

Fox Rothschild Podcast

Featuring Partners John Gotaskie and Brienne Terril

We are talking today on FoxCast with John Gotaskie and Brienne Terril about intellectual property issues in franchising. It's a topic on which they recently presented to the International Franchise Association's Franchise Business Network in Pittsburgh. John and Brienne are partners with the Pittsburgh office of Fox Rothschild. John represents clients in diverse legal matters including franchising issues, and he also edits the firm's [Franchise Law Update](#) blog. Brienne focuses her practice on IP matters such as patent prosecution and transactional matters across a range of technology areas.

John, Brienne, good morning.

John Gotaskie: Thank you.

Brienne Terril: Glad to be here.

***Question:** Your presentation focused on helping franchisors understand the IP issues they may occasionally face in their business, whether it be routine or also complex.*

John Gotaskie: That's right. The basic forms of IP are copyrights, trademarks, patents and trade secrets. Copyright law protects original works of authorship like a book. Franchisors often have IP rights in the areas of brands, copyrights for training and promotional materials and patents for proprietary inventions. Their trademarks should be registered, and franchisors need to know just what their trade secrets are so they may take proper measures to protect confidentiality.

Brienne Terril: So a copyright protects the "expression" of an idea but not the idea itself – and the rights exist from the moment the work is created. The rights are usually owned by the author unless created under a "work for hire" scenario or are otherwise assigned, and needs to be registered to be enforced.

***Question:** What constitutes an infringement to the rights of an IP owner?*

Brienne Terril: The Copyright Act provides a copyright owner with certain exclusive rights including the right to reproduce, prepare derivative works, distribute copies, perform and display the work publicly — a third party cannot exercise these rights without the permission of the copyright owner.

John Gotaskie: However, "fair use" is a defense against a claim of copyright infringement. Fair use is a doctrine that allows for the unlicensed use of a copyrighted work in certain situations. Four factors are considered when analyzing fair use by courts: (1) the purpose and character of

the use, (2) the nature of the work, (3) the amount of the work used and (4) the effect of the use on the potential market or value of the work.

Question: Can you give our listeners a brief overview of patents?

John Gotaskie: A patent is an exclusive right granted to an inventor by the federal government to exclude others from making, selling or using an invention for a limited period of time. A patent can be obtained for articles, processes, machines and compositions of matter.

Brienne Terril: Different types of patents exist. For example, a utility patent covers a new or useful process, machine or article manufacture or composition, and a design patent protects an ornamental design of a functional item. To be patented, an invention must be new and “non-obvious.” However, unlike copyrights, these rights are not granted until the patent issues.

Question: What are the characteristics of a trademark?

John Gotaskie: Trademarks and service marks are really at the heart of the franchisor-franchisee relationship because they identify the source of a good or service, are a signal of quality to consumers and are an important way to protect a franchisor’s brand. Examples can be words, phrases, names, slogans and logos. Think of things like the McDonald’s Golden Arches or the Holiday Inn Holidome.

Brienne Terril: Trade dress is also an important concept for franchisors. This is the characteristic of the visual appearance of a product or packaging that signifies the source of the product to consumers. Examples include the shape of a soft drink bottle or the look and feel of a retail store.

Question: How does trademark law work?

John Gotaskie: Trademark rights accrue from use. Registering a trademark is not required. It is possible to establish rights in a mark based on use in commerce. However, registering a mark does provide several benefits such as a presumption of ownership, the exclusive right to use the mark in connection with the goods and services covered by the registration and provides public notice of the registrant’s claim of ownership. Unlike patents and copyrights, trademarks don’t expire after a certain term, so long as the mark is continually being used to identify the source of goods and services.

Question: How important is quality control for trademark licensors?

Brienne Terril: Quality control is incredibly important. A franchisor must place adequate quality control over a franchisee’s use of a licensed trademark or else risk granting what’s called a “naked license.” When a court finds that a grant of a naked license has occurred, it usually also finds that the trademark has been abandoned.

Question: What are some of the issues you're seeing in infringement of trademarks?

John Gotaskie: We often see logo rip-offs and ever-so-slight name or trademark variations by unauthorized users – such as former franchisees – and they create a likelihood of, if not actual, confusion for consumers.

Question: Tell our listeners about trade secrets.

John Gotaskie: A trade secret is information that is not disclosed outside of an obligation of confidentiality, such as a formula, recipe, manufacturing process or even customer lists. A trade secret has commercial value frankly due to its secret nature. The formula for Coca-Cola is one of the most famous trade secrets in the world.

Brienne Terril: An owner can protect a trade secret through contract, for example, non-disclosure agreements, as well as through physical and other access restrictions. The duration of trade secrets is unlimited so long as the secrets are kept confidential.

Question: What should franchisees know about IP considerations?

John Gotaskie: First and foremost, franchisees need to know that the IP is owned by their franchisor. They also must understand what happens when the relationship ends, such as their need to cease the use of copyrighted materials, marks and inventions and to maintain confidentiality obligations going forward.

Narrator: Well, thank you John and Brienne. Listeners, to confidentially discuss your franchise's intellectual property rights and questions, please contact John Gotaskie in Pittsburgh at 412-394-5528 or at jgotaskie – that's J-G-O-T-A-S-K-I-E – at foxrothschild.com, or Brienne Terril in Pittsburgh at 412-391-2404 or at bterril – that's B-T-E-R-R-I-L – at foxrothschild.com.

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