affirming grant of summary judgment on claim that defendant infringed plaintiff’s architectural designs because “[t]he ‘idea’ of a tower structure certainly is not copyrightable”).

63. 17 U.S.C. § 113(b) (1990).

64. 17 U.S.C. § 106 (2002).

65. Feist Publ’ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991).

66. *Id.* at 360–61; *see also* Miller’s Ale House, Inc. v. Boynton Carolina Ale House, LLC, 702 F.3d 1312, 1325 (11th Cir. 2012).

the defendants had access to the copyrighted work and that the works are ‘substantially similar.’”<sup>67</sup>

The medium in which the work is registered dictates the protection that is extended and the limitations of that protection. The holder of a copyright in architectural plans, for example, enjoys two types of copyright protection: protection for the constructed building design, which is protected as an architectural work; and protection for the architectural plans, drawings, or models, which are protected as pictorial, graphic, or sculptural works,<sup>68</sup> but each protection requires its own copyright application. When an architectural work is registered only as a pictorial, graphic, or sculptural work, the copyright owner can prevent only the copying of the plans themselves; it cannot prevent the construction of a building based upon the registered design.<sup>69</sup>

Copyright protection for architectural works extends to “the overall form as well as the arrangement and composition of spaces and elements in the design but does not include individual standard features or design elements that are functionally required.”<sup>70</sup> Protection also extends to “interior architecture,”<sup>71</sup> but excludes “individual standard features,” such as “common windows, doors, and other staple building components.”<sup>72</sup> The Copyright Act explains that the “the overall form as well as the arrangement and composition of spaces and elements in the design” are included in the definition of “architectural work,” which indicates that Congress was aware that “creativity in architecture frequently takes the form of a selection, coordination, or arrangement of unprotectable elements into an original, protectable whole.”<sup>73</sup> Although individual standard features and architectural elements that are classified as ideas are not protected by copyright, the combination or arrangements of the elements may be protected.<sup>74</sup>

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67. *Miller's Ale House, Inc.*, 702 F.3d at 1325.

68. 17 U.S.C. § 102(a)(8) (1990) (architectural works are included in scope of copyright protection); H.R. REP. NO. 101-735, reprinted in 1990 U.S.C.C.A.N. 6950 (“An individual creating an architectural work by depicting that work in plans or drawing will have two separate copyrights, one in the architectural work (section 102(a)(8)), the other in the plans or drawings (section 102(a)(5)).”); see also *T-Peg, Inc. v. Vt. Timber Works, Inc.*, 459 F.3d 97, 110 (1st Cir. 2006) (quoting legislative history).

69. *Oravec v. Sunny Isles Luxury Ventures, L.C.*, 527 F.3d 1218, 1228 (11th Cir. 2008).

70. U.S. Copyright Office, Circular 41, Copyright Claims in Architectural Works at 1 (2012).

71. *Miller's Ale House, Inc.*, 702 F.3d at 1324.

72. 17 U.S.C. § 101 (2010) (definition of “architectural work”); H.R. REP. NO. 101-735 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6949; see also *Oravec v. Sunny Isles Luxury Ventures, L.C.*, 527 F.3d 1218, 1225 (11th Cir. 2008) (citing *T-Peg, Inc.*, 459 F.3d at 110).

73. 17 U.S.C. § 101 (2010) (definition of “architectural work”); H.R. REP. NO. 101-735 (1990), reprinted in 1990 U.S.C.C.A.N. 6935, 6949; see also *Oravec*, 527 F.3d at 1225.

74. *Oravec*, 527 F.3d at 1225. See also *Corwin v. Walt Disney World Co.*, 475 F.3d 1239, 1251 (11th Cir. 2007) (“[A] work may be protected by copyright law when its otherwise unprotectable elements are arranged in a unique way.”); *T-Peg, Inc.*, 459 F.3d at 110 (noting that combination of individual standard features in architectural work may be copyrightable); *Sturdza v. U.A.E.*, 281 F.3d 1287, 1296 (D.C. Cir. 2002) (observing that artist’s selection, coordination, and arrangement of color may be protectable, even though color itself is not).

Copyright for architectural works, however, has been compared to that afforded for compilations and characterized as “thin.”<sup>75</sup> According to the Eleventh Circuit, “[s]ubstantial similarity exists only ‘where an average lay observer would recognize the alleged copy as having been appropriated from the [protectable features of the] copyrighted work.’”<sup>76</sup> Further, according to the court, “in light of the limited scope of protectable expression in an architectural plan . . . modest dissimilarities are more significant than they may be in other types of art works.”<sup>77</sup>

Copyright protection for architectural works also has its limitations. If the building in which the copyrighted work is embodied is “located in” or “ordinarily visible from” a public place, the copyright in the architectural work does not include the right to prevent the making, distributing, or public display of pictorial representations of the work.<sup>78</sup> Thus, the owner of the architectural copyright cannot prevent others from taking pictures or producing other pictorial representations of the building. The copyright protection of an architectural work also does not give the copyright owner control over the building owner’s actions with regard to altering or destroying the building embodied in the architectural work.<sup>79</sup>

Moreover, copyright law provides only thin protection for building layout and design. In *Miller’s Ale House*, discussed above,<sup>80</sup> the plaintiff restaurant chain, which held copyrights for five different floor plans used in various locations, asserted claims of copyright infringement based on the defendant’s incorporation of “a rectangular bar at the center of the restaurant, booth seating to the left of the bar, high-top tables to the right of the bar, a kitchen and freezer area in back-right, and restrooms in the back-left.”<sup>81</sup> The district court granted summary judgment on this claim after concluding that no reasonable jury, limiting its consideration to the arrangement of standard features, could find the defendant’s floor plan substantially similar to the plaintiff’s copyrighted floor plan. The Eleventh Circuit agreed, quoting the district court’s analysis:

Although both plans contain centrally located bars, for instance, the bars are in different locations relative to each restaurant’s entryway; [plaintiff]’s central bar is on the right while [defendant]’s is slightly to the left. Much of the interior seating is markedly dissimilar; [plaintiff] has several columns of booth seating to the left of the entryway while [defendant] interposes a single column of tables between its booths. [Defendant] has divided its bathroom entrances from the dining area with a solid wall and [plaintiff] has not. The arrangement of the pool tables and video games inside each restaurant is distinct; [plaintiff] places its pool tables in a column between its tables, while [defendant] separates its pool tables from the

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75. *Miller’s Ale House, Inc.*, 702 F.3d at 1326.

76. *Id.*

77. *Id.*

78. 17 U.S.C. § 120(a) (1990).

79. 17 U.S.C. § 120(b) (1990).

80. *Miller’s Ale House, Inc.*, 702 F.3d at 1312.

81. *Id.* at 1326.

diners and lines its video games along a wall. The outdoor areas are dramatically different; [defendant] has a separate outside corner bar and outside seating that hugs the corner of the building, and [plaintiff]’s floor plan does not specify any outdoor seating at all.<sup>82</sup>

Although the plaintiff characterized these differences as “minor,” because of the thin protection rendered to architectural copyrights, these modest differences were held to be so significant that the court concluded that no reasonable, properly instructed jury could find the works substantially similar, and the Eleventh Circuit affirmed the grant of the defendant’s motion for summary judgment.<sup>83</sup>

#### D. *Business Method Patents*

Business method patents may provide some protection to a franchise system, but they are difficult to obtain because the business method must meet the criteria required of all patents: it must be novel, useful, and non-obvious. Prior to 1998, the business method exception prevented patentability of a business method. In 1998, the U.S. Court of Appeals for the Federal Circuit substantially liberalized the standard for granting business method patents;<sup>84</sup> tens of thousands of business method patent applications were filed in the following decade.<sup>85</sup> There was even speculation in the franchise community that patents might provide the missing form of protection for a franchise system. Patents were granted for inventions, such as a system for “upselling” at fast-food restaurants,<sup>86</sup> and for methods of meal assembly for a restaurant in which raw ingredients are displayed and selected by customers for preparation.<sup>87</sup>

In recent years, however, the patent-eligibility of business methods has again been called into scrutiny. In June 2014, the Supreme Court, addressing patent eligibility of a computer-implemented method of facilitating financial transactions, affirmed traditional patent exclusions (i.e., laws of nature, natural phenomenon, and abstract ideas) and established a two-part test for distinguishing excluded subject matter from patent eligible subject matter.<sup>88</sup> Under this test, first, a court must determine whether claims concern one of the ineligible concepts. Second, if the claims do concern an ineligible concept, a court must determine whether the elements of the claims transform the invention into something patent eligible. Although business methods are still patentable as “processes,” the buzz surrounding business method

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82. *Id.* at 1326–27.

83. *Id.* at 1327.

84. *State St. Bank & Tr. Co. v. Signature Fin. Grp., Inc.*, 149 F.3d 1368 (Fed. Cir. 1998).

85. Wynn Coggins, *Business Methods Still Experiencing Substantial Growth—Report of Fiscal Year 2001 Statistics*, U.S. Patent and Trademark Office, <http://www.uspto.gov/patents-getting-started/patent-basics/types-patent-applications/utility-patent/business-methods-26> (accessed on Feb. 24, 2016).

86. U.S. Patent No. 6,119,099, issued Sept. 12, 2000.

87. U.S. Patent No. 7,156,207, issued Jan. 2, 2007.

88. *Bilski v. Kappos*, 561 U.S. 593 (2010).

patent applications as a means to protect a franchise system has quieted down significantly.

### E. Trade Secret Laws

Shortly before this article went to publication, President Barack Obama signed into law the Defend Trade Secrets Act of 2016 (DTSA). Prior to the passage of the DTSA, trade secret protection was governed solely by state law, each modeled to some extent after the Uniform Trade Secrets Act, but different in material respects.<sup>89</sup> The DTSA does not preempt state law, but creates a federal cause of action and civil remedy for misappropriation of trade secrets, which proponents hope will create a unified approach to trade secret protection. The DTSA defines “trade secret” as “information [that] derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.”<sup>90</sup> Trade secrets can include “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes.”<sup>91</sup> Generally, a trade secret misappropriation claim is comprised of the following elements: (1) the information in dispute must qualify for trade secret protection and cannot be generally known by the relevant industry; (2) the owner of the trade secret took reasonable precautions to prevent its disclosure; and (3) the defendant wrongfully obtained access to the trade secret.<sup>92</sup>

Unlike other types of intellectual property, trade secrets are protected by secrecy, as opposed to public disclosure through the registration process. Thus, trade secret protection is quicker and potentially cheaper and easier to obtain than patent protection.<sup>93</sup> The scope of protectable subject matter under trade secret law is much broader than that under patent law, and the duration of protection is potentially longer—the term of patent protection is fixed by statute<sup>94</sup> whereas trade secret protection is maintained as long as secrecy is preserved. Once secrecy is lost, however, whether it be through a third party’s independent discovery or inadvertently released, trade secret protection ends.<sup>95</sup>

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89. Uniform Laws Commission, Legislative Fact Sheet—Trade Secrets Act, <http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act> (accessed May 17, 2016).

90. 18 U.S.C. § 3(B) (amended 2016); *see also* UNIF. TRADE SECRETS ACT (amended 1985) § 1 (4)(ii).

91. 18 U.S.C. § 3 (amended 2016); *see also* UNIF. TRADE SECRETS ACT (amended 1985) § 1(4).

92. Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 313 (2008).

93. *Id.*

94. 35 U.S.C. § 154.

95. USPTO, *Trade Secret Policy*, <http://www.uspto.gov/patents/gettingstarted/internationalprotection/tradesecretpolicy> (accessed Feb. 3, 2016).

For some businesses, trade secret protection is the most suitable type of protection for their intellectual property. For example, one of the best-kept trade secrets in the world is the complete Cola-Cola formula.<sup>96</sup> Coca-Cola's secret combination of flavoring oils and ingredients is called "Merchandise 7X." The formula is known by only two people at any one time, and they are the two who oversee the preparation of the formula.<sup>97</sup> Coca-Cola refuses to disclose the identity of the two individuals and does not allow them to fly on the same airplane at the same time.<sup>98</sup> The only written record of Merchandise 7X is kept at a security vault at a bank, which can only be opened upon a resolution from the company's Board of Directors.<sup>99</sup>

In the franchise context, however, trade secret law historically has provided little benefit because most elements of a franchise system (while valuable) do not qualify as "trade secrets." As an illustration, in *Little Caesar Enterprises, Inc. v. Sioux Falls Pizza Company, Inc.*,<sup>100</sup> the franchisor sued a former franchisee for misappropriation of trade secrets and sought a preliminary injunction. Little Caesar's motion for preliminary injunction was denied, however, on grounds that it was not likely to succeed on the merits of its claim that its system of producing Hot-N-Ready pizza qualified as a trade secret under the meaning of the South Dakota Trade Secrets Act.<sup>101</sup> The court held that Little Caesar's offered insufficient evidence that the system was a trade secret with independent economic value<sup>102</sup> and failed to establish its reasonable efforts to maintain its secrecy.<sup>103</sup>

Similarly, in *I Can't Believe It's Yogurt v. Gunn*,<sup>104</sup> the court held that neither the franchisor's business procedures nor its system constituted trade secrets within the meaning of the Colorado Uniform Trade Secrets Act. According to the court, "[t]he information claimed to constitute trade secrets is generally known or readily ascertainable . . . [m]uch of the information claimed as trade secrets is taught at business schools."<sup>105</sup> In addition, the franchisor failed to show that its procedures were appreciably different from other businesses' procedures, and the franchisor had not taken steps to guard the secrecy of the information.<sup>106</sup>

Although operating and marketing procedures are not likely protectable as trade secrets (mostly because they are openly obvious and therefore not secret), certain assets of a franchise system will qualify for trade secret pro-

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96. *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 289 (D. Del. 1985).

97. *Id.* at 294.

98. *Id.*

99. *Id.*

100. 2012 U.S. Dist. LEXIS 108828 (D.S.D. Aug. 3, 2012).

101. *Id.* at \*34.

102. *Id.* at \*16.

103. *Id.* at \*23-24.

104. Civil Action No. 94-OK-2109-TL, 1997 U.S. Dist. LEXIS 14480 (D. Colo. Apr. 15, 1997).

105. *Id.* at \*58.

106. *Id.* at \*58-59.

tection. In *KFC Corp. v. Marion-Kay Co.*, the court held that KFC's "secret seasonings" were trade secrets.<sup>107</sup> In *Krehl v. Baskin Robbins Ice Cream Co.*, a case involving allegations of illegal market allocation under the Sherman Act, the court noted that the "formulae and recipes for manufacturing Baskin Robbins ice cream products are highly guarded secrets, divulged only to Baskin Robbins licensed area franchisers who are bound to maintain their confidentiality."<sup>108</sup> In *Great Expectations Franchise Corp. v. V.L.P. Enterprises, Inc.*, the court held that a franchisor's service software packages and its membership data constituted protectable trade secrets within the meaning of the Uniform Trade Secrets Act.<sup>109</sup> In *Taco Cabana International v. Two Pesos, Inc.*,<sup>110</sup> the Fifth Circuit recognized that architectural plans and kitchen layout and design drawings may be trade secrets, provided there is sufficient and continuous secrecy attached to them to preserve their status as trade secrets.<sup>111</sup>

## II. Contractual Protections

Because intellectual property laws fall short of protecting the franchise system as a whole (or even significant elements of the system), franchisors turn to contract law to enhance protection and fill in the gaps. Confidentiality agreements provide some protection against disclosure of proprietary information, which may not otherwise qualify for "trade secret" protection. Covenants not to compete and non-solicitation agreements prevent former franchisees from continuing to profit from the system by continuing to operate a similar business at or near the location of the former franchised business, servicing its former customers, or both. These types of provisions are generally regarded as agreements in restraint of trade. Enforceability of these provisions varies and is beyond the scope of this article.<sup>112</sup>

A franchise agreement often contains additional restrictions, intended to supplement or supplant traditional intellectual property laws. A typical franchise agreement, for example, prohibits a former franchisee from representing itself as a "former franchisee" of the franchise system. This provision is intended to backstop traditional trademark law and prevents a former franchisee from advertising its former association with the franchise system, regardless of whether the trademark fair use defense would provide a defense to such use.

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107. 620 F. Supp. 1160, 1172 (S.D. Ind. 1985).

108. 1979 U.S. Dist. LEXIS 10530 (C.D. Cal. 1979).

109. *Great Expectations Franchise Corp. v. V.L.P. Enters., Inc.* Bus. Franchise Guide (CCH) ¶ 11,434 (S.D. Cal. Jan. 9, 1998).

110. 932 F.2d 1113, 1123 (5th Cir. 1991).

111. *Id.* at 1123.

112. See COVENANTS AGAINST COMPETITION IN FRANCHISE AGREEMENTS (Michael R. Gray & Natalma M. McKnew eds., 3d ed. 2012).

Many franchise agreements also attempt to expand the scope of trademark protection by prohibiting a franchisee's use, not only of the franchisor's registered trademarks, but of certain words that the franchisor determines are uncomfortably close to the franchisor's trademarks and/or to certain elements of the system. For example, the franchise agreement may purport to prevent a franchisee's use of any mark "similar to" the franchisor's trademarks or of any elements of the system.

Enforceability of these provisions, however, requires careful drafting and consideration of the laws on restraint of trade, as illustrated in the recent case of *One Hour Air Conditioning, Inc. v. Dallas Unique Indoor Comfort, Ltd.*, decided on November 13, 2015.<sup>113</sup> One Hour franchises the operation of residential heating and air conditioning services businesses that operate under the name "One Hour Air Conditioning and Heating" or "One Hour Heating and Air Conditioning." The franchisor positioned its brand around "punctuality," as evidenced by the adoption of the "One Hour" trademark, time piece logo, and slogan "Always on Time . . . Or you Don't Pay a Dime!" in advertising and marketing materials as well as in its telephone greeting.<sup>114</sup> In 2003, One Hour entered into a franchise agreement with Dallas Unique, which had previous experience in the residential heating and air conditioning services business. During pre-sale negotiations, One Hour agreed to eliminate the post-termination covenant not to compete.

The franchise agreement, however, contained other provisions restricting the franchisee's post-termination activities. Specifically, Section 16.6 of the Franchise Agreement (Franchisee's Obligations on Termination or Expiration) provided that:

Franchisee shall forthwith cease to be a franchisee of Franchisor and shall immediately:

- D. cease to operate the Franchised Business under the System or otherwise and thereafter not, directly or indirectly, represent to the public that such Franchised Business is operated in association with Franchisor or the System, or hold itself out as a present or former franchisee of Franchisor;
- E. cease to use, directly or indirectly, in advertising or in any other manner whatever any of the Licensed Marks, any name or mark similar to any of the Licensed Marks, any other identifying characteristics or indicia of operation of the System, and any confidential standards, methods, procedures and specifications associated with the System.<sup>115</sup>

In the initial complaint, One Hour asserted claims of trademark infringement and breach of contract. The trademark infringement claims were voluntary dismissed before trial, and the breach of contract claims were the subject of a three-day bench trial.<sup>116</sup> At issue was whether the former franchisee's

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113. 2015 U.S. Dist. LEXIS 174458 (M.D. Fla. Nov. 13, 2015).

114. *Id.* at \*2-3.

115. *Id.* at \*10.

116. *Id.* at \*1.

use of the name “On Time Experts” and “Clock-Themed Logo” violated the prohibition against use of “any name or mark similar to the Licensed Marks” and whether its use of certain performance methods (including use of an “on time” guaranty; advertising that its technicians are background-checked, drug-tested, trained, and EPA certified; and that its technicians wear protective covers on their shoes and use drop cloths to protect the floors) violated the prohibition against use of “other identifying characteristics or indicia of the system.”<sup>117</sup>

After a bench trial, the court concluded that One Hour failed to establish that the “On Time Experts” name and “Clock-Themed Logo” were “similar” to the Licensed Marks (within the meaning of Section 16.E of the Franchise Agreement). Although the court agreed with One Hour that customer confusion was not an element of a breach of contract claim, it reasoned that Section 16.E. was a restraint on trade and, therefore, should be construed narrowly in accordance with trademark law principles:

Florida makes clear that any agreement in “restraint of trade” is “in derogation of common law and must be strictly construed against the alleged restraint.” *See Weintraub v. Roth*, 617 So. 2d 1158, 1159 (Fla. 4th DCA 1993); *see also* Fla. Stat. Sec. 542.335. [The post term franchise agreement provision] is clearly an attempt to operate as a restraint on trade because it controls the terms under which Dallas Unique can operate a competing business. Thus, under a strict construction of the franchise agreement, the word “similar” must be construed narrowly. That is, Dallas Unique’s competing operation cannot be “similar” to the extent that it is confusingly similar or harmfully similar.<sup>118</sup>

With respect to the other alleged breaches—specifically, the former franchisee’s use of “on time” guaranties and other performance methods, the court held that:

the evidence did not establish that any of these best practices are unique to One Hour, in other words, they are not “identifying characteristics” or “indicia of operation of the system” because they are standard best practices as taught by [the franchisor’s affiliated cooperative] and others. Simply put, they are all characteristics of a professional HVAC operation. They may be part of a “sauce,” but that sauce is certainly not “secret” as One Hour contends.<sup>119</sup>

In conclusion, the district court stated that “any construction of Section 16.6(E) that permits a finding of a breach in the absence of some customer confusion risks turning this clause into a generalized form of a noncompetition clause.”<sup>120</sup> Accordingly, the court ruled that there had been no breach of contract.

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117. *Id.* at \*17–20.

118. *Id.* at \*18.

119. *Id.* at \*19.

120. *Id.* at \*20–21.

### III. Best Practices and Conclusion

Protecting a franchise system requires a careful analysis of the elements of a system and a deliberate and intelligent effort to protect those elements (as opposed to the broad-sweep approach often found in “form” franchise agreements). The following are some points to consider.

1. Protect the franchisor’s principal trademark in standard characters (obviously) and protect design marks and slogans.
2. Analyze trade dress elements that may deserve protection. Registering a trademark (particularly, items of trade dress) can take some time. But if ever necessary to pursue a claim for trade dress infringement, the chances of success are far greater with a Principal Register trademark registration. Examples of registered trade dress include the following:
  - a. Registered to Chipotle Mexican Grill, Inc. in connection with restaurant services; take-out restaurant services. The mark is described as follows:

Color is not claimed as a feature of the mark. The mark consists of the three dimensional configuration or “trade dress” of the appearance and design of the interior of a restaurant, specifically including lighting mounted on a gooseneck-shaped arm affixed to the side of the table, relief images on stone or concrete or stone-look-a-like, wall panels drilled with variable-sized perforated holes, and marshmallow-style seating. The matter shown in broken or dotted lines is not part of the mark and serves only to show the position or placement of the mark.<sup>121</sup>

- b. Registered to Potbelly Sandwich Works, LLC in connection with restaurant services. The mark is described as follows:

Color is not claimed as a feature of the mark. The mark consists of trade dress for the appearance and design of the interior of a restaurant produced by a combination of a tin ceiling, open duct work, wainscoting and a floor having a wood section and a hard surface section. The solid lines show the positioning of the mark in connection with the restaurant and those features claimed by the applicant as its mark.<sup>122</sup>

- c. Registered to In-N-Out Burgers Corporation in connection with food preparation; restaurant services. The mark is described as follows:

The color(s) red, white and silver is/are claimed as a feature of the mark. The mark consists of a three-dimensional trade dress depicting the interior of a restaurant. The interior includes white sectional dividing walls having horizontal rows of red stripes. The interior also includes clear glass panels positioned above parts of the dividing walls. The interior also includes a customer seating area with booths, barstools and chairs, wherein the chairs are red, the barstools are white, and the booths

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121. Chipotle Mexican Grill Trade Dress, Registration No. 4075479.

122. Potbelly Trade Dress, Registration No. 3494209.

have red upholstery, and white countertops and tabletops. The interior further includes a customer ordering area with sections of red tile walls and white tile walls around the customer ordering area and a silver counter. The matter shown in broken lines is not part of the mark and serves only to show the position of the mark.<sup>123</sup>

3. Develop a list of trade dress items and maintain it as part of a de-identification policy.
4. Define important terms in the franchise agreement and/or use contractual terminology otherwise found in the law. Undefined terms require judicial interpretation. Undesired interpretations can often be avoided through careful drafting. Keep in mind that restrictions that are viewed as anti-competitive will likely be enforced consistent with any other provision that constitutes a restraint on trade so they should be drafted specifically, and limitations on time and geography may be appropriate.
5. Consider strategic use of contractual acknowledgments (e.g., franchisee acknowledges that “consumers associate the franchisor’s marketing theme, consisting of [insert description of marketing theme] to identify, exclusively, services offered by businesses operating under the system and trademarks”). Acknowledgments in a formal contract have been characterized as the “best kind of evidence” and may constitute an estoppel by contract.<sup>124</sup>
6. Require franchisees and their employees to sign confidentiality agreements.
7. Restrict disclosure of confidential information to individuals on a need-to-know basis.
8. Keep the operations manual password-protected.
9. Change passwords when the franchise relationship ends or when key persons leave.
10. Have proprietary ingredients, mixes, sauces, marinades, spices, etc. manufactured under a confidential manufacturing or licensing agreement rather than sharing recipes with franchisees.

Intellectual and competition laws serve to promote competition. From these laws’ perspective, wheels on the bus “go round and round,” regardless of how pretty or expensive the wheels may be and regardless of whether they

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123. In-N-Out Burgers Corp. Trade Dress, Registration No. 4839216.

124. *Estate of Schofield v. Schofield*, 73 P.2d 1381 (Colo. 1937).

are attached to the first bus or the last bus in line. Therefore, it is impractical to rely on these laws, alone or in connection with the most perfectly written contract, to protect elements of a franchise system that are not secret, that are not distinctive, or that are functional. The best way to protect these elements of a franchise system is through control of information and access to the system's benefits.