15

Trademark and Franchise Licensing

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In this chapter we will discuss some of the unique legal features and commercial practices associated with licensing agreements, including franchise agreements, that cover trademarks and associated rights such as trade dress, character copyrights and design patents.

15.1 BRAND AND CHARACTER LICENSING

According to Licensing International's 6th Annual Global Licensing Survey, sales of licensed merchandise and services reached nearly $300 billion in 2019. This impressive figure relates primarily to the licensing of trademarks and brands, though other rights such as trade dress, copyrights and design patents are also implicated in such licenses. Brands and characters are licensed for use in connection with a vast array of products and services from toys and school supplies to apparel and sports gear to restaurants, theme parks and museums. As impressive as they are, figures like this likely understate the total amount of trademark and brand licensing that occurs in the market, as they do not include the huge volume of business associated with franchise agreements in the restaurant, fast-food, hotel, retail and other industries.

Below, we discuss some of the rights that are licensed in this area beyond trademarks.

15.1.1 *Trade Dress*

In addition to registered and unregistered trademarks, brand licensing includes *trade dress*, which can also be registered or unregistered. Trade dress protection has become particularly important in the area of franchising, as it can protect the interior and exterior design of restaurants and other retail outlets.[1] In fact, one of the most important cases involving trade dress

[1] See Christopher P. Bussert, *Trademark Law and Franchising: Five of the Most Significant Developments*, 40 Franchise L.J. 127, 132 (2020) ("For those franchisors who seek to create an indelible overall image of their franchised businesses in the minds of the consuming public, adopting protectable trade dress consisting of unique, yet memorable interior and exterior design elements including color schemes has gone a long way to reaching that goal").

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FIGURE 15.1 In *Two Pesos v. Taco Cabana*, the Supreme Court recognized the protectable elements of Taco Cabana's interior and exterior store design – features that are regularly licensed as part of fast-food franchises.

protection centered on the décor scheme of a Tex-Mex fast-food chain in Texas, which the Supreme Court found to be distinctive and protectible:

> A festive eating atmosphere having interior dining and patio areas decorated with artifacts, bright colors, paintings and murals. The patio includes interior and exterior areas with the interior patio capable of being sealed off from the outside patio by overhead garage doors. The stepped exterior of the building is a festive and vivid color scheme using top border paint and neon stripes. Bright awnings and umbrellas continue the theme.[2]

Trade dress is not protected via a unique statute, but instead is included under the Lanham Act as a "device" used "to identify and distinguish … goods or services … from those manufactured or sold by others" (15 U.S.C. § 1127). As such, trade dress registrations are identical to registrations for word or symbol marks and are subject to the same limitations, duration, renewal and other requirements of registered marks. In addition, like trademarks, trade dress enjoys protection at common law.

In addition to being distinctive, in order to be entitled to protection, trade dress must not be functional. That is, a protectable feature of trade dress cannot be "essential to the use or purpose of the article or [that] affects the cost or quality of the article."[3] Thus, in the context of the Taco Cabana store design discussed above, a bright ribbon painted just below the roofline serves no functional purpose and is protectable as trade dress, while the presence of a functioning door and windows would not be protectable.

Trade dress is often difficult to define in a licensing agreement, especially if it is not registered. Even registrations for trade dress are sometimes less than illuminating. Thus, a licensing agreement (or a franchise operating manual) will often include an appendix including photographs and drawings of the licensed design/layout.

15.1.2 *Character Copyrights and Trademarks*

Fictional characters are among the most important assets for product licensing. Memorable characters from popular films, television shows, comic books, novels and children's books adorn apparel, school supplies, Happy Meals, Halloween costumes and countless other products,

[2] *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 765 (1992). Prior to the *Taco Cabana* case, it was generally believed that trade dress protection extended primarily to distinctive product packaging.

[3] *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844 (1982).

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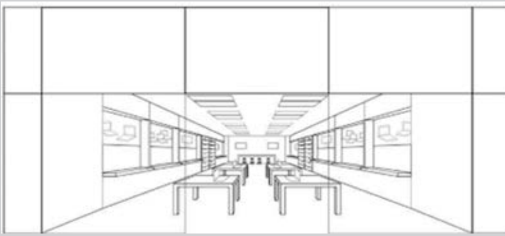

FIGURE 15.2 Apple's 2013 registration for the Apple Store layout (No. 4,277,914).

"The mark consists of the design and layout of a retail store. The store features a clear glass storefront surrounded by a paneled facade consisting of large, rectangular horizontal panels over the top of the glass front, and two narrower panels stacked on either side of the storefront. Within the store, rectangular recessed lighting units traverse the length of the store's ceiling. There are cantilevered shelves below recessed display spaces along the side walls, and rectangular tables arranged in a line in the middle of the store parallel to the walls and extending from the storefront to the back of the store. There is multi-tiered shelving along the side walls, and a [sic] oblong table with stools located at the back of the store, set below video screens flush mounted on the back wall."

form the basis for video games and animated programming and even appear in theme parks and sporting events.

Traditionally, fictional characters have been protected by copyright law, and most character licensing agreements are essentially copyright licenses. Nevertheless, there is an increasing trend to protect characters with trademarks, if they indicate a source of goods or services. The quintessential example is Mickey Mouse, whose status as a trademark has been debated for more than half a century.[4] But whatever the merits of protecting fictional characters with both copyrights and trademarks, the attentive licensing attorney should be aware that these two forms of protection exist and must be addressed in any licensing agreement.

15.1.3 *Design Patents*

Unlike the patents with which most people are familiar (so-called "utility patents," which are discussed extensively in this book), "design patents" do not cover useful inventions or discoveries. As the Patent and Trademark Office (PTO) explains, "a utility patent protects the way an article is used and works (35 U.S.C. § 101), while a design patent protects the way an article looks (35 U.S.C. § 171)."[5] Section 171 of the Patent Act defines "inventions" subject to design patent protection as "any new, original, and ornamental design for an article of manufacture."

Design patents differ from utility patents in a number of important ways. For example, the term of a design patent is fifteen years from the date of issuance, rather than twenty years from the date of filing. Moreover, design patents lack written claims – the entire protection of a design patent lies in its drawings.

Many attorneys who work in the field of character licensing are accustomed to dealing with copyrights (see Section 15.1.2), but have less familiarity with patent issues. Thus, it is important

4 See, e.g., Franklin Waldheim, *Mickey Mouse: Trademark or Copyright?*, 54 Trademark Rep. 865 (1964).
5 Manual of Patent Examining Procedure, § 1502.

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FIGURE 15.3 In addition to the Star Wars® brand, the copyrighted Star Wars characters have been licensed for use in thousands of products from plush toys and action figures to knee socks and table lamps.

FIGURE 15.4 1932 design patent for the "Betty Boop" character.

in character licensing agreements to include both design patents and patent applications within the scope of the licensed rights, and to be aware of patent-specific issues that may not arise under pure copyright licenses (e.g., responsibility for prosecution and maintenance [Section 9.5], no-challenge clauses [Section 22.4] and adjustment of royalty rates when protection lapses [Section 8.2.2.4]).

It is also important to remember that copyrights and, to a lesser degree, trademarks cover a character in various manifestations (e.g., the copyright on Mickey Mouse covers Disney's rodent in films, and on lunchboxes, backpacks and wristwatches). Design patents, however, are

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drawn to the design of a specific *product* – so a design patent covering Mickey as a watch face or a plush toy would not extend to his use as a desk lamp. As a result, crafting fields of use that are of appropriate breadth for the intended business purpose and licensed rights is essential. For example, the licensor of a design patent covering a Mickey Mouse plush toy would be beyond its rights (and possibly committing patent misuse – see Chapter 24) if it sought to charge royalties on a licensee's sales of Mickey Mouse lunchboxes.

Notes and Questions

1. *IP convergence*. Commentators have bemoaned the expansion of intellectual property (IP) rights to such a degree that many simple (and complex) products are now protected under numerous IP regimes. The true extent of this trend became apparent in *Apple v. Samsung*, 137 S. Ct. 429 (2016), in which Apple's iPhone and iPad products were shown to have protection under utility patents, design patents, copyrights, trademarks, trade dress and trade secrets. Is it a problem that fictional characters like Mickey Mouse can be protected by both copyright and trademark rights?[6] What challenges does this double-coverage present for licensees? For nonlicensees? Think about this question as you read the sections in this chapter on trademark licensing.

Problem 15.1

The CEO of SportTrex, an athletic shoe and apparel manufacturer, has decided that the company will introduce a new line of sports shoes for the 8–12-year-old "tween" market. Key to marketing this new line will be the use of a famous cartoon character that will appeal to both boys and girls within the target age range. Market research suggests that the best candidate is Rarebit Rabbit, a zany cartoon character owned by Spiffy Productions. Outline (a) the rights that you would want to license from Spiffy and (b) the scope of the license grant that you would request.

15.2 NAKED TRADEMARK LICENSING AND ABANDONMENT

Until the mid-twentieth century, trademark licensing was not viewed with favor by US courts and was, in fact, treated as a species of trademark abandonment. Abandonment of a mark signifies that the owner no longer wishes to treat the mark as its own and results in a loss of ownership of the mark.

In *MacMahan Pharmacal Co. v. Denver Chemical Mfg. Co.*, 113 F. 468 (8th Cir. 1901), MacMahan, the owner of the trademark "antiphlogistine" (for an early dental anesthetic cream), brought an infringement action against Denver Chemical, the manufacturer of an "antiphlogistine" ointment used as a general topical pain reliever. In rejecting MacMahan's claim, the court held that because MacMahan had previously sold (licensed) the right to use the mark to a third party (a former Denver executive), MacMahan "evinced an intention to abandon its claim to the trade-mark." The court explained that:

[6] For a recent critique, see Irene Calboli, *Overlapping Trademark and Copyright Protection: A Call for Concern and Action*, 2014 U. Ill. L. Rev. Online 25 (2014); and for a more sanguine view, see Jane C. Ginsburg, *Intellectual Property as Seen by Barbie and Mickey: The Reciprocal Relationship of Copyright and Trademark Law*, 65 J. Copyright Soc'y U.S.A. 245 (2018).

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> A trade-mark cannot be assigned, or its use licensed, except as incidental to a transfer of the business or property in connection with which it has been used. An assignment or license without such a transfer is totally inconsistent with the theory upon which the value of a trade-mark depends and its appropriation by an individual is permitted. The essential value of a trade-mark is that it identifies to the trade the merchandise upon which it appears as of a certain origin, or as the property of a certain person … Disassociated from merchandise to which it properly appertains, it lacks the essential characteristics which alone give it value, and becomes a false and deceitful designation. It is not by itself such property as may be transferred.

For the next half-century, *MacMahan* stood for the widely accepted proposition that a "naked" trademark license, without an accompanying transfer of the underlying business, constituted an abandonment of the mark.

When the Lanham Act was enacted in 1946, codifying many years of prior common law precedent, it addressed the issue of trademark abandonment.

LANHAM ACT § 45 (15 U.S.C. § 1127)

A mark shall be deemed to be "abandoned" if either of the following occurs:

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph.

Accordingly, if a mark owner engaged in a "course of conduct" that caused its mark to lose its significance as a mark (i.e., to indicate the origin of goods or services bearing the mark), the mark would be considered abandoned. One such "course of conduct" was naked licensing.

The Lanham Act did, however, permit licensing of trademarks, so long as the licensee was a corporate affiliate of the licensor. Such licenses did not result in abandonment of the mark because the mark's owner, in theory, retained control over the quality of the goods produced by the licensee.

In *Dawn Donut Co. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959), the Second Circuit considered the case of a trademark license in which the mark's owner did *not* own or control its licensees. Since 1922, Dawn Donut Co. used the mark DAWN on 25–100 lb bags of doughnut and cake mix, which it sold to bakeries and retail shops. It also licensed shops to operate under the DAWN name, so long as they exclusively sold Dawn Donut products. The DAWN mark received a federal trademark registration in 1927. In 1929, Hart, the operator of a grocery store chain in western New York, began to sell doughnuts and other baked goods using the slogan "Baked at midnight, delivered at Dawn" and to brand its bakery products with the mark DAWN

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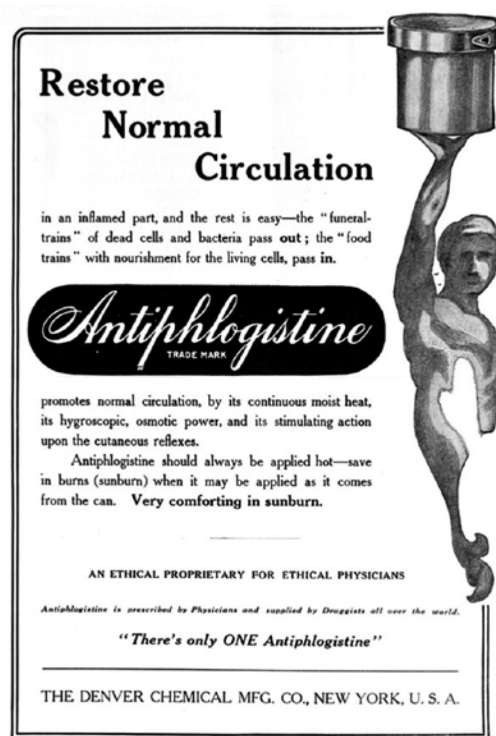

FIGURE 15.5 Denver Chemical sold its popular "Antiphlogistine" compound as a general topical analgesic.

in 1951. Dawn Donut sued Hart for infringement of the DAWN mark, and Hart responded by arguing, among other things, that Dawn Donut abandoned its mark by licensing it to unaffiliated bakeries and retailers.

Considering the case on appeal, Judge Lumbard first acknowledged the general rule that "the Lanham Act places an affirmative duty upon a licensor of a registered trademark to take reasonable measures to detect and prevent misleading uses of his mark by his licensees or suffer cancellation of his federal registration." He further explained that

> Without the requirement of control, the right of a trademark owner to license his mark separately from the business in connection with which it has been used would create the danger that products bearing the same trademark might be of diverse qualities. If the licensor is not compelled to take some reasonable steps to prevent misuses of his trademark in the hands of others the public will be deprived of its most effective protection against misleading uses of a trademark. The public is hardly in a position to uncover deceptive uses of a trademark before they occur and will be at best slow to detect them after they happen. Thus, unless the licensor exercises supervision and control over the operations of its licensees the risk that the public will be unwittingly deceived will be increased and this is precisely what the Act is in part designed to prevent. Clearly the only effective way to protect the public where a trademark is used by licensees is to place on the licensor the affirmative duty of policing in a reasonable manner the activities of his licensees.[7]

[7] 267 F.2d at 367.

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FIGURE 15.6 Dawn Donut Co. licensed its trademark to bakeries and retailers who used its packaged mixes for doughnuts, coffee cakes, cinnamon rolls and oven goods.

The court thus established that a trademark license, even to an unaffiliated third party, might be valid, so long as the mark's owner exercised adequate "supervision and control" over the use of the mark. And determining the adequacy of such measures is a question of fact for the trial court. With this, the court eliminated the requirement that a trademark license must be accompanied by a transfer of the goodwill of the business in order to be valid, and established the "quality control" requirement that is now required of all trademark licenses.[8]

15.3 QUALITY CONTROL

15.3.1 *The Quality Control Requirement*

The "quality control" requirement for trademark licenses has, not surprisingly, generated significant discussion since it was introduced in *Dawn Donut*. The following case helps to establish the minimum threshold for adequate quality control.

Barcamerica International USA Trust v. Tyfield Importers, Inc.

289 F.3d 589 (9th Cir. 2002)

O'SCANNLAIN, CIRCUIT JUDGE

We must decide whether a company engaged in "naked licensing" of its trademark, thus resulting in abandonment of the mark and ultimately its cancellation.

Barcamerica International USA Trust ("Barcamerica") traces its rights in the Leonardo Da Vinci mark to a February 14, 1984 registration granted by the United States Patent and

[8] Note that while the assignment of business goodwill is no longer required for a trademark license to be valid, vestiges of this doctrine remain in the requirement that a trademark cannot be assigned without an assignment of its underlying goodwill. See Section 2.4.

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Trademark Office ("PTO"), on an application filed in 1982. Barcamerica asserts that it has used the mark continuously since the early 1980s. In the district court, it produced invoices evidencing two sales per year for the years 1980 through 1993: one to a former employee and the other to a barter exchange company. Barcamerica further produced invoices evidencing between three and seven sales per year for the years 1994 through 1998. These include sales to the same former employee, two barter exchange companies, and various sales for "cash." The sales volume reflected in the invoices for the years 1980 through 1988 range from 160 to 410 cases of wine per year. Barcamerica also produced sales summaries for the years 1980 through 1996 which reflect significantly higher sales volumes; these summaries do not indicate, however, to whom the wine was sold.

In 1988, Barcamerica entered into a licensing agreement with Renaissance Vineyards ("Renaissance"). Under the agreement, Barcamerica granted Renaissance the nonexclusive right to use the "Da Vinci" mark for five years or 4,000 cases, "whichever comes first," in exchange for $2,500. The agreement contained no quality control provision. In 1989, Barcamerica and Renaissance entered into a second agreement in place of the 1988 agreement. The 1989 agreement granted Renaissance an exclusive license to use the "Da Vinci" mark in the United States for wine products or alcoholic beverages. The 1989 agreement was drafted by Barcamerica's counsel and, like the 1988 agreement, it did not contain a quality control provision. In fact, the only evidence in the record of any efforts by Barcamerica to exercise "quality control" over Renaissance's wines comprised (1) Barcamerica principal George Gino Barca's testimony that he occasionally, informally tasted of the wine, and (2) Barca's testimony that he relied on the reputation of a "world-famous winemaker" employed by Renaissance at the time the agreements were signed. (That winemaker is now deceased, although the record does not indicate when he died.) Nonetheless, Barcamerica contends that Renaissance's use of the mark inures to Barcamerica's benefit.

Cantine Leonardo Da Vinci Soc. Coop. a.r.l. ("Cantine"), an entity of Italy, is a wine producer located in Vinci, Italy. Cantine has sold wine products bearing the "Leonardo Da Vinci" tradename since 1972; it selected this name and mark based on the name of its home city, Vinci. Cantine began selling its "Leonardo Da Vinci" wine to importers in the United States in 1979. Since 1996, however, Tyfield Importers, Inc. ("Tyfield") has been the exclusive United States importer and distributor of Cantine wine products bearing the "Leonardo Da Vinci" mark. During the first eighteen months after Tyfield became Cantine's exclusive importer, Cantine sold approximately 55,000 cases of wine products bearing the "Leonardo Da Vinci" mark to Tyfield. During this same period, Tyfield spent between $250,000 and $300,000 advertising and promoting Cantine's products, advertising in *USA Today*, and such specialty magazines as *The Wine Spectator*, *Wine and Spirits*, and *Southern Beverage Journal*.

Cantine learned of Barcamerica's registration of the "Leonardo Da Vinci" mark in or about 1996, in the course of prosecuting its first trademark application in the United States. Cantine investigated Barcamerica's use of the mark and concluded that Barcamerica was no longer selling any wine products bearing the "Leonardo Da Vinci" mark and had long since abandoned the mark. As a result, in May 1997, Cantine commenced a proceeding in the PTO seeking cancellation of Barcamerica's registration for the mark based on abandonment. Barcamerica responded by filing the instant action on January 30, 1998, and thereafter moved to suspend the proceeding in the PTO. The PTO granted Barcamerica's motion and suspended the cancellation proceeding.

Although Barcamerica has been aware of Cantine's use of the "Leonardo Da Vinci" mark since approximately 1993, Barcamerica initiated the instant action only after Tyfield

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and Cantine commenced the proceeding in the PTO. A month after Barcamerica filed the instant action, it moved for a preliminary injunction enjoining Tyfield and Cantine from any further use of the mark. The district court denied the motion, finding, among other things, that "there is a serious question as to whether [Barcamerica] will be able to demonstrate a bona fide use of the Leonardo Da Vinci mark in the ordinary course of trade and overcome [the] claim of abandonment."

Thereafter, Tyfield and Cantine moved for summary judgment on various grounds. The district court granted the motion, concluding that Barcamerica abandoned the mark through naked licensing. The court further found that, in any event, the suit was barred by laches because Barcamerica knew several years before filing suit that Tyfield and Cantine were using the mark in connection with the sale of wine. This timely appeal followed.

[Barcamerica] first challenges the district court's conclusion that Barcamerica abandoned its trademark by engaging in naked licensing. It is well-established that "[a] trademark owner may grant a license and remain protected provided quality control of the goods and services sold under the trademark by the licensee is maintained." But "[u]ncontrolled or 'naked' licensing may result in the trademark ceasing to function as a symbol of quality and controlled source." McCarthy on Trademarks and Unfair Competition § 18:48, at 18–79 (4th ed., 2001). Consequently, where the licensor fails to exercise adequate quality control over the licensee, "a court may find that the trademark owner has abandoned the trademark, in which case the owner would be estopped from asserting rights to the trademark." Such abandonment "is purely an 'involuntary' forfeiture of trademark rights," for it need not be shown that the trademark owner had any subjective intent to abandon the mark. Accordingly, the proponent of a naked license theory "faces a stringent standard" of proof.

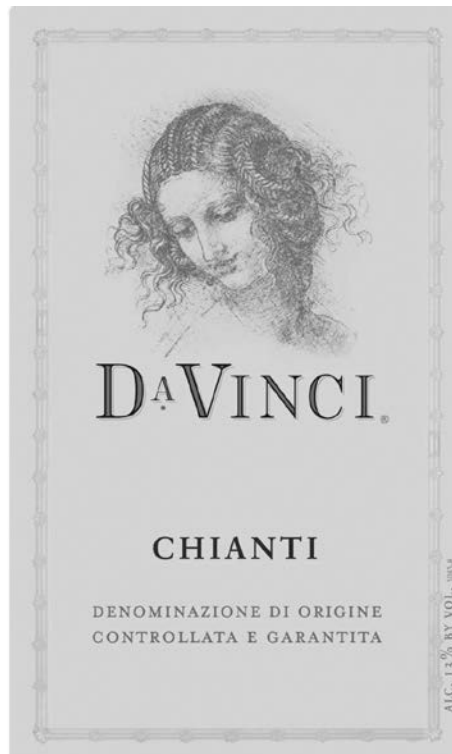

FIGURE 15.7 Label from a bottle of DaVinci Chianti.

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Judge Damrell's analysis of this issue in his memorandum opinion and order is correct and well-stated, and we adopt it as our own. As that court explained,

> In 1988, [Barcamerica] entered into an agreement with Renaissance in which [Barcamerica] granted Renaissance the non-exclusive right to use the "Da Vinci" mark for five years or 4,000 cases, "whichever comes first." There is no quality control provision in that agreement. In 1989, [Barcamerica] and Renaissance entered into a second agreement in place of the 1998 agreement. The 1989 agreement grants Renaissance an exclusive license to use the "Da Vinci" mark in the United States for wine products or alcoholic beverages. The 1989 agreement was to "continue in effect in perpetuity," unless terminated in accordance with the provisions thereof. The 1989 agreement does not contain any controls or restrictions with respect to the quality of goods bearing the "Da Vinci" mark. Rather, the agreement provides that Renaissance is "solely responsible for any and all claims or causes of action for negligence, breach of contract, breach of warranty, or products liability arising from the sale or distribution of Products using the Licensed Mark" and that Renaissance shall defend and indemnify plaintiff against such claims.
>
> The lack of an express contract right to inspect and supervise a licensee's operations is not conclusive evidence of lack of control. "[T]here need not be formal quality control where 'the particular circumstances of the licensing arrangement [indicate] that the public will not be deceived.'" Indeed, "[c]ourts have upheld licensing agreements where the licensor is familiar with and relies upon the licensee's own efforts to control quality."
>
> Here, there is no evidence that [Barcamerica] is familiar with or relied upon Renaissance's efforts to control quality. Mr. Barca represents that Renaissance's use of the mark is "controlled by" plaintiff "with respect to the nature and quality of the wine sold under the license," and that "[t]he nature and quality of Renaissance wine sold under the trademark is good." [Barcamerica]'s sole evidence of any such control is Mr. Barca's own apparently random tastings and his reliance on Renaissance's reputation. According to Mr. Barca, the quality of Renaissance's wine is "good" and at the time plaintiff began licensing the mark to Renaissance, Renaissance's winemaker was Karl Werner, a "world famous" winemaker.
>
> Mr. Barca's conclusory statements as to the existence of quality controls is insufficient to create a triable issue of fact on the issue of naked licensing. While Mr. Barca's tastings perhaps demonstrate a minimal effort to monitor quality, Mr. Barca fails to state when, how often, and under what circumstances he tastes the wine. Mr. Barca's reliance on the reputation of the winemaker is no longer justified as he is deceased. Mr. Barca has not provided any information concerning the successor winemaker(s). While Renaissance's attorney, Mr. Goldman, testified that Renaissance "strive[s] extremely hard to have the highest possible standards," he has no knowledge of the quality control procedures utilized by Renaissance with regard to testing wine. Moreover, according to Renaissance, Mr. Barca never "had any involvement whatsoever regarding the quality of the wine and maintaining it at any level." [Barcamerica] has failed to demonstrate any knowledge of or reliance on the actual quality controls used by Renaissance, nor has it demonstrated any ongoing effort to monitor quality.
>
> [Barcamerica] and Renaissance did not and do not have the type of close working relationship required to establish adequate quality control in the absence of a formal agreement. See, e.g., *Taco Cabana Int'l, Inc.*, 932 F.2d [1113] at 1121 [(5th Cir. 1991)] (licensor and licensee enjoyed close working relationship for eight years); *Transgo, [Inc. v. Ajac Transmission Parts Corp.*,] 768 F.2d [1001] at 1017–18 (9th Cir. 1985) (licensor manufactured 90% of components sold by licensee, licensor informed licensee that if he chose to use his own parts "[licensee] wanted to know about it," licensor had ten year association with licensee and was familiar with his ability and expertise); *Taffy Original Designs,*

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> *Inc. v. Taffy's Inc.*, 161 U.S.P.Q. 707, 713 (N.D.Ill.1966) (licensor and licensee were sisters in business together for seventeen years, licensee's business was a continuation of the licensor's and licensee's prior business, licensor visited licensee's store from time to time and was satisfied with the quality of the merchandise offered); *Arner v. Sharper Image Corp.*, 39 U.S.P.Q.2d 1282 (C.D.Cal.1995) (licensor engaged in a close working relationship with licensee's employees and license agreement provided that license would terminate if certain employees ceased to be affiliated with licensee). No such familiarity or close working relationship ever existed between [Barcamerica] and Renaissance. Both the terms of the licensing agreements and the manner in which they were carried out show that [Barcamerica] engaged in naked licensing of the "Leonardo Da Vinci" mark. Accordingly, [Barcamerica] is estopped from asserting any rights in the mark.

On appeal, Barcamerica does not seriously contest any of the foregoing. Instead, it argues essentially that because Renaissance makes good wine, the public is not deceived by Renaissance's use of the "Da Vinci" mark, and thus, that the license was legally acceptable. This novel rationale, however, is faulty. Whether Renaissance's wine was objectively "good" or "bad" is simply irrelevant. What matters is that Barcamerica played no meaningful role in holding the wine to a standard of quality – good, bad, or otherwise. As McCarthy explains,

> It is important to keep in mind that "quality control" does not necessarily mean that the licensed goods or services must be of "high" quality, but merely of equal quality, whether that quality is high, low or middle. The point is that customers are entitled to assume that the nature and quality of goods and services sold under the mark at all licensed outlets will be consistent and predictable.

McCarthy § 18:55, at 18–94. And "it is well established that where a trademark owner engages in naked licensing, without any control over the quality of goods produced by the licensee, such a practice is inherently deceptive and constitutes abandonment of any rights to the trademark by the licensor."

Certainly, "[I]t is difficult, if not impossible to define in the abstract exactly how much control and inspection is needed to satisfy the requirement of quality control over trademark licensees." And we recognize that "[t]he standard of quality control and the degree of necessary inspection and policing by the licensor will vary with the wide range of licensing situations in use in the modern marketplace." But in this case we deal with a relatively simple product: wine. Wine, of course, is bottled by season. Thus, at the very least, one might have expected Barca to sample (or to have some designated wine connoisseur sample) on an annual basis, in some organized way, some adequate number of bottles of the Renaissance wines which were to bear Barcamerica's mark to ensure that they were of sufficient quality to be called "Da Vinci." But Barca did not make even this minimal effort.

We therefore agree with Judge Damrell, and hold that Barcamerica engaged in naked licensing of its "Leonardo Da Vinci" mark – and that by so doing, Barcamerica forfeited its rights in the mark.

Notes and Questions

1. *Measuring quality*. Once a trademark licensor overcomes the relatively low hurdle established in *Barcamerica* (there must be *some* quality control), is there any standard governing how much quality control it must exercise over its licensees? How should the quality of a product be measured, especially when intangible factors such as the taste, body and color of a wine are relevant to consumer choice?

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2. *Consistency versus quality*. The court in *Barcamerica*, adopting Professor McCarthy's reasoning, observes that "'quality control' does not necessarily mean that the licensed goods or services must be of 'high' quality, but merely of equal quality, whether that quality is high, low or middle. The point is that customers are entitled to assume that the nature and quality of goods and services sold under the mark at all licensed outlets will be consistent and predictable." Do you agree? Is there any implication that a mark like WALMART is less valuable than SAKS FIFTH AVENUE simply because the goods bearing that mark are arguably of lower quality? Is consistency with the mark owner's own product quality more important than the objective quality of the marked goods? Why?
3. *Level of policing*. How stringently must a trademark licensor police its licensees' conduct? The licensor in *Barcamerica* essentially exercised no efforts at all, but is there some marginally higher level of quality control that is required of licensors? What if the licensor itself did not closely monitor the quality of its own products or services?
4. *Process similarities*. Can a licensor rely on the fact that its licensees' quality control procedures are similar to its own? In *Barcamerica*, the court cites a number of cases establishing that a "close working relationship" between the licensor and licensee may suffice as quality control by the licensor. For example, the court cites *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991), *aff'd on other gnds*, 505 U.S. 763 (1992), in which the Fifth Circuit reasons that:

   > Where the license parties have engaged in a close working relationship, and may justifiably rely on each parties' intimacy with standards and procedures to ensure consistent quality, and no actual decline in quality standards is demonstrated, we would depart from the purpose of the law to find an abandonment simply for want of all the inspection and control formalities … The history of the [parties'] relationship warrants this relaxation of formalities. Prior to the licensing agreement at issue, the [parties] operated Taco Cabana together for approximately eight years. Taco Cabana and TaCasita do not use significantly different procedures or products, and the brothers may be expected to draw on their mutual experience to maintain the requisite quality consistency. They cannot protect their trade dress if they operate their separate restaurants in ignorance of each other's operations, but they need not maintain the careful policing appropriate to more formal license arrangements.

   Do you think that this standard of care meets the requirements for quality control established in *Dawn Donuts*?

   Note the importance that the court placed on quality control procedures in *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992) (reproduced in Section 23.6.3) (discussing gray market imports, not naked licensing):

   > Although Nestle and Casa Helvetia each oversees the quality of the product it sells, the record reflects, and Casa Helvetia concedes, that their procedures differ radically. The Italian PERUGINA leaves Italy in refrigerated containers which arrive at Nestle's facility in Puerto Rico. Nestle verifies the temperature of the coolers, opens them, and immediately transports the chocolates to refrigerated rooms. The company records the product's date of manufacture, conducts laboratory tests, and destroys those candies that have expired. It then transports the salable chocolates to retailers in refrigerated trucks. Loading and unloading is performed only in the cool morning hours.
   >
   > On the other hand, the Venezuelan product arrives in Puerto Rico via commercial air freight. During the afternoon hours, airline personnel remove the chocolates from the containers in which they were imported and place them in a central air cargo cooler. The next morning, employees of Casa Helvetia open random boxes at the airport to see if the chocolates

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have melted. The company then transports the candy in a refrigerated van to a warehouse. Casa Helvetia performs periodic inspections before delivering the goods to its customers in a refrigerated van. The record contains no evidence that Casa Helvetia knows or records the date the chocolates were manufactured.

In *Casa Helvetia*, these process differences were among the factors that persuaded the court that chocolates manufactured in Italy and Venezuela were sufficiently dissimilar to warrant a ban on importing the unauthorized versions into the United States. But is this type of analysis also useful to determine whether a licensor and licensee have sufficiently similar quality control procedures to avoid a finding of naked licensing?

5. *Different classes of goods*. Trademark owners need not license their marks for use on the same types of products that they produce themselves. For example, the Walt Disney Company licenses many of its marks for use on school supplies, lunchboxes, video games and other products manufactured by others. How should a trademark owner establish quality standards for products that it does not produce itself?
6. *Higher quality*. What happens if a trademark licensee sells products that are of substantially higher quality than those of its licensor? Must the licensor enforce a uniformly *low* standard of quality among its licensees?
7. *Just say "no."* Does a licensor need to explain why it has rejected a licensee's use of a licensed mark, or tell the licensee what it must do in order to attain an acceptable quality level? In *Authentic Apparel Grp., LLC v. United States*, 989 F.3d 1008 (Fed. Cir. 2021), a trademark licensing agreement required the licensee to obtain the licensor's advance written approval of all "products, packaging, labeling, point of sale materials, trade show displays, sales materials and advertising" bearing the licensor's marks. The agreement gave the licensor "sole and absolute discretion" to approve such uses, and relieved the licensor of any damages or other liability for the "failure or refusal to grant any [such] approval." When, between 2011 and 2014, the licensor refused 41 of more than 500 such requests, the licensee sued, claiming that the licensor breached the licensing agreement and failed to act in good faith. The Federal Circuit held, and the licensee conceded, "that the approval provisions in the license agreement allowed the [licensor] to fulfill its duty to ensure quality control and thus avoid a 'naked license' of the trademarks." Do you agree? Should a trademark licensor be required to explain why it has refused a requested use of its marks? Would it matter if the licensee were obligated to pay minimum annual royalties to the licensor (as it was in *Authentic Apparel*)?

15.3.2 *Contractual Quality Control Requirements*

Must a trademark licensor include specific "quality control" language in its licensing agreement in order to satisfy the quality control requirement? The court in *Dawn Donut* answered this question in the negative, holding instead that a court must assess the mark owner's quality control efforts holistically:

> The absence … of an express contract right to inspect and supervise a licensee's operations does not mean that the plaintiff's method of licensing failed to comply with the requirements of the Lanham Act. Plaintiff may in fact have exercised control in spite of the absence of any express grant by licensees of the right to inspect and supervise. The question, then, with respect to both plaintiff's contract and non-contract licensees, is whether the plaintiff in fact exercised sufficient control.[9]

[9] 267 F.2d at 368.

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This question was again raised in *Exxon Corp. v. Oxxford Clothes Inc.*, 109 F.3d 1070 (5th Cir. 1997), in which oil giant Exxon sued bespoke clothier Oxxford for using the letters "XX" in a manner that allegedly infringed and diluted Exxon's registered interlocking XX trademark.

As noted by the court,

> For more than two decades Exxon has aggressively protected its mark from infringement and/or dilution by seeking out and negotiating with other companies using marks similar to its own.[10] In lieu of conclusive litigation, many of these companies opted to enter "phase out" agreements with Exxon in which the other company agreed that after existing stores of stationary, advertising materials, and products bearing the offending mark were exhausted, use of that mark would be discontinued. These phase out periods afforded the potentially infringing or diluting companies time to develop and implement a new mark. The phase out agreements did not contain any quality control mechanisms ensuring the quality of goods or services offered under the offending mark during the phase out period.

In its defense, Oxxford argued that these phase-out agreements constituted "naked licenses" demonstrating Exxon's abandonment of its XX mark. "The gist of Oxxford's argument was that

FIGURE 15.8 Competing "XX" marks used by Exxon Corp. and Oxxford Clothes.

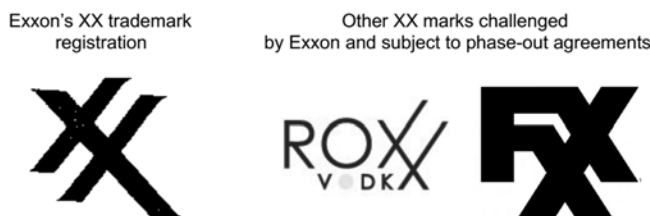

FIGURE 15.9 Exxon's XX trademark registration and other XX marks challenged by Exxon and subject to phrase-out agreements.

[10] For a fascinating discussion of Exxon's trademark enforcement campaigns against other users of the letters XX, see Glynn S. Lunney, Jr., *Two-Tiered Trademarks*, 56 Hous. L. Rev. 295 (2018) – Ed.

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these agreements, insofar as they authorized third parties to continue to use infringing or diluting marks with Exxon's knowledge and approval, were 'licenses'; and, because these 'licenses' contained no quality control provision, they were 'naked licenses' which, under prevailing law, could lead to forfeiture of Exxon's rights in its licensed marks."

In considering Oxxford's defense, the court reasoned as follows:

> A naked license is a trademark licensor's grant of permission to use its mark without attendant provisions to protect the quality of the goods or services provided under the licensed mark. A trademark owner's failure to exercise appropriate control and supervision over its licensees may result in an abandonment of trademark protection for the licensed mark. Because naked licensing is generally ultimately relevant only to establish an unintentional trademark abandonment which results in a loss of trademark rights against the world, the burden of proof faced by third parties attempting to show abandonment through naked licensing is stringent.
>
> The language of [15 U.S.C. § 1127] reflects that to prove "abandonment" the alleged infringer must show that, due to acts or omissions of the trademark owner, the incontestable mark has lost "its significance as a mark." This statutory directive reflects the policy considerations which underlie the naked licensing defense: "[if] a trademark owner allows licensees to depart from his quality standards, the public will be misled, and the trademark will cease to have utility as an informational device … [a] trademark owner who allows this to occur loses his right to use the mark." Conversely, if a trademark has not ceased to function as an indicator of origin there is no reason to believe that the public will be misled; under these circumstances, neither the express declaration of Congress's intent in subsection 1127(2) nor the corollary policy considerations which underlie the doctrine of naked licensing warrant a finding that the trademark owner has forfeited his rights in the mark.
>
> Oxxford, pointing to recent precedent in this Circuit indicating that naked licensing results in an "involuntary trademark abandonment," posits that when a defendant proves that the trademark owner has licensed its mark without any quality control provisions the courts should presume a loss of significance. We disagree. Abandonment due to naked licensing is "involuntary" because, unlike abandonment through non-use, referred to in subsection 1127(1), an intent to abandon the mark is expressly not required to prove abandonment under subsection 1127(2). In addition, a trademark owner's failure to pursue potential infringers does not in and of itself establish that the mark has lost its significance as an indicator of origin. Instead, such a dereliction on the part of the trademark owner is largely relevant only in regard to the "strength" of the mark; absent an ultimate showing of loss of trade significance, subsection 1127(2) (and the incorporated doctrine of naked licensing) is not available as a defense against an infringement suit brought by that trademark owner. We, like the district court, would find it wholly anomalous to presume a loss of trademark significance merely because Exxon, in the course of diligently protecting its mark, entered into agreements designed to preserve the distinctiveness and strength of that mark. We decline Oxxford's invitation to judicially manufacture a presumption of loss of trademark significance under the facts of this case given that had Exxon simply ignored the prior threats to its marks no such presumption would obtain.

Though courts in cases from *Dawn Donuts* to *Exxon* have held that a trademark licensor need not include quality control language in its licensing agreements to avoid a finding of trademark abandonment, most trademark licensing agreements today do include such language.

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EXAMPLE: QUALITY CONTROL

Weak Version

The quality of the Licensed Product sold during the Term of this License Agreement, as well as the manner and style in which the Trademark is used by Licensee, shall be at least as high as the quality standards maintained by Licensor prior to the Effective Date.

Strong Version

Licensee may not use, offer for sale, sell, advertise, ship, or distribute any Licensed Product bearing the Trademark until Licensee has provided Licensor with a sample of the use of the Trademark on Licensed Product and has received written approval from Licensor for such use and sale during the Term. In the event that Licensor determines, following such approval, that Licensed Products do not meet its quality standards, Licensor shall so notify Licensee and [the Parties shall use their best efforts to agree upon a mutually satisfactory solution OR Licensee shall make such reasonable quality improvements to the Licensed Products as requested by Licensor [**1**]].

DRAFTING NOTES

[1] *Remedy* – in the strong version of a quality control clause, one must always ask what action the licensee must take if its products do not live up to the quality requirements of the licensor. Two customary choices are presented here: the parties must agree on a mutually satisfactory resolution, or the licensee must make whatever (reasonable) adjustments the licensor requests.

As shown in the above example, quality control clauses come in two general flavors: weak and strong. The weak version is a straightforward requirement that the licensee maintain quality standards commensurate with those of the licensor. There are no built-in mechanisms to ensure that such quality standards are actually being observed, or even to define what they are. In the strong version, the licensee is required to provide samples to the licensor for approval, and to adjust its products if they do not meet with the licensor's approval. As such, quality control procedures are built into the relationship of the parties.

Notes and Questions

1. *Permitting phase-out*. The court in *Exxon* concludes that "We … would find it wholly anomalous to presume a loss of trademark significance merely because Exxon, in the course of diligently protecting its mark, entered into agreements designed to preserve the distinctiveness and strength of that mark." How did Exxon's phase-out agreements preserve the distinctiveness and strength of its XX mark? Other than expressing an admiration of Exxon's business practices and trademark enforcement diligence, what rationale does the court offer to overcome Oxxford's argument that Exxon's phase-out agreements were, in fact, naked licenses?

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2. *Requiring contractual quality control*. The courts in *Dawn Donut* and *Exxon* establish that a licensor need not include quality control language in its licensing agreement in order to avoid a finding of naked licensing. Why isn't such language required? And if not, why do attorneys today routinely include quality control language in virtually all trademark licensing agreements?
3. *Weak vs. strong clauses*. Some might view the "weak" version of the quality control clause provided in the example as merely paying lip service to the notion of quality control. Yet, in some ways, this clause is *stronger* than the "strong" version of the clause. How? Which clause would you prefer if you were a licensor?
4. *Remedies*. What remedy, if any, does a licensor have against its licensee if the licensee fails to meet the licensor's quality standards but the license agreement lacks a quality control clause?

Problem 15.2

Luke, a popular Topeka DJ, operates under the trademark LUKKEN TUNES. After working local nightclubs and parties for seven years, Luke relocates to New York and licenses the mark to his former assistant, Perry, for use in Topeka. The license gives Luke the right to approve all publicity and uses of the mark by Perry. Luke, however, absorbed by the club scene in New York, fails to contact Perry for five years, and Perry fails to send Luke any promotional materials or proposals for use of the mark. Now, a new DJ has begun to operate in New York under the name LUKE-IN-TOONZ. Luke believes that there is substantial consumer confusion and wishes to bring an action for infringement against the new DJ. Can the infringer challenge Luke's mark as abandoned?

15.4 TRADEMARK USAGE GUIDELINES

TRADEMARKS, CERTIFICATION MARKS AND TECHNICAL STANDARDS

JORGE L. CONTRERAS, *CAMBRIDGE HANDBOOK OF TECHNICAL STANDARDIZATION LAW: FURTHER INTERSECTIONS OF PUBLIC AND PRIVATE LAW* 205, 213–14 (CAMBRIDGE UNIV. PRESS, 2019)

It is important to distinguish between quality control requirements and stylistic guidelines for the use of trademarks. Independently of, and in addition to, quality control requirements, many trademark owners impose restrictions on how their marks are to be presented and used (as opposed to requirements pertaining to the quality of the goods and services to which the marks are applied). While the precise requirements vary, below is a nonexhaustive list of stylistic restrictions imposed by trademark owners … on the use of licensed marks :

- Marks must be reproduced according to specified color, size, font and placement guidelines (often including the mandatory use of a downloadable graphics file to reproduce a logo)
- Prohibition on use of a mark as a verb (e.g., "I am going to Xerox these papers")
- Prohibition on use of a mark as a noun (e.g., "DECT" is necessary in this configuration)
- Prohibition on altering the mark or combining it with other marks

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- Prohibition on using the mark in a demeaning, derogatory or misleading manner
- Prohibition on registering or using the mark as, or as part of, a trade name, domain name, metatag or similar device (e.g., Bluetooth Consultants, Bluetooth-users.org)
- Prohibition on using the mark in, or as, a pun[11]
- The mark must be accompanied by the ® or ™ symbol and acknowledged as the property of the mark owner

Notes and Questions

1. *Usage guidelines*. How do trademark usage guidelines differ from quality requirements? Why are both needed?
2. *Avoiding genericide*. Some trademark owners go to great lengths to restrict how their marks are used. One recurrent concern of mark owners is *genericide* – a trademark that comes to be associated with a generic class of goods or services loses its character as an indication of origin and thus becomes unprotectable. There is a long list of marks that have been canceled over the years because they have become generic: aspirin, brassiere, escalator, linoleum, thermos, trampoline and zipper are just a few. To avoid genericide through the actions of their licensees, mark owners often draft licensing terms that prohibit uses that tend to frame their marks as generic terms (e.g., prohibiting uses of the mark as a noun [please hand me a *Kleenex*] rather than as an adjective [please hand me a *Kleenex* facial tissue]).[12] How effective do you think these measures are? What is a licensor's remedy if its licensee violates such a requirement, contributing to the cancelation of a mark on the basis of genericide?

15.5 FRANCHISING

Some of the best-known trademarks in the world are associated with franchises, which are prevalent in markets from fast-food to car dealerships to motels to tax preparation services. Legally speaking, franchises are little more than souped-up trademark licenses, often with know-how and some copyrighted materials thrown in. As such, many of the license, payment, reporting and other provisions discussed in Part II of this book are also found in franchise agreements. Yet the franchise has evolved over the years into a highly specialized, and extremely popular, form of commercial arrangement. According to the Department of Agriculture, between 2009 and 2014, the United States added nearly 18,000 mostly franchised fast-food restaurants, expanding at more than twice the rate of population growth. In this section we will explore a few of the current controversies and contractual details characterizing these unique business arrangements.

15.5.1 *The Business of Franchising*

The excerpt below discusses some of the commercial issues that face both franchisees and franchisors in today's marketplace.

11 This unusual requirement was adopted by the European Telecommunications Standards Institute (ETSI), perhaps due to the inherently satiric nature of standards engineers and/or the sensitive nature of European managers ("Our trademarks represent our standards, the symbols of ETSI goodwill worldwide. They should be treated with respect as valuable assets. Accordingly, they should not be used as the object of puns").

12 See Jorge L. Contreras, *Sui-Genericide*, 106 Iowa L. Rev. (2020) (discussing these and other genericide "countermeasures").

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DISENFRANCHISED: IN THE TIGHT-FISTED WORLD OF FAST FOOD, IT'S NOT JUST THE WORKERS WHO GET A LOUSY DEAL

TIMOTHY NOAH

PACIFIC STANDARD, MARCH/APRIL 2014

BHUPINDER "BOB" BABER bought two Quiznos franchises in Long Beach, California, in 1998 and 1999. His investment totaled $500,000, and Baber's wife, Ratty, quit her job to work at the restaurants for no pay. The Babers did this because, as Bob would later recall, he "trusted in Quiznos." But, as he soon found out, being a franchisee can be a very swift and painful way to lose a lot of money.

Franchising as we know it is an American invention, and it dates back to the mid-19th century. The McCormick Harvesting Machine Company, which made reapers, and the I.M.Singer Company, which made sewing machines, found that wholesalers didn't want to carry or distribute these expensive and novel machines, nor did they want to offer parts and repair. So McCormick and Singer came up with an innovative solution: They built a network of independent agents. In return for carrying the product, the agents received a sizable cut of revenues from sales and repair, and exclusive rights to sell the machines in a certain area. In a vast country, franchising solved a lot of problems related to distribution, distance, and repairs. In subsequent decades, franchising also became the model for selling automobiles.

In the 20th century, businesses began to see the value of franchising in the service sector. Howard Johnson used franchising in the 1930s, and Ray Kroc built an empire on McDonald's franchises in the 1950s, '60s and '70s. Today, fast food is sold almost entirely through franchises. Worldwide, franchises represent about 80 percent of McDonald's

FIGURE 15.10 Beginning in 1925, Howard Johnson used franchising to expand from a single soda fountain outside of Boston into a nationwide chain of more than 1,000 orange-roofed family restaurants.[13]

[13] For a short history of the HoJo chain, see Adam Chandler, *The Very Last Howard Johnson's*, The Atlantic, September 9, 2016. And for a comprehensive history of America's franchised restaurant industry, see Philip Langdon, Orange Roofs, Golden Arches (Knopf, 1986) – Ed.

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restaurants, 95 percent of Burger King restaurants, and 100 percent of Subway restaurants. (The rest are usually company-owned flagship restaurants in high-profile locations or restaurants relinquished by one franchisee and not yet assigned to another.)

It's not just the workers who get a lousy deal. Over the years, Bob Baber, the Quiznos franchisee, became increasingly frustrated by the terms of his contract. One of the issues that galled him the most was that Quiznos was allowed to (and did) place additional sub shops in his franchise area, creating what he felt was direct competition that cut into his profits. Baber formed the Quiznos Subs Franchise Association, a sort of franchisees' union, through which he hoped to leverage better terms. A month later, the Denver-based company terminated Baber's franchise, claiming his restaurants were not being maintained properly, and other contractual defaults. When a franchise agreement is terminated, all investment by the franchisee – including acquisition cost, equipment, and fees – is effectively flushed away. Baber and Quiznos became enmeshed in a protracted legal struggle, with Baber refinancing his house and spending nearly $100,000.

Despite such stories, people still buy into the franchise dream. For many Americans, owning a franchise seems like a starter kit for being your own boss as a small-business owner. You have the benefit of riding on a well-established national brand, and all you have to do is manage the shop. But a 1997 study by Timothy Bates, an economist at Wayne State University, concluded that "entering self-employment by purchasing an ongoing franchise operation is riskier than alternative routes." If everything goes right for a fast-food franchisee, he might enjoy a profit margin of about 10 to 12 percent, but a profit margin in the single digits is far more common. By contrast, at the corporate level, McDonald's enjoys a profit margin around 20 percent.

Well-known fast-food companies have so much clout that franchisors get to set the terms, and franchisees can take them or leave them. A 2013 McDonald's franchise agreement stipulates not only how the restaurant shall be designed and the food prepared, but also how many days a week it shall be open (seven) and during what hours (7 a.m. to 11 p.m. or "such other hours as may from time to time be prescribed by McDonald's"). In order to ensure clean finances among those with whom it partners, McDonald's requires the franchisee to submit two financial reports monthly, plus a profit and loss statement and balance sheet once a year, and McDonald's is free to examine at any time all franchisee financial records.

The more successful the brand, the tighter the leash. "Thirty years ago," says Rick Swisher, who opened Los Angeles County's first Domino's in 1981, "we ran our own business with guidelines from the franchisors as to how the product was to look." But by the time he closed his 11 Domino's franchises in 2012, he says, franchise reps were so concerned with corporate imaging that they were telling employees, "You're not answering the phone correctly."

Franchise agreements usually require the franchisee to purchase food and other items only from authorized vendors. This helps to maintain consistency in quality. More than one observer has likened contemporary franchising to sharecropping.

If a franchisee folds, moreover, the corporation may not suffer much. So long as willing buyers keep lining up, a restaurant can churn through successive franchisees.

At some point, however, squeezing franchisees becomes bad business. If too many restaurants go belly up, so could the franchisor.

Franchisees enjoy few regulatory protections at the federal level, and even at the state level, statutes intended to prevent exploitative franchising arrangements can be vague.

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New Jersey's Franchise Practices Act, for instance, outlaws the imposition of "unreasonable standards of performance upon a franchisee" but doesn't define what these are.

The approach favored by Purvin, who is chairman of the American Association of Franchisees and Dealers, is to strengthen franchisees' ability to create franchisee associations to engage in something like collective bargaining. (Some franchisors actually require franchisees contractually not to join franchisee groups.) Granted, enshrining such rights of association wouldn't necessarily prevent companies from finding ways to retaliate (just as detailed labor laws don't prevent companies from finding ways to fire union supporters), and enabling franchise owners to earn larger profits wouldn't guarantee that they'd treat workers better (that's why fast food workers must themselves unionize). But it would at least make better treatment more possible.

Notes and Questions

1. *The price of franchising*. As the article by Timothy Noah illustrates, franchise relationships are often stacked in favor of the franchisor. Consider product pricing, which is often controlled by the franchisor. According to one Subway sandwich franchisee, the cost of producing a "footlong" Subway sandwich, including ingredients, labor, rent, utilities, credit card fees and royalties payable to the franchisor, is "well over $4" for a sandwich priced at about $6.[14] So when Subway announced in January 2018 that it was bringing back its "$5 Footlong" promotion, hundreds of Subway's 10,000 US franchisees protested that the promotion would cause them significant financial hardship and force some stores to close. But according to Subway, such promotions result in increased traffic and make up for losses with high profit margins on sides and drinks. How should franchisors and franchisees deal with questions of product pricing?
2. *Franchise disclosures*. In the United States, the Federal Trade Commission (FTC) oversees the promotion and sale of franchises.[15] The FTC's Franchise Rule (16 CFR Parts 436–37),

FIGURE 15.11 Subway's national $4.99 Footlong promotion reportedly hurt franchisees.

[14] Caitlin Dewey, *The Dark Side of Your $5 Footlong: Business Owners Say It Could Bite Them*, Wash. Post, December 28, 2017.

[15] California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, Rhode Island, South Dakota, Washington, Virginia and Wisconsin also have franchise regulations at the state level.

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last updated in 2007, relates primarily to disclosures that franchisors must make when offering franchises to the public. The core of the rule (which itself runs to 133 pages, including commentary) sets out the requirements for a detailed "Franchise Disclosure Document," or FDD, that must be delivered to any prospective franchisee. Every FDD must include twenty-three sections detailing all fees, requirements, restrictions, obligations and risks associated with the franchise. In some cases, these disclosures relate directly to business risks that the franchisee will face from the franchisor itself, such as the warning:

> You will not receive an exclusive territory. You may face competition from other franchisees, from outlets that we own, or from other channels of distribution or competitive brands that we control.

Given the extensive disclosures and warnings required by law, why do so many franchisees continue to experience financial disappointment, if not ruin, in franchised markets? Should the FTC or other regulatory agencies do more to protect franchisees? If so, what should they do?

FRANCHISE DISCLOSURE DOCUMENT
DUNKIN' DONUTS FRANCHISING LLC
a Delaware limited liability company
130 Royall Street
Canton, Massachusetts 02021
(781) 737-3000
www.DunkinFranchising.com

The Franchisor is DUNKIN' DONUTS FRANCHISING LLC ("Dunkin' Donuts" "we" or "DD"). We develop, operate and franchise retail stores utilizing the Dunkin' Donuts system in single-brand stores. Our franchised stores sell Dunkin' Donuts coffee, donuts, bagels, muffins, compatible bakery products, sandwiches, and other beverages.

The total investment necessary to begin operation of a DD franchise ranges from $240,250 to $1,699,850. This includes a range of $55,360 to $97,860 that must be paid to the franchisor or affiliate.This disclosure document summarizes certain provisions of your franchise agreement and other information in plain English. Read this disclosure document and all accompanying agreements carefully. You must receive this disclosure document at least 14 calendar days before you sign a binding agreement with, or make any payment to the franchisor or an affiliate in connection with the proposed franchise sale. **Note, however, that no government agency has verified the information contained in this document.**

You may wish to receive your disclosure document in another format that is more convenient for you. To discuss the availability of disclosures in different formats, contact Dunkin' Donuts Franchise Information, 3 East A, 130 Royall Street, Canton, MA 02021, 1-800-777-9983.

The terms of your contract will govern your franchise relationship. Don't rely on the disclosure document alone to understand your contract. Read all of your contract carefully. Show your contract and this disclosure document to an advisor, like a lawyer or accountant.

Buying a franchise is a complex investment. The information in this disclosure document can help you make up your mind. More information of franchising, such as "A Consumer's Guide to Buying a Franchise," which can help you understand how to use this disclosure document is available from the Federal Trade Commission. You can contact the FTC at 1-877-FTC-HELP or by writing to the FTC at 600 Pennsylvania Avenue, NW, Washington, DC 20580. You can also visit your public library for other sources of information on franchising.

There may also be laws on franchising in your state. Ask you state agencies about them.

Issuance Date: March 28, 2008

RISK FACTORS:

1. THE FRANCHISE AGREEMENT AND SDA PERMIT EITHER YOU OR US TO SUBMIT DISPUTES TO A COURT OR TO ARBITRATION. THE DECISION TO ARBITRATE OR TO SUBMIT THE DISPUTE TO THE COURT SYSTEM IS BINDING, EXCEPT THAT WE HAVE THE OPTION TO SUBMIT ANY OF THE FOLLOWING ACTIONS TO A COURT: COLLECTION OF FEES; INJUNCTIVE RELIEF; PROTECTION OF OUR INTELLECTUAL PROPERTY, INCLUDING PROPRIETARY MARKS; AND TERMINATION OF FRANCHISE AGREEMENT AND SDA FOR DEFAULT. ANY ARBITRATION WILL TAKE PLACE IN THE STATE IN WHICH THE STORE IS LOCATED. SOME STATES MAY HAVE LAWS REGARDING ARBITRATION/LITIGATION. SEE ADDENDA TO CONTRACTS AND/OR FDD REQUIRED BY VARIOUS STATES (APPENDIX II).

2. THE FRANCHISE AGREEMENT STATES THAT MASSACHUSETTS LAW GOVERNS THAT AGREEMENT, AND THE SDA STATES THAT MASSACHUSETTS LAW GOVERNS THAT AGREEMENT.

FIGURE 15.12 The cover of Dunkin' Donuts 2008 Franchise Disclosure Document (508 pages in total), which discloses that a total investment of $240,250–1,699,850 is required to acquire and begin operations of a Dunkin' Donuts franchise

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3. *Franchise advertising*. In addition to federal and state disclosure rules, California, Maryland, Minnesota, New York, North Dakota, Rhode Island and Washington all regulate a franchisor's advertising seeking to attract new franchisees.[16] Many of these regulations require the filing of franchise advertisements with a state agency, and some even require agency approval. Given that franchises represent significant financial investments by (presumably) sophisticated businesspersons, why do states feel that such regulation is necessary?
4. A *café without franchising*? Though most chain restaurants and cafés are franchised, there are some exceptions, most notably Starbucks. In his 1997 book *Pour Your Heart Into It*, Starbucks CEO Howard Schultz wrote:

   > To me, franchisees are middlemen who would stand between us and our customer … If we had franchised [as some executives wanted to in the 1980s], Starbucks would have lost the common culture that made us strong. We teach baristas not only how to handle the coffee properly but also how to impart to customers our passion for our products. They understand the vision and value system of the company, which is seldom the case when someone else's employees are serving Starbucks coffee.

   Do you agree with Schultz's assessment? Are Starbucks employees more dedicated to quality than, say, employees of McDonald's, Subway or Quiznos? Can you think of other reasons that a corporation would choose not to franchise?
5. *Product distribution vs. business format franchises*. Franchises come in two general flavors. *Product distribution* franchises permit the franchisee to sell the franchisor's products – soft drinks, automobiles, gasoline – and to display the franchisor's logos and trademarks in connection with the sale and promotion of those products. These relationships are slightly more detailed and burdensome than ordinary product distribution agreements, but do not seek to control every aspect of the franchisee's business. Automobile dealerships are good examples of product distribution franchises. The physical showroom, layout and amenities vary from one Toyota dealership to another, but share common features such as signage, staff uniforms, promotional literature and exclusivity (i.e., a dealer cannot sell Toyotas and Chevrolets out of the same showroom). *Business format* franchises, on the other hand, exert an entirely different level of control, seeking to specify virtually every aspect of the franchised business. Most restaurant franchises, such as the Quiznos and Subway franchises discussed above, are of the business format variety. Why might a franchisor choose one type of franchise model over the other? What are the relative advantages and disadvantages of product distribution and business format franchises?

15.5.2 *The Franchise Agreement*

Franchise agreements are long and complex and are filled with requirements on the conduct of franchisees' businesses. The following case illustrates what can go wrong when a franchisee fails to live up to the expectations in its franchise agreement.

[16] Mark J. Burzych, *Franchise Advertising in the Digital Age: Regulators Need to Contemporaneously Address Advancing Advertising Technologies or Step Aside*, 40 Franchise L. J. 221 (2020).

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IHOP Restaurants LLC v. Moeini Corp.

2018 U.S. Dist. LEXIS 19707 (S.D. Ala. 2018)

DUBOSE, CHIEF UNITED STATES DISTRICT JUDGE

This action is before the Court on the Complaint, Motion for Preliminary Injunction, and Brief in support filed by Plaintiffs IHOP Restaurants, LLC and IHOP Franchisor, LLC (IHOP), the response filed by Defendant Moeini Corporation, and IHOP's reply. Upon consideration of the motion, response and reply and the evidence presented at the hearing, and for the reasons set forth herein, the Motion for Preliminary Injunction is GRANTED.

I. Factual and Procedural Background

Defendant IHOP Franchisor is a franchisor of nationally and internationally recognized restaurants with a system of approximately 400 franchisees operating over 1,600 restaurants. Defendant IHOP Restaurants has adopted and used in interstate commerce and licensed to IHOP Franchisor and indirectly to authorized franchisees certain trademarks (the Marks), which have been registered with the United States Patent and Trademark Office, in connection with the operation of IHOP restaurants.

Mehdi Moeini began working with IHOP corporation in 1996. After working his way up to a management position, Moeni purchased his first IHOP restaurant franchise in 2004. Moeini Corporation was formed in 2006 and now owns or operates five IHOP restaurants. Two restaurants are located in Florida and three are located in Alabama. [Each Franchise Agreement has a term of 20 years.]

IHOP, through the Franchise Agreements licensed Moeini Corporation to use the IHOP Marks to identify the goods and services in the three franchised IHOP restaurants. The Marks distinguish IHOP and its franchisees from others who are not authorized or licensed to use the Marks. To insure uniformity of operation and protection of the Marks, the Franchise Agreements also require Moeini Corporation to strictly comply with IHOP's standard operating procedures, policies and rules, etc., set forth in the Franchise Agreements or in operations manual or operations bulletins. The operations bulletins are defined to "mean the Franchisor's Operations Manual, and all bulletins, notices, and supplements thereto, and all ancillary manuals, specifications and materials, as the same may be amended and revised from time to time." Franchise Agreements § 1.02. These documents are made available to IHOP franchisees through the IHOP password protected website and apply to all aspects of operating an IHOP restaurant.

Section 10.05 sets forth, in relevant part, as follows:

> Franchisee shall operate the Franchised Restaurant in strict compliance with all Applicable Laws and with the standard procedures, policies, rules and regulations established by Franchisor and incorporated herein, or in Franchisor's Operations Bulletins. Such standard procedures, policies, rules and regulations established by Franchisor may be revised from time to time as circumstances warrant, and Franchisee shall strictly comply with all such procedures as they may exist from time to time as though they were specifically set forth in this Agreement and when incorporated in Franchisor's Operations Bulletins the same shall be deemed incorporated herein by reference. By way of illustration and

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> without limitation, such standard procedures, policies, rules and regulations may or will specify accounting records and information, payment procedures, specifications for required supplies and purchases, including Trademarked Products, hours of operation, advertising and promotion, cooperative programs, specifications regarding required insurance, minimum standards and qualifications for employees, design and color of uniforms, menu items, methods of production and food presentation, including the size and serving thereof, standards of sanitation, maintenance and repair requirements, specifications of furniture, fixtures and equipment, flue cleaning, and fire prevention service, appearance and cleanliness of the premises, accounting and inventory methods and controls, forms and reports, and in general will govern all matters that, in Franchisor's judgment, require standardization and uniformity in all IHOP Restaurants. Franchisor or its Affiliate will furnish Franchisee with Franchisor's current Operations Bulletins upon the execution of this Agreement.

To ascertain whether an IHOP franchised restaurant is in compliance with the standards set out in the operations bulletins or policy manuals, IHOP's franchise business consultants perform periodic unannounced operations evaluation (OEs) (except in certain training and instruction circumstances) whereby its franchise business consultants will evaluate the franchisee's restaurant. The franchise business consultants rate all aspects of restaurant operation and during the relevant time period, 80% compliance on the OE is a passing score. IHOP also retains third party contractors, in this instance Ecosure, that periodically inspect food safety and cleanliness and provide an operations assessment report (OAR). As with the OEs, the inspections are unannounced and 80% compliance would pass the inspection.

At the end of 2016, Moeini Corporation lost 19 employees from the Alabama restaurants. Included were the district manager and two IHOP certified managers who left within a month. The managers then recruited other managers and employees from the restaurants. Moeini Corporation attempted to find new qualified employees to manage and work at the restaurants, but the attempt was not met with great success.

Immediately, the three restaurants began to experience deficiencies in operation. All three restaurants failed the OEs conducted in December 2016. All three restaurants passed the announced OEs for February 2017, but then failed the OEs for June and August 2017.

Additionally, during 2017, IHOP received 305 customer complaints regarding these three restaurants, which greatly exceeded the national norm for IHOP restaurants. The complaints covered many aspects of the restaurants' operations, but of primary concern to IHOP were the complaints related to food preparation, food service, food storage, food safety, cleanliness and sanitation. IHOP's Division Vice President testified that the restaurants licensed to Moeini Corporation had the highest number of complaints in the IHOP system.

If a franchisee commits a material breach of the franchise agreement, IHOP must provide written notice of the default and a period of time to cure the material breach. If the franchisee fails to cure within the time period, then the franchise agreement terminates at IHOP's election without further notice or opportunity to cure. At this point, the franchisee must, pursuant to the franchise agreements, discontinue use of the IHOP Marks and not operate the restaurants in any manner that would give the public the impression that the restaurant was authorized or licensed by IHOP.

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On June 22, 2017, IHOP wrote Moeni Corporation that the three Alabama restaurants were rated as "F" on IHOP's operation rating system. IHOP pointed out two primary factors that contributed to the rating: The failure to obtain Certified General Managers at the Spanish Fort and Mobile restaurants within the time frame provided and failure of the Corporate owner or its District Manager to visit the restaurants. IHOP stated that it would send consultants to work with Moeini Corporation to improve the restaurants.

On August 4, 2017, IHOP wrote Moeini Corporation that the "results of your Operations are alarming and the Guest Complaints are the highest in the IHOP system. Additionally, your OAR results … are below IHOP standards[.]" Again, IHOP offered assistance to improve the three restaurants. The letter also indicated that IHOP understood that Moeini Corporation was pursuing the sale of its IHOP locations, but to date no sale was indicated.

On August 23, 2017, IHOP sent Moeini Corporation a notice of default letter. IHOP notified Moeini Corporation that it had breached its "obligations under Section 10.05 of the respective Franchise Agreements" because it had failed to "operate the Restaurants in compliance with the standard procedures, policies, rules and regulations established by IHOP" as shown by the failing scores.

IHOP stated as follows:

> Pursuant to Section 12.01, you are hereby notified of your default of the Franchise Agreements, and of IHOP's intent to terminate all 3 of your Franchise Agreements if you fail to cure within 30 days of receipt of this Notice. IHOP hereby demands that you fully comply with all terms and conditions of the Franchise Agreements and pass the next OEs for each restaurant to cure.

All three restaurants failed the OEs conducted in September 2017. As of late September 2017, after the expiration of the 30-day period to cure, Moeini Corporation had not presented IHOP with any evidence that it had cured the material breach at any of the restaurants.

On September 27, 2017, IHOP sent Moeini Corporation a written notice of termination of the three Franchise Agreements.

IHOP also demanded that Moeini Corporation "de-brand and de-identify" all three restaurants "within 60 days of receipt of [the] letter, in accordance with your obligations under the Franchise Agreements …"

IHOP continued to inspect the restaurants, for food safety and cleanliness, after the September 27, 2017 notice of termination because the IHOP Marks were still being used at the restaurants. The Mobile IHOP failed the OARS on September 29, 2017. The Spanish Fort IHOP passed the OARs on October 6, 2017. The Foley IHOP passed the OARS assessments on October 18, 2017.

During October 2017, Moeini Corporation presented one potential buyer to IHOP. Upon interview, IHOP determined that the buyer was not qualified. Another potential buyer revoked the letter of intent.

On October 26, 2017, the day before the Franchise Agreements would effectively terminate, Moeini Corporation filed a Chapter 11 bankruptcy action. On December 6, 2017, the Bankruptcy Court granted IHOP's motion for relief from the automatic stay.[17]

[17] For a discussion of the automatic stay in bankruptcy actions, see Section 21.1 – Ed.

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In December 2017, the Division Vice President instructed two franchise business consultants to perform OEs at the three restaurants. However, Moeini Corporation denied access.

IHOP filed this action on December 29, 2017. IHOP alleges breach of the Franchise Agreements because Moeini Corporation failed to comply with IHOP's policies and procedures and operations bulletins and failed to perform contractual obligations after notice of termination of the Franchise Agreements. IHOP alleges trademark infringement pursuant to 15 U.S.C. § 1114 of the Lanham Act for continuing use of IHOP's marks for the three restaurants, without IHOP's permission, after the Franchise Agreements had been terminated. IHOP also filed a motion for preliminary injunction which is now before the Court.

II. Discussion

According to the terms of the Franchise Agreements, when a material breach occurs, IHOP has the right to terminate the Franchise Agreements if, after notice and an opportunity to cure, Moeini Corporation fails to timely cure the material breach. In relevant part, as defined and applied in the Franchise Agreements, "material breach" includes the "failure of Franchisee to comply with any other material obligation of Franchisee under the agreements, including failure to comply with Franchisor's Operations Bulletins as described in paragraph 10.05." Section 10.05 states that the franchisee Moeini Corporation "shall operate the Franchised Restaurants in strict compliance with all Applicable Laws and with the standard procedures, policies, rules and regulations established by Franchisor and incorporated herein, or in Franchisor's Operations Bulletins." The IHOP policy manuals and operations bulletins include the policies and procedures for operating an IHOP restaurant including the policies and procedures for maintaining IHOP's standards of food safety, food preparation, sanitation and cleanliness at the restaurants.

FIGURE 15.13 The (now-closed) IHOP in Spanish Fort, Alabama. Online customer reviews included comments such as "The wait for our food was about an hour, the place was not the cleanest."

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The OEs, OARs, and the customer complaints significantly support IHOP's position that Moeini Corporation failed to strictly comply with IHOP's operations bulletins, as defined in § 1.02, and thus committed a material breach of the Franchise Agreements. Moreover, and importantly, repeated violations of food safety standards constitute a material breach of a restaurant franchise agreement. The corporate representative Mehdi Moeini's testimony that he disagreed with certain findings on the OEs does not change the fact there were many food safety standards that were not strictly observed as required.

The Franchise Agreements set out a seven-day or ten-day period to cure the material breach. However, consistent with the provision that IHOP may allow additional time to cure as it "may specify in the notice of default," IHOP gave Moeini Corporation thirty days to cure after receipt of the August 23, 2017 notice of default letter, or until late September 2017. The only evidence as to the condition of the restaurants during the cure period came from the three failed OEs of September 19 and 20, 2017.

Now, Moeini Corporation argues that the Franchise Agreements were not properly terminated because IHOP's franchise business consultant conducted the OEs before the 30-day period expired, and therefore, Moeini Corporation was not allowed the full 30 days to cure before IHOP declared a material breach. Although Moeini testified at the hearing that the plan was to cure and at the same time, try to sell the restaurants, there was no evidence of cure of the material breach during the 30-day time period or before the October 27, 2017 Franchise Agreement termination date. And, Moeini testified that at the end of October, he requested another 30 days to cure.

Moeini testified at the hearing that many of the low scores were the result of unreasonable inspections or assessments. He stated that during the September 2017 evaluations at the Spanish Fort and Mobile IHOP's, he objected to many of the franchise business consultant's decisions regarding the cleanliness, food safety, and other aspects of the restaurants.

In addition to the OEs and OARs showing underperformance, IHOP presented evidence and testimony regarding significant customer complaints including complaints related to sanitation, food preparation, cleanliness of the restrooms, insects, and food safety, and negative reviews on social media or internet-based restaurant review websites. IHOP's Division Vice President testified that IHOP utilized a normalized guest complaint score which is the number of complaints per 10,000 guest checks without regard to the volume of sales for the restaurants or the length of time necessary for a restaurant to generate 10,000 guest tickets. The average number of complaints was 2.9 normalized guest complaints per restaurant per month. For the year of 2017, the three restaurants at issue received 305 guest complaints and averaged between 30 and 50 normalized guest complaints per 10,000 guest tickets. The Division Vice President testified that this was the highest number of complaints in the IHOP system.

IHOP has expended substantial sums for developing, advertising and promoting its Marks. As a result, IHOP has a valuable reputation and goodwill among the public. The Marks are now associated with IHOP. They are distinctive, recognizable, and engender the goodwill upon which the IHOP franchisees depend. The complaints demonstrate that these three IHOP franchised restaurants are harming the reputation and goodwill that IHOP has developed. Importantly, as the Division Vice President testified at the hearing, the food safety concerns put the IHOP brand at great risk and if there is a food-safety

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related issue and guests are infected, the impact to the IHOP brand could be catastrophic, as well as the possible harm to the public.

Moreover, Moeini Corporation denied access to the restaurants for assessments and evaluations in December 2017. Therefore, IHOP has no method to monitor the restaurants and protect its brand. As stated in *IHOP Restaurants, LLC v. Len-W Foods, Inc.*, "IHOP suffers harm because the consuming public continues to believe that" these three restaurants are "authorized by IHOP. Thus, IHOP loses goodwill in the eyes of the public for each day" these restaurants continue their "poor performance."

IHOP's Motion for Preliminary Injunction is GRANTED. Accordingly, as to the three IHOP restaurants at issue in this action, Defendant Moeini Corporation is enjoined from:

(1) using the IHOP Marks or any trademark, service mark, logo, or trade name that is confusingly similar to the IHOP Marks;
(2) otherwise infringing the IHOP Marks or using any similar designation, alone or in combination with any other component;
(3) passing off any of its goods or services as those of IHOP or IHOP's authorized franchisees;
(4) causing likelihood of confusion or misunderstanding as to the source or sponsorship of its business, goods, or services;
(5) causing likelihood of confusion or misunderstanding as to its affiliation, connection, or association with IHOP and IHOP's franchisees or any of IHOP's goods or services …

Notes and Questions

1. *Franchise termination laws*. Given the extreme disproportionality between the bargaining leverage of most franchisors and franchisees, statutes have been enacted at both the federal and state levels to protect franchisees from unjustified termination. For example, the New Jersey Franchise Practices Act, N.J. Stat. § 56:10-5, provides that a franchise may not be terminated, canceled or non-renewed by the franchisor "without good cause." And the federal Petroleum Marketing Practices Act, 15 U.S.C. § 2801, *et seq.*, prohibits termination or nonrenewal of any gasoline station franchise agreement except on the basis of specifically enumerated grounds and compliance with certain notification requirements. Would such legislation have helped Moeini in the *IHOP* case? Was IHOP justified in terminating his franchises?
2. *Cure of nonperformance*. The judge in IHOP seems quite sympathetic to IHOP. Do you agree that IHOP was the "good guy" in this situation? What were Moeini's actual breaches? What more should Moeni have done to avoid a termination of the franchises?
3. *The operations manual*. In most franchise relationships, the terms of the franchisor's operations manual (which is incorporated by reference into the franchise agreement) are far more important than the terms of the franchise agreement itself. This document, often running to hundreds of pages, describes virtually every aspect of running the franchised business. As the New York Attorney General warns prospective franchisees:

   You will be told exactly how to run your business, right down to how to organize your books or where to keep the napkins. Even if you believe that the franchisor's decision is not the best

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one for your particular store or regional location, you will be required to follow the rules. If you are a natural entrepreneur with a creative mind, who wants to operate your business your own way, franchising is probably not for you.[18]

Why is such a detailed operational guide viewed as necessary by most franchisors?

4. *Unilateral modifications*. Like many consumer software licenses and online terms of use (see Chapter 17), the terms of a franchisor's operations manual may generally be amended by the franchisor unilaterally. But unlike a software app or website, for which the user pays a minimal amount, many franchises cost tens of thousands of dollars. Is it fair to allow the franchisor to amend contractually binding terms without the consent of the franchisee? What practical difficulties might emerge if franchisees were given a greater voice in such decisions?

Problem 15.3

You represent Rachel Ranger, an entrepreneur who has a fabulous idea for a new casual dining experience that she calls RACOON REPAST. The idea is that customers would self-serve their own meals from metal trash cans arranged throughout the dining room while blindfolded. Wait staff dressed like park rangers would help guide customers to relevant "feeding stations" (e.g., salads, meats, canned foods). Rachel wishes to franchise a chain of RACOON REPAST restaurants throughout the United States. You have been engaged to help her draft a suitable franchise agreement. List ten specific requirements that you would impose on franchisees who wished to open RACOON REPAST locations.

[18] N.Y. State Off. Atty. Gen., Investor Protection Bur., What to Consider Before Buying A Franchise 2 (n.d.), https://ag.ny.gov/sites/default/files/franchise_booklet.pdf.

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