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TRADEMARK AND INTERNET BRANDING: PROMOTING AND DEFENDING A FRANCHISE REPUTATION ONLINE

Colleen Devanney
Vorys Sater Seymour & Pease
Cincinnati, Ohio

Carolyn Dinberg
IHG (Intercontinental Hotels Group)
Atlanta, GA

Eleanor Vaida Gerhards
Fox Rothschild LLP
Warrington, PA

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I. INTRODUCTION

The trademark. For most franchise systems, the trademark is one of their most valuable assets. It is the universal way by which customers recognize a brand. Franchisees fork over valuable money in the form of upfront initial franchise fees and continuing royalties for the right to operate a business using a franchise system's trademark. Consequently, one of the most frequent issues a franchisor lawyer will face in representing a system is how to defend and protect its franchisor client's trademark and brand. To determine where this issue most frequently arises, we look to the marketing and advertising methods by which franchise systems are most likely to use their marks to reach consumers. Today, it is often not television. According to a recent study, nearly half of millennials and generation xers do not watch **any** traditional television.[1] Further, while print ads are still alive and well, it can be more expensive, slower and less targeted than the Internet. In fact, recent media estimates that digital advertising is projected to overtake print advertising as the top source of consumer magazine advertising revenues by 2020.[2] As such, this paper is focused on trademark and brand protection on the World Wide Web.

This paper is divided into two distinct sections. The first section provides franchisors with a guide to playing defense on the Internet and offers answers to the question "*How does a franchise system defend its trademark, reputation and brand from online attacks?*" The second section provides franchisors with a guide to playing offense on the Internet and offers answers to the question "*How can a franchise system appropriately use online content to promote its trademarks and brand while also maintaining legal compliance*?" This paper summarizes the relevant law and provides practical tips and guidance for both defending and promoting a franchise brand online.

II. PLAYING DEFENSE: DEFENDING THE FRANCHISE BRAND FROM ONLINE ATTACKS

Attacks to a franchise system occur online in a variety of ways. This portion of the paper identifies the various issues that a franchise system faces online, including: (1) harmful content published by third parties (whether it be disgruntled customers or competitors); (2) copyright infringement; (3) trademark infringement, including cybersquatting; and (4) holdover use of trademarks and franchisor intellectual property online by former franchisees. In addition to summarizing each problem, this section will identify potential responses to and strategies for addressing these online issues.

A. The Internet: The New World of Brand Reputation

In today's e-commerce world, franchise systems are, understandably, more aware than ever of their brand image online. As franchisors well know, gone are the

[1] Poggi, Jeanine, *Nearly Half of Millennials and Gen Xers Don't Watch Any Traditional TV: Study*, AdAge, September 22, 2017, available at http://adage.com/article/media/half-young-consumers-watching-content-traditional-tv-study/310564/.

[2] *US Online and Traditional Media Advertising Outlook*, 2017-2021, July 10, 2017, available at https://www.marketingcharts.com/television-79007.

days of asking a neighbor or friend for a landscaper referral or reviewing listings in the Yellow Pages to find a carpet-cleaning service. Rather, any information a potential consumer has about a franchise system will be garnered from the consumer's review of his or her online "search." Indeed, an entire franchise system's brand reputation can be summed up on one page: the Google.com search results for the franchise name.

The content that appears as "results" when one uses an Internet "search engine" (most commonly, Google.com) to search for a franchise name may be versatile. Specifically, the results may include the franchise system's home page (www.franchise.com), or a Google Map listing to the local franchised unit. Results may include ads from the franchise system, or even an ad for a similar, possibly competing, company. It is very likely that the results will include reviews on consumer-review websites such as Yelp, Google Reviews, and Angie's List and Trip Advisor. Consumers also look to advice and recommendations from neighbors using local-focused sites, such as Nextdoor. All of this content is important for the franchise system to review and consider, as, at any time, it shapes the franchise brand's then-current reputation. In addition, some franchisor sites have their own system for reviews which can have reputation implications, good and bad, for other franchisees in the system.

The increasing importance of a brand's online reputation has unique implications for franchise systems. Particularly, given the nature of the Internet, a consumer in one state may read content published (potentially, many months or even years earlier) by a consumer in a different state, and may falsely attribute that information, good or bad, to the franchise system as a whole. Given the rapid rise of the Internet for consumer research, it is more important than ever that every franchise system be, first, cognizant of the content published online that affects the reputation of the entire franchise system, and second, knowledgeable about what, if anything, can be done to remedy harmful content.

Therefore, this first section addresses the most common potential legal claims a franchisor may have against a publisher of harmful content: defamation or false advertising. This section also addresses important considerations to assess in connection with those potential claims.

1. Do I Have a Claim for Defamation?

When one views a statement made about a franchise system online that may be untruthful and disparaging, the first word that often comes to mind is defamation. Defamation law, which is well-entrenched in American jurisprudence, is based on the idea that individuals and businesses should be free to enjoy their reputations and not have them damaged by false statements;[3] thus, plaintiffs are entitled to recover for injuries to their reputations caused by the publication of false statements by others.[4]

If a franchise system wants to establish a defamation claim based on statements published on the Internet, then it must prove the same elements as if the comments were written or spoken offline. Thus, a synopsis of the basis of a defamation claim and basic legal tenets of defamation law follows. The exact elements of a defamation claim vary by state. However, many states generally follow the Restatement Second, Torts requiring the following in order to state a claim for defamation:

(1) a false and defamatory statement concerning another;
(2) an unprivileged publication to a third party;
(3) fault amounting to at least negligence on the part of the publisher; and
(4) actionability of the statement irrespective of special harm or the existence of special harm caused by the publication.[5]

As a specific example, in the State of Ohio, to prove a claim for defamation, a plaintiff must establish: "(1) that a false statement of fact was made, (2) that the statement was defamatory, (3) that the statement was published, (4) that the plaintiff suffered injury as a proximate result of the publication, and (5) that the defendant acted with the requisite degree of fault in publishing the statement."[6] While each state may slightly modify the prongs of a defamation claim, it is universal that a successful defamation claim hinges on the subject speech consisting of a false statement of fact – distinguishable from a statement of opinion. It has long been held that statements of opinion are constitutionally protected.[7] In fact, the Supreme Court of the United States, in 1992, held that "a statement of opinion relating to matters of public concern which does not contain a provably false factual connotation will receive full constitutional protection."[8] To determine if an allegedly defamatory statement constitutes a protected opinion or an actionable fact, some states consider the totality of the circumstances. For example, Ohio courts consider the following factors:

(1) the specific language used;
(2) whether the statement is verifiable;
(3) the general context of the statement; and
(4) the broader context in which the statement appeared."[9]

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[3] *See, e.g., Fairbanks Pub. Co. v. Francisco*, 390 P.2d 784 (Alaska 1964); *Short v. News-Journal Co*., 58 Del. 592, 212 A.2d 718 (1965); *Campos v. Oldsmobile Division, General Motors Corp.*, 71 Mich. App. 23, 246 N.W.2d 352 (1976) (slander); *Maressa v. New Jersey Monthly*, 89 N.J. 176, 445 A.2d 376 (1982).
[4] *Banks v. St. Matthew Baptist Church*, 406 S.C. 156, 750 S.E.2d 605 (2013), cert. denied, 135 S. Ct. 48, 190 L. Ed. 2d 28 (2014).
[5] Restatement Second, Torts § 558.
[6] *Am. Chem. Soc'y v. Leadscope, Inc.*, 2012-Ohio-4193, ¶ 77, 133 Ohio St. 3d 366, 389, 978 N.E.2d 832, 852.
[7] *Gertz v. Robert* Welch*, Inc*., 418 U.S. 323, 339-340, 41 L. Ed. 2d 789, 94 S. Ct. 2997 (1974) ("there is no such thing as a false idea.").
[8] *Milkovich v. Lorain Journal Co.*, 497 U.S. 1, 20, 110 S. Ct. 2695, 2706 (1990).
[9] *Vail v. Plain Dealer Publ'g Co.*, 1995-Ohio-187, 72 Ohio St. 3d 279, 282, 649 N.E.2d 182, 185.

Ultimately, it is up to the courts to determine whether a statement at issue is capable of having a "defamatory meaning,"[10] that is whether it "tends to expose a person to hatred, contempt or aversion, or to induce an evil or unsavory opinion of him in the minds of a substantial number in the community."[11] However, a statement that does not contain objectively verifiable facts—such as a statement containing rhetorical hyperbole—would not be considered defamatory.[12] Moreover, while courts have long held that truth is an absolute defense to defamation claims, a defendant need only show that an allegedly defamatory statement is "substantially true."[13] In other words, "minor inaccuracies do not amount to falsity so long as the substance, the gist, the sting, of the libelous charge [is] justified."[14]

The legal framework and constitutional protections outlined above apply to statements posted on the Internet, despite the greater risk of irreparable damage that is associated with online statements. Many would agree that a franchise system's exposure to damages resulting from defamatory, libelous and false content published on the Internet is much greater than "traditional" libel or slander. For instance, when an angry customer publishes a defamatory complaint about your franchise brand in a local newspaper, the negative review may reach a fair number of people on the day of publication depending on circulation and could certainly harm the franchise system's brand. But compare that result to the Internet. When an angry customer publishes a defamatory complaint about that same franchise brand on the Internet, if that negative review ranks highly in search results, it can be seen for months or even years and can reach countless numbers of consumers (among other parties) when searching that the name of the franchise online, resulting in serious and potentially irreparable damage to the franchise system. Therefore, despite the many hurdles involved in successfully proving a defamation claim, a franchise system may nevertheless choose to undertake the efforts to do so. The question then becomes, *"how and who does a franchise sue?"*

a. Who is Liable? The Importance of the Federal Communications Decency Act

Determining the appropriate party to file a defamation lawsuit against may first appear to be an easy task. However, one difficult issue arising more often with online speech than "traditional" speech is that many instances of online defamation are published by someone anonymously or pseudonymously (i.e., using a screen name or other alias). Thus, the threshold question is often: *How can a franchise system pursue a remedy against a speaker who is hidden by the very nature of the Internet?* Harmed franchise systems will often want to bring direct claims against the websites or service providers (e.g., suing Yelp for a defamatory Yelp review, Twitter for a defamatory tweet,

[10] *Jewell v. NYP* Holdings*, Inc.*, 23 F. Supp. 2d 348, 360 (S.D.N.Y. 1998).
[11] *Id*.
[12] *Boladian v. UMG* Recordings*, Inc*., 123 F. App'x 165, 170 (6th Cir. 2005) (citing *Milkovich*).
[13] *Brokers' Choice of Am., Inc. v. NBC Universal, Inc*., 861 F.3d 1081, 1110 (10th Cir. 2017) ("Substantial truth, not absolute or literal truth, is the standard for the affirmative defense of truth to a defamation claim").
[14] *Id*. at 1107 (quoting *Schwartz v. Am. Coll. of Emergency Physicians*, 215 F.3d 1140, 1146 (10th Cir. 2000)).

or Facebook for a defamatory Facebook post). This is a reasonable reaction, as this is how liability for speech has traditionally been addressed by United States courts. In traditional defamation cases, for example, a defamatory statement published in a print newspaper is the responsibility of the newspaper publisher. However, federal law treats online speech different than other mediums. How Americans exercise their rights to speak freely has evolved in the more than two and a quarter centuries since the adoption of the Bill of Rights, particularly in the context of online expression. As a result, franchise attorneys must analyze online speech through a different legal lens than traditional speech. One of the most important components to this differing legal lens in analyzing online speech is the application of Section 230 of the Federal Communications Decency Act of 1996 ("CDA")[15].

The CDA generally protects websites, Internet service providers ("ISP(s)") and other online intermediaries from liability arising from content published on their platforms or websites by third parties. The CDA is grounded in the theory that, if websites are subject to liability arising from their users' posted content, then it is likely that they will cease efforts to develop, maintain and provide public access to their platforms; thus resulting in the chilling of free speech. The CDA extends to all forms of "interactive computer services"[16] including social media websites (such as Facebook, Twitter, LinkedIn, YouTube, Pinterest and Instagram), online review sites, blogs, forums and listservs. Therefore, under this federal statute, plaintiffs must almost always bring their claims against the actual *authors* of the online false statements themselves, rather than the website upon which such statements were posted or hosted.

A brief review of the origin and history of the CDA is helpful in understanding its application. In a 1995 case before the Supreme Court of New York, Nassau County, an investment banking firm and its president brought defamation claims against Prodigy Services Company—the owner and operator of a large computer network—for statements that an unknown user posted about the plaintiffs on a Prodigy-hosted financial online message board.[17] Although the statements, alleging that the plaintiffs had engaged in criminal and fraudulent activity, were not authored by Prodigy (again, they were authored by an unknown third party), the court nonetheless held the ISP liable.[18] The court noted that Prodigy's "conscious choice, to gain the benefits of editorial control, ha[d] opened it up to a greater liability" than the computer networks not moderating messages posted on their boards.[19] This holding was ultimately overruled the following year by the enactment of the CDA.

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[15] 47 U.S.C. § 230 (1996).
[16] Under the CDA, an "interactive computer service" means "any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server, including specifically a service or system that provides access to the Internet and such systems operated or services offered by libraries or educational institutions." 47 U.S.C. § 230(f)(2).
[17] *Stratton Oakmont v. Prodigy Servs. Co.*, INDEX No. 31063/94, 1995 N.Y. Misc. LEXIS 229 (Sup. Ct. May 24, 1995).
[18] *Id.*
[19] *Id.*

The CDA, part of the Telecommunications Act of 1996, was originally introduced in 1995 to address obscenity and indecency on the Internet. The initial legislation did not originally include the "Good Samaritan Protection," now known as Section 230. In 1997, the Supreme Court ruled the CDA's anti-indecency provisions were unconstitutional.[20] However, Section 230—which has now become synonymous with the "Communications Decency Act"—was unaffected. It reads, in relevant part:

> No provider or user of an interactive computer service shall be treated as the publisher or speaker of any information provided by another information content provider.[21]

Section 230 of the CDA accomplishes two purposes: 1) promoting free speech,[22] and 2) encouraging ISPs to police their forums for unlawful or offensive material without losing the immunity for liability stemming from the creation of such content by a third party, as shown in the *Prodigy* case.[23]

Pursuant to the CDA, courts will bar a defamation claim brought by a plaintiff if "(1) the defendant asserting immunity is an interactive computer service provider, (2) the particular information at issue was provided by another information content provider, and (3) the claim seeks to treat the defendant as a publisher or speaker of that information."[24] Thus, for example, if a franchisee is upset over an allegedly false review published on Yelp by a third party (e.g., a customer, disgruntled former employee, or competitor), the franchisee does not have a claim against Yelp stemming from the content authored by its user.

Of course, there is a limit to how far the CDA goes to protecting ISPs. Whether an ISP is granted immunity under the CDA often turns on whether the ISP has contributed to the ***development*** of content, thus transforming the ISP into an internet content provider.[25] The CDA defines an information content provider as "any person or entity that is responsible, in whole or in part, for the creation or development of information provided through the Internet or any other interactive computer service."[26] Thus, if a website operator is even partially responsible for the creation or development of content, then it is deemed an "information content provider" as to that content and is

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[20] *Reno v. ACLU*, 521 U.S. 844, 117 S. Ct. 2329 (1997).

[21] 47 U.S.C. § 230(c)(1).

[22] *Zeran v. Am. Online, Inc.*, 129 F.3d 327, 331 (4th Cir. 1997) ("Faced with potential liability for each message republished by their services, interactive computer service providers might choose to severely restrict the number and type of messages posted. Congress considered the weight of the speech interests implicated and chose to immunize service providers to avoid any such restrictive effect.")

[23] *Id.* ("Fearing that the specter of liability would therefore deter service providers from blocking and screening offensive material, Congress enacted § 230's broad immunity 'to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material.' 47 U.S.C. § 230(b)(4). In line with this purpose, § 230 forbids the imposition of publisher liability on a service provider for the exercise of its editorial and self-regulatory functions.")

[24] *Jones v. Dirty World Entm't* Recordings *LLC*, 755 F.3d 398, 409 (6th Cir. 2014).

[25] *Id*. at 408 (6th Cir. 2014) (Section 230 immunity "applies only to the extent that an interactive computer service provider is not also the information content provider of the content at issue.").

[26] 47 U.S.C. §230(f)(3).

not immune under the CDA from claims predicated thereon. However, this is a narrow exception to the standard CDA protection and courts generally interpret this definition in favor of immunity for ISPs. For example, immunity under the CDA remains even if the ISP engages in editorial acts. "Lawsuits seeking to hold a service provider liable for its exercise of a publisher's traditional editorial functions—such as deciding whether to publish, withdraw, postpone or alter content—are barred."[27] In the 2014 case of Jones v. Dirty World Entm't Recordings LLC, the operators of the website www.theDirty.com had selected particular statements for publication on the website, had refused to remove the posts, and had actually added a one sentence "comment" on the post.[28] The Sixth Circuit determined that the defendants did not materially contribute to the allegedly defamatory content at issue. The vast majority of courts interpreting the potential liability for websites or other service providers have followed a similar theme; a website's involvement in the creation of the content must be relatively substantial in order to strip a defendant's immunity under the CDA.[29]

As a result, the CDA's immunity function will almost always be an insurmountable hurdle to a franchise system or its franchisees seeking to sue an ISP or online review site. Therefore, we recommend any franchise system or franchisee interested in pursuing a defamation claim to seek redress against the actual author of the allegedly defamatory statements unless the offending website or ISP directly published, or was materially involved in the publishing of, defamatory content – which is very rare. If the identity of the online publisher is not immediately apparent, the franchise system or franchisee should seek to identify the defendant through discovery.

b. Know Before You Sue: Strategic Lawsuits Against Public Policy

Before proceeding with a lawsuit involving claims arising from speech, a franchise system should consider the applicability of "anti-SLAPP" statutes. Indeed, more than half of U.S. states, plus Washington, D.C., have laws designed to protect free speech from "strategic lawsuits against public participation" (SLAPP). These protective measures, known as "anti-SLAPP laws," are aimed at preventing plaintiffs (usually companies) from chilling their critics' lawful exercise of free speech[30] and/or potentially

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[27] *Schneider v. Amazon*, 31 P.3d 37, 41 (Wash. App. 2001).

[28] *Id*. at 415-16.

[29] A case that found differently however, is the Ninth Circuit's 2009 decision of *Fair Housing Council v. Roommates.com, LLC*, in which the court held that the defendants were not immune from "inducing third parties to express illegal preferences" in a mandatory questionnaire developed by Roommates.com. 521 F.3d 1157, 1165 (9th Cir. 2008). The court in *Roommates* stated: "By requiring subscribers to provide the information as a condition of accessing its service, and by providing a limited set of pre-populated answers, Roommates becomes much more than a passive transmitter of information provided by others; it becomes the developer, at least in part, of that information." *Id.*

[30] *Duracraft Corp. v. Holmes Prods. Corp.*, 427 Mass. 156, 161, 691 N.E.2d 935, 940 (1998) ("The objective of SLAPP suits is not to win them, but to use litigation to intimidate opponents' exercise of rights of petitioning and speech.").

burdening the defendants' with the cost of a legal defense.[31] By way of example, California's anti-SLAPP law states:

> A cause of action against a person arising from any act of that person in furtherance of the person's right of petition or free speech under the United States Constitution or the California Constitution in connection with a public issue shall be subject to a special motion to strike, unless the court determines that the plaintiff has established that there is a probability that the plaintiff will prevail on the claim.[32]

The statute is broad, as it applies to all of the following types of speech:

(1) any written or oral statement or writing made before a legislative, executive, or judicial proceeding, or any other official proceeding authorized by law;
(2) any written or oral statement or writing made in connection with an issue under consideration or review by a legislative, executive, or judicial body, or any other official proceeding authorized by law;
(3) any written or oral statement or writing made in a place open to the public or a public forum in connection with an issue of public interest; or
(4) any other conduct in furtherance of the exercise of the constitutional right of petition or the constitutional right of free speech in connection with a public issue or an issue of public interest.[33]

In order to prevail on an anti-SLAPP motion "the movant must first make 'a threshold showing that the challenged cause of action' arises from an act in furtherance of the right of petition or free speech in connection with a public issue."[34] Courts have consistently interpreted what constitutes a "public issue" under state anti-SLAPP statutes very broadly, affording ample protection to online posters and reviewers.[35] If the movant meets this initial burden, the burden then shifts to the plaintiff to "demonstrate 'a probability of prevailing on the claim.'"[36] The trial court must strike the cause of action if the plaintiff is unable to meet this burden.[37] In order to establish this

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[31] *John v. Douglas Cty. Sch. Dist.*, 125 Nev. 746, 752, 219 P.3d 1276, 1280 (2009) ("The hallmark of a **SLAPP** lawsuit is that it is filed to obtain a financial advantage over one's adversary by increasing litigation costs until the adversary's case is weakened or abandoned").
[32] Cal. Civ. Proc. Code § 425.16(b)(1).
[33] Cal. Civ. Proc. Code § 425.16(e).
[34] *Integrated Healthcare Holdings, Inc. v. Fitzgibbons*, 140 Cal. App. 4th 515, 522, 44 Cal. Rptr. 3d 517, 522 (2006) (quoting *Varian Med. Sys., Inc. v. Delfino*, 35 Cal. 4th 180, 25 Cal. Rptr. 3d 298, 106 P.3d 958 (2005).
[35] See *AR Pillow Inc. v. Maxwell Payton, LLC*, 2012 WL 6024765 at *2. (W.D. Wash. Dec. 4, 2012)(holding that a critical review of an infant product might assist others in addressing infant health problems and that the quality of the product was a matter of public concern); *Chaker v. Mateo*, 209 Cal.App.4th 1138, 147 Cal.Rptr.3d 496 (2012)(holding that derogatory statements against a forensic business met the public concern standard); *Demetriades v. Yelp, Inc*., 228 Cal. App. 4th 294, 310 (2014) (court referring to Yelp as "a public forum [that] contains matters of public concern in its reviews of restaurants and other businesses).
[36] *Id*.
[37] *Id*.

probability, "a plaintiff must demonstrate that the complaint is both legally sufficient and supported by a sufficient prima facie showing of facts to sustain a favorable judgment if the evidence submitted by the plaintiff is credited."[38] In other words, to survive an anti-SLAPP motion, a plaintiff must be able to prove actual damages – a key requirement to be considered prior to bringing any defamation claim.

Importantly, anti-SLAPP statutes do not simply give defendants in speech-related cases a special procedural mechanism to challenge the lawsuit. Perhaps the most notable characteristic of these statutes is the fee-shifting provision. Indeed, California's anti-SLAPP law dictates (similar to those of other states' anti-SLAPP laws) that a defendant who prevails on this special motion to strike "be entitled to recover his or her attorney's fees and costs."[39] Thus, in jurisdictions where an anti-SLAPP statute may apply, franchise counsel must thoroughly research the viability of its speech-based claim before filing suit, with an eye towards being able to survive any such special motion.

2. Do I Have a Claim for False Advertising or Unfair Competition?

While defamation may be the legal claim that first comes to mind when addressing harmful online content, it is not the only potential avenue for a franchise system to protect its brand from negative online content. Depending on the author of such content, franchise systems may have non-defamation based legal claims stemming from harmful online content about their brands. Specifically, when a franchisor finds online content that is arguably false or misleading, the franchisor should examine the potential of additional claims arising under applicable advertising and fair competition statutes. These claims may arise under federal or state statutes.

a. Federal Claims: The Lanham Act

The Lanham Act, also known as the federal trademark statute, includes a section that protects businesses against the unfair competition and/or misleading advertising. Specifically, § 43(a) of the Lanham Act, codified at 15 U.S.C. § 1125(a), grants plaintiffs broad authorization to bring false-advertising claims. There are two important distinctions that make a false advertising claim not only different, but oftentimes more attractive, than a defamation claim for a business interested in pursuing redress from harmful online content.

First, and perhaps the greatest distinction from a defamation claim, the content on which a false advertising claim can be based does not need to be literally false. Indeed, the relevant section of the statute reads as follows:

> Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of

[38] *Matson v. Dvorak*, 40 Cal. App. 4th 539, 548, 46 Cal. Rptr. 2d 880, 886 (1995).
[39] Cal. Civ. Proc. Code § 425.16(c)(1).

> fact, which— A. is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or B. in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.[40]

Thus, a statement that is capable of being construed as misleading to a consumer, even if it is not literally false, may form the basis of a Lanham Act claim. As such, this distinction opens the doors to many more legal claims based upon statements that would be insufficient to support a claim for defamation.

Second, while actual damages incurred in connection with a defamatory statement may be difficult to prove and recover, a claim brought under the Lanham Act may give rise to significant statutory damages. Indeed, the statute provides that a prevailing plaintiff is entitled to the defendant's profits, the plaintiff's actual damages, and costs.[41] Additionally, at the court's discretion, damages can actually be awarded in excess of the actual damages, up to three times the actual amount.[42]

Importantly in the online space, the content does not necessarily need to be posted by a direct competitor in order to give rise to a claim under the Lanham Act. The Supreme Court recently found that two "background principles" frame the standing requirements under § 43(a).[43] First, a plaintiff's claim must fall within the "zone of interests" protected by the Lanham Act, such as the regulation and prevention of deception in commerce and other areas defined in § 45.[44] Second, the plaintiff must have an injury that is "proximately caused by violations of the statute," meaning that an "economic or reputational injury flow[s] directly from the deception wrought by the defendant's advertising; and that . . . [the deception causes] consumers . . . to withhold trade from the plaintiff."[45] Utilizing this framework, a franchisor may have a viable claim against any party that publishes false or misleading content about the franchisor or brand, regardless of the party's relationship (or lack thereof) to the franchisor.

For instance, in Martin v. Wendy's Int'l, Inc., the Plaintiff, Ted Martin, the world record holder for consecutive kicks of a "footbag," also known under the brand name of Hacky Sack, brought a false advertising claim under the Lanham Act against Wendy's, the hamburger chain.[46] The case involved the distribution of footbags with purchase of

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[40] 15 U.S.C. §1125(a)(1).
[41] 17 U.S.C. § 1117(a).
[42] *Id.*
[43] *Lexmark Int'l, Inc. v. Static Control Components, Inc*., 134 S.Ct. 1377, 1388 (2014).
[44] *Id.* at 1388-90.
[45] *Id.* at 1390-91.
[46] 183 F. Supp. 925, 927 (N.D. Ill. 2016).

a Kid's Meal by Wendy's.[47] In association with the footbag, Wendy's included an instruction card, which included reference to Mr. Martin and his record.[48] While the Defendant, an individual, was obviously not in any type of commercial competition with the hamburger chain, the Federal District Court for the Northern District of Illinois found that under the *Lexmark* framework, Mr. Martin had standing to bring a claim for false advertising.[49] The court found that Mr. Martin's allegations "demonstrate[d] that he has a commercial interest in his reputation or identity [as a world-record holder] that is of the sort that the Lanham Act protects."[50] To the extent that Martin lost revenue because of Wendy's use of his identity, the court determined that his injury was "sufficient to provide [him] with Lanham Act standing."[51] When addressing harmful content online, franchisors may use a similar argument to bring a claim against an online speaker who may not be a competitor: as long as the content is harmful to the franchisor's brand and the franchisor suffers damage from it, a viable claim arguably exists.[52]

b. The Federal Trade Commission

In addition to the Lanham Act, Section 5 of the FTC Act[53], more fully described in Section 3(A), applies to online activity and sets forth the general principle of advertising law holding that "unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are unlawful."[54] A franchise system may seek assistance from the FTC for online deceptive practices by third parties that impact the brand and system. For example, in December 2017 the FTC and Reservation Counter, an online hotel room booking site, entered into a stipulation for a permanent injunction following complaints regarding unfair and deceptive practices by the booking site.[55] The Defendants were accused by both consumers and hotel companies of buying and displaying hotel companies' trademarks and logos to divert consumers to their sites and telephone reservation systems and then misleading consumers into believing they were booking directly with the hotel company. The stipulated permanent injunction, among other things, enjoins the defendants from holding themselves out as the hotel companies for which they are booking and further requires them to fully disclose to the consumer that the consumer is booking through a third party agency.[56]

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[47] *Id.*
[48] *Id.* at 928.
[49] *Id*. at 933.
[50] *Id.* at 932.
[51] *Id.* Mr. Martin's claim for false advertising was dismissed on different bases.
[52] The scenario in which this arises most frequently is that of an online blogger. When a blogger, who oftentimes has a financial incentive to increase readership, publishes misleading content about a franchisor, a potential false advertising claim under the Lanham Act exists. Again, this is true even though the blogger would not be a competitor of the franchisor.
[53] Federal Trade Commission Act. 15, U.S.C. § 45.
[54] 15. U.S.C. § 45(a)(1).
[55] *FTC v. Reservation Counter LLC. TravelPass Group LLC and Partner Fusion, Inc.*, U.S.D.C. Utah Case No. 2:17-cv-01304-RJS, December 21, 2017.
[56] *Id.* At 4-6.

c. State Claims: Applicable Statutes

There may also be additional state laws governing online content. These laws may present through various contexts, such as laws prohibiting unfair competition, false advertising, or deceptive trade practices. As an example, Illinois' Uniform Deceptive Trade Practices Act ("UDTPA") prohibits "deceptive trade practices."[57] Among other definitions, a person engages in a deceptive trade practice, as defined by the statute, when he "disparages the goods, services, or business of another by false or misleading representation of fact.[58] Similar to the analysis under the Lanham Act, a party need not be in direct competition with the defendant in order to bring a claim under the UDTPA.[59] Indeed, a claim can be brought by any person "likely to be damaged by a deceptive trade practice of another."[60]

This type of claim may be useful to a franchisor that may be dealing with harmful misleading content posted about it online. For instance, in Hoffman v. Szyszko, a Federal District Court found that false statements regarding a party's business ability, or lack thereof, was sufficient to state a claim under the UDTPA.[61] The invoking of statutes such as the UDTPA by parties damaged by wrongful business activity represents how these types of statutes can be an additional tool through which a franchisor can protect its brand against misleading content online. As such, a franchise system looking for redress would be wise to cast a wider net of research than merely federal law.

B. Copyright Infringement

Equally important to the protection of a franchise brand's online reputation is the protection of a franchisor's intellectual property, including copyright. With the rise of the Internet and the prevalence of its use, copyright infringement is easier to accomplish than ever before. If one wants to use a photo for social, marketing, or promotional purposes, all he or she has to do to find a photo that fits the bill (easily accomplished with the advent of Google Images), right-click on the photo, and "copy." The photo can then be uploaded, posted, or otherwise disseminated by the potentially unknown user. Of course, this action, while incredibly easy and—perhaps more often than not—arguably harmless, can be a prime case of copyright infringement.

Franchisors should be wary of their images being used by others on the Internet, whether for well-intentioned or malicious purposes. This section will address how a franchise system can protect its copyright in the online space, and legal considerations that must be made when potentially pursuing an alleged infringer.

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[57] 815 Ill. Comp. Stat. 510, et seq.
[58] *Id.* at 510/2.
[59] *Id.* 510/2(b).
[60] Id. at 510/3.
[61] 195 U.S. Dist. LEXIS 12680, *14 (N.D. Ill. Aug. 29, 1995). That statements at issue included allegations that the aggrieved party was "going out of business." In finding that the statement was sufficient to state a claim under the Act, the Court noted that this statement "call[ed] into serious doubt [the aggrieved party's] ability to deliver equipment as promised and its ability to service equipment after a sale." *Id.*

1. Protecting Copyright Online: the Digital Millennium Copyright Act

The Digital Millennium Copyright Act, enacted in 1998 ("DMCA")[62], amended various sections of the U.S. Code and created a handful of new sections, specifically addressing the issue of copyright and the advances in technology, particularly the Internet. DMCA seeks both to limit the liability of service providers[63] for "passive" or "automatic" actions and to provide assistance to copyright owners in guarding their copyrights.[64] The DMCA includes a statutory mechanism that copyright holders can use to notify online service providers of alleged copyright infringement.[65] Relevant for franchisors, the DMCA offers certain "safe harbors" that serve to limit service providers' liability arising from third parties' copyright infringement, so long as the subject service provider removes or disables access to infringing material in response to DMCA takedown notices.[66]

The DMCA notification process, governed by §512(c)(3), is a relatively easy procedure for copyright holders to utilize in order to protect their rights in works that may be posted on the Internet without their approval. The copyright holder, or its designated agent (such as his attorney), simply submits a request to the website (or webhost, as appropriate) addressing the requirements of the statute. The requirements for a "DMCA Notice" are as follows:

(1) A physical or electronic signature of a person authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

(2) Identification of the copyrighted work claimed to have been infringed, or, if multiple copyrighted works at a single online site are covered by a single notification, a representative list of such works at that site.

(3) Identification of the material that is claimed to be infringing or to be the subject of infringing activity and that is to be removed or access to which is to be disabled, and information reasonably sufficient to permit the service provider to locate the material.

(4) Information reasonably sufficient to permit the service provider to contact the complaining party, such as an address, telephone number, and, if

[62] 17 U.S.C. § 512.
[63] A "service provider" is defined in the statute (17 U.S.C. §512(k)), but can generally be considered a website or a webhost.
[64] *ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 625 (4th Cir. 2001).
[65] 17 U.S.C §512(c)(3); 17 U.S.C. §512(2)
[66] 17 U.S.C. §512(c)(1). This is where copyright infringement differs from online speech. As discussed in the Sections above, a website or other "interactive computer service provider" cannot be held liable for content created by its user. Contrarily, if a website is hosting a photo that is subject to copyright, it could, theoretically, be sued for infringement. Indeed, the Communications Decency Act specifically excepts claims stemming from infringement of intellectual property from its immunity provided to websites. 47 U.S.C. § 230(e)(2) ("Nothing in this section shall be construed to limit or expand any law pertaining to intellectual property.").

available, an electronic mail address at which the complaining party may be contacted.

(5) A statement that the complaining party has a good faith belief that use of the material in the manner complained of is not authorized by the copyright owner, its agent, or the law.

(6) A statement that the information in the notification is accurate, and under penalty of perjury, that the complaining party is authorized to act on behalf of the owner of an exclusive right that is allegedly infringed.

Many websites publish, either in their Terms and Conditions or "FAQ" section, an email address to which copyright holders may submit DMCA Notices. Oftentimes, a DMCA Notice submitted through this process is sufficient for the website to remove the work; and for many companies, the issue stops there. However, should a franchise system want to explore pursuing additional remedies against an alleged infringer, there is a seldom-used procedural mechanism under the DMCA that permits a copyright holder to apply in federal court, for a subpoena to force the relevant service provider to identify the unknown infringer.[67]

2. Always Consider Fair Use

Before alleging copyright infringement, one should always consider whether the "fair use" doctrine applies. Under U.S. copyright law, a "fair use" of another's copyrighted material – that is, "for purposes such as criticism, comment, news reporting, teaching, scholarship, or research" – does not infringe on the other's copyright. In other words, one is permitted to use another's copyrighted work for certain purposes without needing to obtain the copyright holder's permission. For example, a New York Times article published in April of 2017 addressed a unique McDonald's commercial featuring actress Mindy Kaling.[68] The article, while published both in the print and online editions of the newspaper, included a copy of the commercial itself, in video format, with the online version of the article. Obviously the video is subject to copyright protection, presumably by the production company that created it. However, the article, which addresses the unique marketing tactic used by McDonald's by never mentioning the name of the restaurant chain, instead asking users to search the Internet for "that place where Coke tastes so good," is of course, at its core, news reporting. The use of the video in association with the online version of the article is an example of the doctrine of fair use.

Because fair use is protected by federal copyright law, a copyright holder seeking to obtain the removal of allegedly infringing material from the Internet should consider the applicability of the fair use doctrine before submitting a DMCA takedown notice. According to the Ninth Circuit, absent a "subjective good faith belief the allegedly

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[67] *See* 17 U.S.C. §512(h) (addressing the process of obtaining a federal subpoena to identify an alleged copyright infringer).

[68] Sapna Maheshwari, *A McDonald's Ad That Never Mentions the Name McDonald's*, N.Y. Times (April 17, 2017), https://www.nytimes.com/2017/04/17/business/media/mcdonalds-ads-mindy-kaling.html.

infringing material does not constitute fair use," a copyright holder that ignores this duty to consider fair use would be liable for damages under section (f) of the DMCA.[69]

C. Trademark Infringement

Copyright is not the only intellectual property that a franchisor should be cognizant of protecting online. The goodwill arising from a franchisor's trademark is a significant asset of the franchisor and the franchise system at large. As such, it is imperative that franchisors police their name, logo and other trademarks for the possibility of misuse. This section will address the issues that arise relating to trademark infringement given the breadth of the Internet, as well as important considerations for franchisors regarding protection of this important asset, both on and offline.

1. General Trademark Considerations in the Online Space

General considerations for trademark infringement include online users registering screen names or accounts using a trademarked name or logo. The most common place this is seen is on social media applications, such as Facebook, Twitter, or Instagram. All of these platforms' Terms of Service prohibit use of another's trademark.[70] Thus, if you find your franchise system's trademark used improperly online, an easy first step is to contact the particular website or other online service provider regarding the use. Oftentimes, the website will have a published procedure through which a trademark holder can report alleged infringement. By completing an online form, for instance, a company can report the infringement, which is then reviewed internally by the website or application itself. Oftentimes, this "host" will act on such a report by disabling the unauthorized user's account and/or deleting the infringing content. Of course, while this does not address any potential damage that may have been incurred by the brand during the period of infringement, it is often the most cost and time effective outcome for the franchisor (as opposed to the significant time and expense often involved in filing a lawsuit for trademark infringement or other claim).

2. Cybersquatting

Perhaps the most common issue associated with trademark protection on the Internet is that of "cybersquatting." Cybersquatting refers to registration of a domain name—that is, an Internet website address (for instance, google.com), that includes a trademark-protected name. In the 1990s, as the use of the Internet spread, entrepreneurial individuals and companies saw an opportunity: domain names could be registered easily, cheaply, and on a first-come, first-served basis. Nothing was stopping anyone from registering domain names that would, of course, become very valuable in the coming years. Before a brand may have recognized the importance of its Internet presence, someone else may have actually bought (perhaps for only a few dollars) the

[69] *Lenz v. Universal Music Group*, 801 F.3d 1126, 1134-35 (9th Cir. 2015).
[70] *See* https://www.facebook.com/terms.php (Statement of Rights and Responsibilities), https://twitter.com/en/tos (Twitter Terms of Service), and https://help.instagram.com/478745558852511 (Terms of Use).

most important piece of their Internet reputation: their desired web address (www.companyname.com). The term "cybersquatting" comes from the actions of these individuals after the registration of the various domain names: they sit on the names, waiting until the relevant entity comes looking for the domain name, then (or so the idea goes), they sell the domain names for a hefty profit. Certainly, having ownership and control of www.coca-cola.com (and other associated domains) is worth a great deal to a company with the brand recognition of Coke®.

The reaction of companies to the discovery that they could not register their particular company's name as a domain was mixed. At first, some companies just bought the domains from the owners. Of course, this is exactly what the "squatters" were hoping for: as long as they priced a domain correctly, it was better business-sense for a company to simply purchase the domain, rather than engaging in a court battle with a novel legal theory—that of trademark protection extending to a domain name. Eventually, of course, companies got tired of paying the "ransom," and took the issue to the courts, suing the domain holders for trademark infringement and/or trademark dilution, among other claims.[71] It did not take long for lawmakers to recognize the issue and, in 1999, Congress enacted the Anti-Cybersquatting Piracy Act[72] ("ACPA"), amending the Lanham Act to give a trademark holder a remedy against anyone who, with a bad faith[73] intent to profit from the goodwill of another's trademark, registers, traffics in, or uses a domain name that is identical to, or confusingly similar to a distinctive mark, or dilutive of a famous mark, without regard to the goods or services of the parties.[74] Thus, a trademark holder now has a viable statutory mechanism to

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[71] *See Intermatic, Inc. v. Toeppen*, 947 F. Supp. 1227 ((N.D. Ill.1996); *Panavision Int'l. L.P. v. Toeppen*, 945 F.Supp. 1296 (C.D. Cal.1996).
[72] 15 U.S.C. §1125(d).
[73] Of course the question here is what constitutes "bad faith" under the ACPA. This is specifically addressed in the statute. Courts analyze a variety of factors in determining whether the registration was made in "bad faith" for purposes of the ACPA. The factors include: (I) the trademark or other intellectual property rights of the person, if any, in the domain name; (II) the extent to which the domain name consists of the legal name of the person or a name that is otherwise commonly used to identify that person; (III) the person's prior use, if any, of the domain name in connection with the bona fide offering of any goods or services; (IV) the person's bona fide noncommercial or fair use of the mark in a site accessible under the domain name; (V) the person's intent to divert consumers from the mark owner's online location to a site accessible under the domain name that could harm the goodwill represented by the mark, either for commercial gain or with the intent to tarnish or disparage the mark, by creating a likelihood of confusion as to the source, sponsorship, affiliation, or endorsement of the site; (VI) the person's offer to transfer, sell, or otherwise assign the domain name to the mark owner or any third party for financial gain without having used, or having an intent to use, the domain name in the bona fide offering of any goods or services, or the person's prior conduct indicating a pattern of such conduct; (VII) the person's provision of material and misleading false contact information when applying for the registration of the domain name, the person's intentional failure to maintain accurate contact information, or the person's prior conduct indicating a pattern of such conduct; (VIII) the person's registration or acquisition of multiple domain names which the person knows are identical or confusingly similar to marks of others that are distinctive at the time of registration of such domain names, or dilutive of famous marks of others that are famous at the time of registration of such domain names, without regard to the goods or services of the parties; and (IX) the extent to which the mark incorporated in the person's domain name registration is or is not distinctive and famous within the meaning of subsection (c). 15 U.S.C. § 1125(d)(B).
[74] 15 U.S.C. § 1125(d)(1)(a).

secure ownership of the at-issue domain name and, of course potentially recover damages against the squatter.

A claim under this statute, however, is not the only available remedy for a company who may be dealing with an infringing cybersquatter. A company seeking to obtain control over a domain relating to its trademark may want to explore the option of using the ICANN[75] procedure, the Uniform Domain-Name Dispute-Resolution Policy ("UDRP"). Under the UDRP, when a trademark-based domain-name dispute is resolved (whether via agreement or court order), a registrar will then cancel, suspend, or transfer a domain name. However, also under the Policy, if a trademark holder believes a domain name registrant is cybersquatting, a procedure exists to simply file a complaint with an approved arbitrator.[76] The matter then proceeds to an expedited administrative proceeding, concluding with a decision by the arbitrator regarding whether or not to transfer the domain name. This process can be less time-consuming and costly than filing a law suit. Thus, for a company or brand that does not wish to engage in protracted and expensive litigation, but that may have an issue with a cybersquatter sitting on a trademark-protected domain name, using the UDRP arbitration procedure may be an option worth exploring.

D. Holdover Use by Franchisees After Termination/Expiration of Franchise Agreement

An issue that arises far too frequently in the world of franchising is post-termination and expiration former franchisee "holdover use". "Holdover use" occurs when, following the termination or expiration of a franchisee's franchise agreement it either (i) continues to use the franchisor's marks; or (ii) makes only slight changes to its use of the franchisor's marks, leading consumers to believe that the franchisee is still associated with the franchisor's brand. Holdover use can present through various mediums, but often presents in the form of continued website use and continued on-property use. Best practices to address and overcome any such holdover use include the following:

1. Franchise Agreement Provisions. A franchisor should ensure that its franchise agreement contains appropriate protective language by (in part) confirming that the description of the licensed intellectual property is broad enough to encompass the franchisee's online usage of such intellectual property. In addition to merely trademarks and logos, the description of the licensed intellectual property may also include:

a. domain names;
b. independent websites;
c. apps;

[75] "ICANN" stands for "Internet Corporation for Assigned Names and Numbers." ICANN is a nonprofit organization. In short, ICANN coordinates the unique identifiers associated with the Internet (including names/numbers), so that the Internet is global.
[76] *See* Uniform Domain Name Dispute Resolution Policy, Section 4 (adopted by ICANN on October 24, 1999), available at https://www.icann.org/resources/pages/policy-2012-02-25-en.

d. photographs;
e. ad placements;
f. directory listings;
g. paid keyword search instructions;
h. metatags; and
i. social media pages (e.g., Facebook, Instagram, Twitter and handles, etc.).

2. Update Brand Standards When Appropriate. Where relevant, franchisors should update their brand standards and operating manuals to specify the permitted and unpermitted uses of their intellectual property during the franchise agreement term. For example, if a franchisor's website displays photographs provided by its franchisees that contain images of the franchisor's trademarks or trade dress, then the franchisor should ensure that the franchisee assigns the copyright to those photographs to the franchisor prior to or at the time of posting. This will better position the franchisor to take future DMCA action, in the event it becomes necessary.

3. Trademark Certificates. Update trademark rights with a jurisdiction's trademark office as warranted (for example, trademark legal entity ownership) and keep a library of certificates and actual use. Franchisors should ensure that registrations are current in the jurisdictions in which enforcement may be necessary (including current logos, colors, designs). If a franchisor allows its franchisees to have their own domain names, then the franchisor should keep a record of the host site and domain name owner/registrant and designate a place where all historical records are kept (including use specimens). This will make preparing for litigation, if necessary, easier and more efficient.

4. Reminder Letter. Send reminder letters to the franchisees 30 to 60 days prior to the expiration of the term of the franchise agreement, reminding the franchisee of its obligation to completely de-identify and cease use of all of the franchisor's intellectual property by the agreed upon date. The letter should outline specifically what must be de-identified; what actions must be taken (e.g., removal of all trademarks, logos, photographs, domain names, independent websites, apps, ad placements, directory listings, paid keyword search instructions, metatags, social media pages and handles, etc.); and, what (if any) use will be allowed to be phased out, and by what date.

5. Investigation. Conduct an online/website review as well as a typical on-site property investigation. A good time to conduct this review is within 15 days of the final date in which the franchisee is supposed to discontinue all use of franchisor's marks.

6. Cease & Desist Letter. If any on-site and/or online reviews reveal continued holdover use, the franchisor should send a formal cease and desist letter from its legal department notifying the franchisee of its intent to enforce all of its intellectual property rights (including online indicia of its intellectual property) and giving the franchisee a final date to confirm in writing that all such holdover use shall cease.

7. Takedown Actions. For continued online holdover use, there are a number of different methods that a franchisor can try to utilize in order to remedy same:

a. For copyright violations, a franchisor should consider filing a DMCA takedown notice[77], notifying website hosting providers that the franchisee site contains unauthorized copyrighted materials. See Section II(B) (Copyright) of this paper for more information on DMCA takedown notices.

b. For domain name use containing a franchisor's trademarks, in addition to potential cybersquatting remedies under the Lanham Act[78], the franchisor should consider filing an action under the UDRP[79] or Uniform Rapid Suspension Program (URS). Of course, it is also vital to confirm that none of the franchisor's own website links do not direct or redirect to the former franchisee's website.

c. For other social media outlets, a franchisor should use the e-commerce and social media reporting tools to seek takedown and removal on infringing pages (*e.g.*, Facebook, Instagram, Pinterest, Tumblr, Google, Amazon and eBay) and payment method blocks (*e.g.* though PayPal and Visa).

Generally, franchisees will cease holdover use once the franchisor's legal department gets involved. If, however, a franchisee continues to operate during a holdover period without the agreement and consent of the franchisor, then such use is considered illegal and a violation of trademark and unfair competition laws.[80] Continued holdover use usually requires a franchisor to seek injunctive relief for a court order requiring the franchisee to de-identify. In addition, the franchisor has a right to seek damages. The same remedies for trademark infringement and unfair competition under Section 43(a) of the Lanham Act are available in response to a franchisee holdover use as are available in response to a third party trademark infringer.

Further, if a franchisor successfully proves that its franchisee's infringement is intentional, the court may (but is not required to) award treble damages under the

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[77] *See* the *DMCA Notice-and-Takedown Processes: List of Good, Bad, and Situational Practices* document issued by the U.S. Department of Commerce, available at https://www.uspto.gov/sites/default/files/documents/DMCA_Good_Bad_and_Situational_Practices_Document-FINAL.pdf.

[78] 15 U.S.C. §1125(d).

[79] *ICANN Uniform Domain-Name Dispute-Resolution Policy*, available at https://www.icann.org/resources/pages/help/dndr/udrp-en.

[80] Sometimes, particularly when a franchisee continues to pay its fees post expiration/termination, the business relationship continues during the holdover period. However, it is a best practice to enter into a renewal, contract extension or other short term license even if the franchisee is continuing to pay fees. Failure to correctly document the post expiration arrangement could preclude the franchisor from collecting fees under a breach of contract action if the franchisee decides to stop paying during the holdover period. *Donut Holdings, Inc. v. William Risberg*, — N.W.2d —, 294 Neb. 861 (Neb. Sept. 30, 2016).

Lanham Act, 15 U.S.C. §1117(a). In addition, while the circuits are split on this issue, some have concluded that holdover franchisees are liable for trademark counterfeiting under 15 U.S.C. §1117(b), which mandates treble damages to be awarded.[81]

If a franchisee continues to use the franchisor's trademarks in a way that misleads the consumer into believing that the former franchisee is still a franchisee, in addition to claims available under the Lanham Act, a franchisor may also bring a claim for false and deceptive practices under Section 5 of the FTC Act or under state "Little FTC" Acts. Another potential enforcement opportunity is use of the Trademark Dilution Doctrine. If the franchisor's mark is considered "famous", then the franchisor has a unique remedy under the Trademark Dilution Revision Act of 2006 ("TDRA").[82] Where a franchisor's mark is considered famous, and its franchisee dilutes the mark through blurring or tarnishment (as defined below), the TDRA permits the franchisor to sue for damages and injunctive relief.[83] To establish a claim under the TDRA, a franchisor must establish:

(1) it owns a famous and distinctive mark;
(2) the former franchisee is using a mark in commerce that dilutes the franchisor's famous mark;
(3) a similarity between the franchisee's mark and the franchisor's famous mark gives rise to an association between the marks; and
(4) the association is likely to impair the distinctiveness of the franchisor's famous mark (defined as "blurring") or likely to harm the reputation of the famous mark (defined as "tarnishment").

Dilution is different from infringement in that the trademark owner does not need to prove likelihood of confusion. Because the continued use of a franchisor's mark creates a false impression that the franchisor's trademarked products are available to the public at the former franchisee's location, not only will the former franchisee's use be enjoined, but the use will subject the former franchisee to damages.[84]

III. PLAYING OFFENSE: PROMOTING THE FRANCHISE BRAND ONLINE

The first portion of this paper focused on defending a franchise system's trademark and reputation from attacks by third party bad actors lurking online. The next portion of this paper provides guidance to franchise systems and their franchisees on appropriately using online content to promote a system's brand in a manner that still maintains legal compliance. Like all traditional businesses, franchise systems are continually searching for new and innovative ways to promote their brands and reach

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81 *Century 21 Real Estate, LLC v. Destiny Real Estate Properties,* 2011 WL 6736060 (N.D. Ind., Dec. 19, 2011*)*, *Elder Care Providers of Indiana, Inc. v. Home Instead, Inc.,* 2017 WL 1106093 (S.D. Indiana March 24, 2017); but see *U.S. Structures, Inc. v. J.P. Structures, Inc.*, 130 F.3d 1185 (6th Cir. 1997).

82 15 U.S.C. § 1125(c).

83 McKnew, Natalma and Tillack, Clay, *The Unauthorized Use of Corporate and Individual Identities in Advertising: Publicity and Privacy Rights in a Competitive Marketplace*, 2011 ABA, 34th Annual Forum on Franchising (October 19-21, 2011).

84 e.g., *PC Puerto Rico LLC v. El Smaili*, 925 F.Supp.2d 222 (U.S.D.C. D. Puerto Rico), February 28, 2013.

new customers. In today's market, this means using the web and social media in every way possible to publicize the system's trademarks, products, services, events and locations. At first glance, the Internet may appear to be a no holds barred playground where anything goes. However, the FTC and state regulatory authorities, as well as consumer protection watch groups, keep a watchful eye on the way that businesses market and advertise online. As such, it is important that a franchise system understand the limitations and guidelines imposed by federal and state agencies so that it and its franchisees can promote the system's brand in compliance with all applicable laws.

A. Complying with FTC and State Regulations

1. General Prohibitions on Unfair and Deceptive Advertising

Franchisors need to ensure compliance with Section 5 of the FTC Act, which applies to online activity[85] and sets forth the general principal of advertising law holding that "unfair methods of competition in or affecting commerce, and unfair or deceptive acts or practices in or affecting commerce, are unlawful."[86] In May 2000, the FTC released a staff paper called the "Dot Com Disclosure Guidelines" (the "Dot.Com Guide") that applied Section 5 of the FTC Act to Internet advertising and provided direction and information to businesses marketing on the web.[87] The FTC later released an updated and revised Dot.Com Guide in 2013.[88] While compliance with the Dot.Com Guide is voluntary, practices inconsistent with the information provided therein may form the basis of corrective actions instituted by the FTC. In short, "deception is unlawful no matter what the medium."[89] Compliance with the Dot.Com Guide is one tool a franchise system can use to ensure that it is promoting its brand and marketing its products and services in a manner that will withstand regulatory scrutiny and avoid consumer lawsuits.

No matter what advertising medium is used, the FTC reviews an advertisement from the point of view of the "reasonable consumer" - the typical person looking at the advertisement. Rather than focusing on certain words, the FTC looks at the advertisement in context - words, phrases, and pictures - to determine the message it conveys to consumers. Like advertisements published through traditional mediums, advertisements published on the web must:

(1) be truthful and not misleading;[90]

[85] Supra notes 51, 52.
[86] 15. U.S.C. § 45(a)(1).
[87] *.com Disclosures*, *How to Make Effective Disclosures in Digital Advertising,* Federal Trade Commission (March 2013), pg. 1. "Guides are 'administrative interpretations of laws administered by the Commission. Although guides do not have the force and effect of law, if a person or company fails to comply with a guide, the Commission might bring an enforcement action alleging an unfair or deceptive practice in violation of the FTC Act.'" 16 C.F.R. § 1.5.
[88] 15. U.S.C. § 45.
[89] 15. U.S.C. § 45.
[90] *See* FTC Policy Statement on Deception, appended to Cliffdale Associates, Inc., 103 F.T.C. 110, 174 ("Deception Policy Statement"), also available at www.ftc.gov/bcp/policy/ad-decept.htm.

(2) have evidence to back-up claims (substantiation); and
(3) not be unfair.[91]

In addition, while advertisements must contain clear and conspicuous disclosures, it is important to remember that a disclosure can only qualify or limit a claim to avoid a misleading impression. It cannot, however, cure a false claim.

For purposes of complying with the FTC Act, online activity includes all forms of social media platforms, blogs and mobile platforms. As franchise systems work to foster more intimate and personal connections with customers, communications become more casual, user-centric and one-on-one. Often it becomes too easy for a franchise system or its franchisees to let its or their guard down when it comes to advertising. However, the informal nature of communications should not lure a business into a false sense of security. Section 5 of the FTC Act applies to all Internet advertising, including all types and forms of social media platforms.

In fact, many of the recent issues facing businesses arise from the proliferation of small screens and social media platforms. Due to the limited space often allotted in posts, tweets and Instagram photos, in the early days of social media marketing, many marketers did not bother including disclaimers in advertisements posted on social media networks. However, according to the FTC, the lack of available space is no longer a valid excuse. A business must take into account the various types of devices (including tablets, smartphones or other handheld electronics) a customer may use when designing a clear and conspicuous disclosure, taking into account technological differences and limitations posed by each device that may be used to view an advertisement. The Dot.Com Guide uses the example of a disclosure requiring Adobe Flash Player not being displayed on mobile devices. The general rule is that if the platform cannot make a disclosure clear and conspicuous, then the company should not post the advertisement. When advertising on the Internet, it is important for franchisors and their franchisees, at a minimum, to adhere to the following guidelines:

- Ensure that hyperlinks to pricing is obvious;
- Design advertisements on a webpage so scrolling is not necessary to find a disclosure;
- Display disclosures before the “add to shopping cart option;”
- Do not use blockable pop-ups to provide disclosures about products or services;
- Do not bury disclosures in “terms of use” or other boilerplate contract language; and
- Use plain language and syntax.

The FTC recommends that a business assume a consumer will not read the whole website in the same way that a consumer does not read every word on printed page.[92] While the FTC provides these guidelines, it is careful to emphasize that “the

[91] 15 U.S.C. § 45(n).
[92] Deception Policy Statement, *supra* note 90 at 175-76.

ultimate test is not the size of the font or the location of the disclosure (although they are important considerations); the ultimate test is whether the information intended to be disclosed is actually conveyed to consumers."[93] The FTC places a great deal of responsibility on the advertiser; so it is important that all persons responsible for online marketing understand the Dot.Com Guide. By way of another example, the Dot.Com Guide encourages businesses to keep updated on research showing where consumers do and do not look at a screen. The Dot.Com Guide also states that advertisers should use best practices to make it unlikely that disclosures are deleted from space-constrained advertisements when republished by third parties.

Franchise systems advertising on the Internet should have a clear understanding of how the FTC expects businesses to advertise in compliance with its rules and regulations. Further, those franchise systems that allow their franchisees to advertise via social media or the Internet should take caution to ensure that their franchisees are similarly familiar with the Dot.Com Guide and how it affects marketing on the Internet.

2. FTC General Rules on Brand Endorsement Online

The FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising[94] ("<u>FTC Endorsement Guidelines</u>") provides additional guidance for complying with Section 5 of the FTC Act as it pertains to brand endorsers.[95] The FTC Endorsement Guidelines originally applied to any form of advertising but were specifically updated in 2009 to account for new online marketing techniques such as blogging. The FTC Endorsement Guidelines hold advertisers liable for "failing to disclose material connections between themselves and their endorsers."[96]

The FTC outlines three fundamental points:

(1) Endorsements must be truthful and not misleading;
(2) If there is an connection between an endorser and advertiser that may affect how consumers evaluate the endorsement, then provide a clear and conspicuous endorsement; and
(3) If the business does not have proof that an endorser's experience represents what consumers will achieve using the product, then clearly and conspicuously disclose expected results.[97]

Both the business (marketer) and the endorser must comply with the FTC Endorsement Guidelines. In other words, a franchise system can be liable under the FTC Act for the failure of its endorser to disclose a connection between himself or herself and the franchise system in compliance with applicable law.

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[93] Dot.Com Guide, *supra* note 87.
[94] 16 CFR § 255.
[95] Again, the FTC Endorsement Guidelines are not regulations but if businesses do not follow the recommendations in the guide, then the FTC may investigate the action to determine if it violates Section 5 of the FTC Act.
[96] 16 CFR § 255.1(c).
[97] Dot.Com Guide, *supra* note 87.

The reach of the FTC Endorsement Guidelines extends beyond standard paid spokespersons. The question that often arises is to what degree a freebie requires disclosure? If a blogger or endorser receives a $1.00 off coupon on a product that is only worth a few dollars, then does that subjectively insignificant incentive require disclosure? The FTC Act requires endorsers to disclose any connection that could "materially affect the weight or credibility of the endorsement."[98] If knowing about that gift or incentive would affect the credibility that a reader gives to a recommendation or endorsement, then it must be disclosed. This includes a family, business or personal relationship to the brand, a monetary payment or the receipt of free services, and/or products or gifts by the endorser. Further, "connections between an endorser and the company that are unclear or unexpected to a customer also must be disclosed, whether they have to do with a financial arrangement for a favorable endorsement, a position with the company or stock ownership."[99] In other words, a franchise system and its franchisees must be sure that any person who endorses, validates, recommends or praises a system's product, service or brand on the web discloses any connection between the parties. Ultimately, "[p]osting fraudulent reviews clearly violates Section 5 of the FTC Act if the reviewer has any connection or relationship with a referenced franchise system and the relationship is not disclosed in the review."[100]

As discussed in Section 3.A.1 above, the FTC does not distinguish among online platforms (including social media platforms). Rather, it has clarified that the above referenced disclosures must be obvious and clearly stated, even if space is constrained (such as the case in tweets and pins).

Below we will discuss the three most popular types of endorsers: (1) popular social media influencers; (2) employees; and (3) customers, along with the unique issues and application of the rules related to each.

3. Utilizing Popular Social Media Influencers on the Web

Endorsers can be anyone. The most publicized examples are famous actors, socialites, musicians and athletes who fill Instagram feeds with promotions for products, services, events and/or brands without disclosing that the endorser was compensated in connection with the promotion.

The FTC has a recent history of pursuing businesses that fail to disclose their relationships with endorsers. In 2016, the FTC filed a complaint against Lord & Taylor, complaining the retailer failed to clarify that it had paid fashion influencers between $1,000 and $4,000 to post photographs of themselves on Instagram wearing a specific dress while mentioning Lord & Taylor in the photo caption.[101] The campaign was

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[98] 16 CFR § 255.5.
[99] Dot.Com Guide, *supra* note 87.
[100] Gerhards, Eleanor V., *Your Store is Gross! How Recent Cases, the FTC, and State Consumer Protection Laws Can impact a Franchise System's Response to Negative, Defamatory or Fake Online Reviews*, Franchise Law Journal, Vol. 34, No.4, Spring 2015.
[101] *Lord & Taylor Settles FTC Charges It Deceived Consumers Through Paid Article in an Online Fashion Magazine and Paid Instagram Posts by 50 "Fashion Influencers,* FTC Press Release, March 15, 2016,

reported to have reached 11.4 million users and the dress sold out. Lord & Taylor ultimately settled with the FTC and entered into a consent order whereby it, among other things, agreed to establish a monitoring and review program for the company's endorsement campaigns.[102]

It is also important to note that an endorser's receipt of non-cash compensation may fall within the gambit of these regulations. For example, the FTC investigated retailer Nordstrom when it sent $50 gift cards to social media influencers in exchange for attending a store opening.[103] The FTC sent a letter reprimanding Nordstrom for failing to remind endorsers in attendance to disclose the fact that they had each received gifts in exchange for attending.[104] While the FTC did not take action against Nordstrom, it did reserve the right to do so in the future.[105]

As described above, the FTC Endorsement Guidelines apply to both the business (marketer) and the endorser. The FTC does not generally monitor bloggers and individual social media influencers, but it will evaluate potential violations of Section 5 of the FTC Act that come to its attention. By way of example, last spring, the FTC distributed almost 100 letters to celebrities and other social media influencers, reminding them of their obligations to "clearly and conspicuously disclose their relationships to brands when promoting or endorsement products through social media."[106] This was the first time the FTC directly engaged with social media influencers about the legality of posts. The letters specifically advised social media endorsers that they are required to disclose any material connection "above the fold" in the first three lines of an Instagram post so that a reader need not click "more" to discover the connection; in other words, the disclosure should be immediately apparent.

In light of the FTC's increasing actions in this arena, debates have arisen concerning whether it is really necessary for the FTC really needs to go to such lengths in the name of consumer protection. Some industry commentators argue that social media users are savvy enough to understand that celebrities are not shilling products out of the goodness of their hearts.[107] However, one only has to be reminded of last year's calamitous Frye Musical Festival to understand the impact that "social media

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available at https://www.ftc.gov/news-events/press-releases/2016/03/lord-taylor-settles-ftc-charges-it-deceived-consumers-through.

[102]Nathalie Tadena, *Lord & Taylor Reaches Settlement with FTC Over Native Ad Disclosures*, Wall Street Journal, March 15, 2016, available at https://www.wsj.com/articles/lord-taylor-reaches-settlement-with-ftc-over-native-ad-disclosures-1458061427. The complaint also alleged issues with Lord & Taylor's native advertising which is discussed further in Section of this paper.

[103] *Nordstrom Rack, FTC Closing Letter*, File No. 122-3167 (February 22, 2013), available at http://www.ftc.gov/sites/default/files/documents/closing_letters/nordstrom-rack/130222nordstromrackletter.pdf.

[104] Nordstrom Rack, *supra* note 103.

[105] Nordstrom Rack, *supra* note 103.

[106] *FTC Staff Reminds Influencers and Brands to Clearly Disclose Relationship*, FTC Press Release, April 19, 2017, available at https://www.ftc.gov/news-events/press-releases/2017/04/ftc-staff-reminds-influencers-brands-clearly-disclose.

[107] Eyal, Gil, *Why the FTC's Influencer Disclosure Policy Is Completely off Target*, Entrepreneur, May 18, 2017, available at https://www.entrepreneur.com/article/294495.

influencers" have on consumer habits.[108] The event, promoted by well-known models like Kendall Jenner, Bella Hadid and Emily Ratajkowski, imploded and spurred lawsuits by duped attendees who claimed to be unaware of the endorsers' financial ties to the doomed festival.[109] That was not the first time the Kardashian/Jenners caught the watchful eyes of consumer protection groups. In August 2016, the non-profit, Truth in Advertising, Inc. ("TINA.org.") filed a formal report with the FTC accusing the family of social media influencers of failing to properly label its sponsored posts.[110] When the FTC failed to pursue the family, TINA.org, filed another complaint with the agency in September 2017, alleging that "40 percent of the more than 100 Instagram posts that TINA.org originally collected remain unchanged. The remaining 15 percent now contain insufficient disclosures."[111] 2017 was an active year for the FTC with respect to online endorsers. Also in September 2017, two social media influencers in the online gaming industry settled with the FTC after the agency had charged the men with deceptively endorsing an online gambling service called "CSGO Lotto."[112] The settlement prohibits the endorsers, as well as the marketing company, from misrepresenting the fact "that any endorser is an independent user or ordinary consumer of a product or service. The order also requires clear and conspicuous disclosures of any unexpected material connections with endorsers."[113] The FTC followed that settlement by sending out an additional 21 warning letters to the same social media influencers it contacted in the spring of 2017, stating that the posters were likely again not in compliance with the FTC Endorsement Guidelines.[114]

Issues with online endorsers has become so prevalent that last September the FTC published on its website a list of answers to the most frequently asked questions regarding the FTC Endorsement Guide ("FTC Endorsement FAQ").[115] In discussing how to comply with the FTC Endorsement Guidelines when using Snapchat or Instagram Stories, the FTC suggested superimposing a disclosure in the same manner

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[108] Laurel, Wamsley, *Fyre Festival Hit With $100 Million Suit; Organizer Says 'We Were A Little Naive'*, available at https://www.npr.org/sections/thetwo-way/2017/05/01/526392280/fyre-festival-hit-with-100-million-suit-organizer-says-we-were-a-little-naive.

[109] *Jung v. Billy McFarland, Jeffrey Atkins p/k/a Ja Rule, Frye Media, Inc.,* Case No. 2:17-cv-03245 (U.S. D.C. Central Dis. CA), April 30, 2017, at 12, ¶ 24 available at https://www.documentcloud.org/documents/3688226-Fyre-Fest-Lawsuit.html.

[110] *Truth in Advertising Organization Threatens to Report Kardashian/Jenners to FTC*, available at http://www.thefashionlaw.com/home/truth-in-advertising-organization-threatens-to-report-kardashianjenners-to-ftc.

[111] *Truth In Advertising, Inc. Alerts FTC to Kardashian/Jenner Disclosure Failures ... Again, available at* http://www.thefashionlaw.com/home/truth-in-advertising-inc-alerts-ftc-to-kardashianjenner-disclosure-failures-again.

[112] *CSGO Lotto Owners Settle FTC's First-Ever Complaint Against Individual Social Media Influencers*, Federal Trade Commission, Press Release, September 7, 2017, available at https://www.ftc.gov/news-events/press-releases/2017/09/csgo-lotto-owners-settle-ftcs-first-ever-complaint-against.

[113] *Id.*.

[114] The FTC did not release the names of the social media endorsers but a form of the distributed letter is available at https://www.ftc.gov/system/files/attachments/press-releases/los-propietarios-de-csgo-lottoresuelven-la-primera-demanda-jamas-entablada-contra-influyentes-de/instagram_influencer_warning_letter_template_9-6-17.pdf.

[115] *The FTC's Endorsement Guides: What People Are Asking*, available at https://www.ftc.gov/tips-advice/business-center/guidance/ftcs-endorsement-guides-what-people-are-asking.

that a poster can superimpose any other words over the images on those platforms. In addition, the FTC suggested that whenever an endorser determines that a disclosure is required, the disclosure should be easy to notice and read and should consider the following factors: (1) how much time is given to followers to look at the image; (2) how much competing text there is to read; (3); how large the disclosure is; and (4) how well it contrasts against the image. The FTC also specifically advises against audio-only disclosures for posts that include video, since many users of those platforms watch videos without sound.

While the typical franchise system may not regularly engage celebrity social media influencers to promote its brand, products and/or events, for those systems that desire to do so, it important to remember that any type of quid pro quo must be clearly disclosed to consumers. This is true regardless of how informal or innocuous the endorsement may seem.

4. Turning Employees into Brand Ambassadors

Celebrities are not the only "endorsers" that catch the eye of the FTC. "Example 8" in the FTC Endorsement Guidelines describes a situation in which an employee posts messages on an online discussion board promoting her employer's product. The FTC Endorsement Guidelines conclude that knowledge of the endorser's employment is likely to affect her credibility, so therefore the employee must disclose her relationship to the readers of the message board.

If a franchisor or franchisee allows employees to use social media to discuss the brand's products, the relationship must be disclosed to third parties who read the online postings about the franchise or its products. What about "likes" or "shares"? The need for a disclosure depends upon whether the "like" or "share" may be viewed as an advertisement for the franchise. If the post is considered an advertisement, then the employees endorsing such post should disclose their relationship to the company. With a share, such disclosure is fairly easy to accomplish because the post can be introduced with a phrase like "check out my company's great new product."

A question that frequently arises is: how deep is a company's obligation to monitor its employees to ensure they are not posting positive reviews online about a company's products or services without clearly disclosing their relationship. Especially with large franchise systems that employ thousands of individuals, constant and around-the-clock monitoring is not reasonable. In such cases, the FTC advises that a company should establish a formal program to periodically remind employees of its policy, especially if the company encourages employees to share their opinions about company products or services.[116] Further, the FTC instructs employers who uncover non-compliant reviews/posts from their employees to direct the subject employee to remove the review/post or to alternatively disclose the employer-employee relationship and to remind the employee of the company's social media policy.[117]

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[116] *Id.*
[117] *Id.*

"Example 8" becomes extremely important when evaluating "self-help" techniques utilized by companies to combat negative press online. One way that businesses often attempt to neutralize negative reviews or bad press on the Internet is through facilitating the posting of positive or glowing reviews of the company's products or services. This is a bad idea for two reasons. First, these schemes often turn into public relations nightmares. Once consumers discover that a company is misleading its clientele by attempting to manipulate online content, even the most loyal supporters feel duped. Second, it is illegal. No franchisor or franchisee should combat negative reviews by requiring, encouraging, or enabling its employees, agents, or representatives to post online reviews of its products or services without proper disclosure of the relationship. Doing so clearly conflicts with the FTC Endorsement Guidelines and constitutes a violation of Section 5 of the FTC Act.

Notably, the FTC does actively pursue these schemes. In one of the most well-known cases, the FTC investigated Yahoo's employees' positive reviews of Yahoo's mobile application without properly disclosing their connection to the company.[118] Although Yahoo did require all employees to disclose their employment status in its social media policy, the FTC wrote in its closing letter that Yahoo had not adequately informed the employees of the policy.[119] The FTC did not pursue an enforcement action, but the investigation demonstrated the seriousness with which the FTC takes these investigations.

5. Engaging Customers with Online Contests and Promotions

Another popular way that franchise systems and businesses in general will attempt to market a brand online is by transforming customers into promoters. A business must be extremely careful about how it facilitates this process. Encouraging a positive review is fine but once the brand crosses the line to paying for the review, then endorsement disclosures become required. There is nothing wrong with asking customers to provide evaluations of products or services and then featuring or using the positive reviews in advertisements, promotions or marketing. However, if a business gives a customer any reason to believe he or she should expect a benefit from providing a positive review, then it must be disclosed in the advertisement.

The FTC Endorsement Guidelines also address the recent trend of contests and sweepstakes organized by businesses using the Internet and social media. The most common structure results when companies encourage participants to "pin" or "tweet" a positive reference to its product or service in exchange for the chance to win a prize or award (#FRANCHISOROCKS!). According to the FTC, it is likely that the average reader would not recognize such a hashtag to mean that those posts were made as part of a contest. The FTC requires that all participants make the word "contest" or

[118] Yahoo App Reviews, FTC Closing Letter, File No. 142-3092 (September 3, 2014), available at http://www.ftc.gov/system/files/documents/closing_letters/yahoo-app-reviews/140903zwillingerletter.pdf.
[119] *Id*.

"sweepstakes" part of a hashtag or make it clear that that the posters had received something of value.[120]

Companies have been pursued by the FTC for failing to disclose the material connection in violation of Section 5 of the FTC Act. Remember that it is not just the participant that has exposure. For example, the FTC investigated fashion company Cole Haan in 2014 for a contest it conducted through the social media site Pinterest.[121] Cole Haan offered to award a $1,000 shopping spree to the contestant that created the most creative Pinterest board featuring Cole Haan shoes. The FTC decided that the contestants' Pinterest boards qualified as endorsements of Cole Haan products, and investigated the company for failing to instruct contestants to label their Pinterest "pins" to make clear that the display of Cole Haan products was part of a contest to win a cash prize.[122]

6. Native Advertising – When a News Article is Not a News Article

Another form of Internet advertising that is catching the attention of the FTC is what is known as "native advertising." Native advertising is advertising resembling news, featuring articles, product reviews, entertainment, or other non-advertising online content, but that is actually paid-for content posted by a business. In December 2015, the FTC released a Policy Statement on Deceptively Formatted Advertisements.[123] The FTC examined whether the increase in natively formatted advertising in digital media blurs the line between paid content and non-commercial content.[124] Through the Policy Statement, the FTC enforced its opinion that "advertising and promotional messages that are not identifiable as advertising to consumers are deceptive if they mislead consumers into believing they are independent, impartial, or not from the sponsoring advertiser itself" because "knowing the source of an advertisement or promotional message typically affects the weight of credibility consumers give it."[125]

In this vein, the FTC is targeting brands which it concludes engage in deceptive native advertising. In fact, the 2016 complaint against Lord & Taylor described above included charges that Lord & Taylor's seemingly objective article in the Internet publication *Nylon* magazine (an online fashion magazine) for its Design Lab clothing collection violated Section 5 of the FTC Act.[126] The article released by *Nylon* was both edited and paid for by Lord & Taylor. However, the postings contained no disclosure to consumers that Lord & Taylor edited and paid for the *Nylon* content, thereby giving the

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[120] https://www.ftc.gov/tips-advice/business-center/guidance/ftcs-endorsement-guides-what-people-are-asking#socialmediacontests. According to the FTC, the word "sweeps" by itself would not likely be sufficient to put readers on alert, because it is likely that many people would not understand what that means.

[121] *Cole Hann, FTC Closing Letter*, File No. 142-3041 (March 20, 2014), available at http://www.ftc.gov/system/files/documents/closing_letters/cole-haan-inc./140320colehaanclosingletter.pdf.

[122] *Id*.

[123] 81 FR 22596-01, 2016 WL 1544776, *Enforcement Policy Statement on Deceptively Formatted Advertisements*, Federal Trade Commission, April 18, 2016.

[124] 2016 WL 1544776 at *22599

[125] *Id.* at *22596.

[126] *Supra* note 101.

impression to consumers that it was an objective and independent review. The FTC and Lord & Taylor settled the matter with Lord & Taylor entering into an Agreement Containing Consent Order agreeing to "(I) not misrepresent, in any manner, expressly or by implication, that an endorser of such product or service is an independent user or ordinary consumer of the product or service. . .(II) clearly and conspicuously, and in close proximity to the representation, disclose a material connection, if one exists, between such endorser and [Lord & Taylor]. . .and (III) not misrepresent, in any manner, expressly or by implication, that paid commercial advertising is a statement or opinion from an independent or objective publisher or source."[127] The Agreement Containing Consent Order also outlined steps Lord & Taylor must undertake to ensure it complies with the FTC Act, imposed an advertisement records-keeping requirement and granted the FTC an inspection right to the records.[128]

Despite the added attention by the FTC, reports show that nearly 40% of publishers ignore the FTC's native advertising rules.[129] Forbes reported in March 2017 that, according to a new industry study, almost two out of five publishers using native advertising are not compliant with the FTC guidelines for identifying such content.[130] In addition, MediaRadar reviewed more than 12,000 native advertising campaigns from January to December 2016 and found that 37% of publishers do not adhere to the FTC rules for labeling the material as paid content.[131]

To evaluate native advertisements, the FTC applies a "net impression standard", assessing the overall impression conveyed to a reasonable consumer by the advertisement in whole, rather than the specific impression conveyed to a reasonable consumer by any particular individual statement within the advertisement in isolation..[132] The Policy Statement lists the following factors used by the FTC to determine whether a native advertisement is deceptive: (1) the overall appearance; (2) the similarity of its written, spoken or visual style to non-advertising content offered on the publisher's website; (3) the degree to which it is distinguishable to other content; (4) the particular circumstances in which the advertisement is disseminated (for example, does the advertisement appear as a news story inserted on a stream where the site typically offers unpaid news stories?); and (5) qualifying information clearly disclosing the advertisement as paid content (such as "*Advertisement*," "*Paid Advertisement*," or "*Sponsored Advertising Content*").[133]

Although the complaint filed against Lord & Taylor has been the only large crack down on native advertising to date, companies that ignore the rules do so at their own peril, as this issue is gaining increasing attention and scrutiny. In December 2017, the

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[127] In the Matter of Lord & Taylor, LLC, available at https://www.ftc.gov/system/files/documents/cases/160315lordandtaylororder.pdf.
[128] *Id*.
[129] Fletcher, Paul, *Report: Nearly 40% of Publishers Ignore FTC's Native Advertising Rules, FORBES, March 19, 2017* available at https://www.forbes.com/sites/paulfletcher/2017/03/19/nearly-40-percent-of-publishers-ignore-ftcs-native-advertising-rules/#241fd6c667db.
[130] *Id*.
[131] *Id*
[132] 2016 WL 1544776 at *22599.
[133] *Id.* at *22600.

FTC staff released a detailed report, called *Blurred Lines: An Exploration of Consumers' Advertising Recognition in the Contexts of Search Engines and Native Advertising: A Federal Trade Commission Staff Report*, summarizing the FTC commissioned research from 2014 to 2015. The staff report explores consumer recognition of native advertising online and provides insights into how consumers perceive search and native ads and how modifications to disclosures, including to disclosure language, position, text size, and color and to other visual cues such as borders and background shading, may enhance consumers' recognition of these ads. Given the attention the FTC is devoting to native advertising, it is likely that is the next area ripe for investigation; as such, businesses should be on guard.

B. Additional Limitations on Protecting a Brand from Online Negative Press

1. Consumer Review Fairness Act

About five years ago, a number of creative businesses concocted an interesting approach to addressing negative reviews online. Businesses began including inconspicuous non-disparagement clauses in their website terms and conditions, contracts, and receipts with customers. When the customer went online and shared a honest but negative review of the product, service or business, the company would then demand compensation for violation of the non-disparagement clause (often in the form of liquidated damages).[134]

California quickly passed a law in 2014 making a contract unlawful "if it contains a provision requiring the consumer to waive his or her right to make any statement regarding the consumer's experience with the business, or to threaten or seek to enforce such a provision, or to otherwise penalize a consumer for making such a statement unless the waiver was knowing, voluntary and intelligent."[135] Congress then followed suit, passing the Consumer Review Fairness Act of 2016 (CRFA)[136] to "prohibit the use of certain clauses in form contracts that restrict the ability of a consumer to communicate regarding the goods or services offered in interstate commerce that were the subject of the contract, and for other purposes."[137] The CFRA became effective on March 14, 2017, thereby making it unlawful, nationwide, to offer a form contract to customers if it contained a gag clause and/or included one in its website terms and conditions. Notably, contracts between employers and employees or independent contractors are specifically exempted from the CRFA.

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[134] One of the most well-known cases was *Palmer v. Kleargear*, No. 13-cv-00175 (D. Utah, filed Dec. 18, 2013). In *Palmer*, patrons of the online store Kleargear wrote a negative review of the business after it failed to deliver an order. Kleargear then demanded $3,500 in damages for violating the gag clause. When the patrons refused to pay the fee, Kleargear reported the Palmers to a credit agency. The Palmers eventually obtained a default judgment against the business for violations of the Federal Fair Credit Reporting Act, defamation, intentional interference with prospective contractual relations, and intentional infliction of emotional distress. That case, along with others, was the trigger to action by state and federal legislatures.

[135] A.B. 2365, Cal. Leg., 2013-14 Reg.Sess. (California 2014).

[136] 15 U.S.C. 45b.

[137] Public Law 114-258, 130 Stat. 1355.

The CRFA applies to a range of consumer product and/or service assessments, including online reviews, social media posts, uploaded photos, videos, etc. It also applies to consumer evaluations of a company's customer service. The CRFA protects such assessments by making it illegal for a company to use a contract provision to bar or restrict a consumer's ability to honestly review the company's products or services. It also makes it illegal for a company to impose a penalty or fee on someone who gives a review, and prohibits companies from requiring people to give up their intellectual property rights in the content of their reviews.

On the other hand, the CRFA still permits companies to control the content of consumer reviews by allowing them to ban or remove reviews that (1) contain confidential or private information; (2) are libelous, harassing, abusive, obscene, vulgar, sexually explicit, or inappropriate with respect to race, gender, sexuality, ethnicity, etc.; (3) are unrelated to the company's products or services; or (4) are clearly false or misleading.

The FTC is charged with enforcing the CRFA in the same manner as it enforces the FTC Act (which applies to unfair or deceptive trade practices). As a result, a company that violates the CRFA can be subject to a financial penalty and/or a federal court order. State attorneys general also have the right to bring actions under the CRFA on behalf of citizens of their states. Even without the CRFA, states have pursued business owners who attempt to enforce these types of clauses. In December 2017, the State of Indiana filed suit against a hotel for charging a guest $350 for posting a negative review of its hotel online in violation of its policy.[138]

In the past, it was nothing more than bad public relations for a brand to include gag clauses; but now it is illegal. Franchisors and franchisees should never attempt to combat online bad press by contracting away a customer's right to provide an honest assessment of its product or services. More information on the CRFA, and compliance with it, can be found on the FTC's website.[139]

2. State Laws and Astroturfing

Franchisors should be aware that states also monitor advertising and marketing conducted by businesses on the web to ensure that the practices do not violate state consumer protection laws. In recent years, the attorneys general in a number of states have investigated the practice of "astroturfing" ("preparing or disseminating a false or deceptive review that a reasonable consumer would believe to be a neutral, third-party review").[140] While it is unlikely that a franchise system would directly undertake the type

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[138] *State of Indiana v. Abbey Management Inc*., Brown County Circuit Court, available at https://www.washingtonpost.com/news/business/wp-content/uploads/sites/8/2017/12/AG.complaint.pdf
[139] *Consumer Review Fairness Act: What Businesses Need to Know,*available at https://www.ftc.gov/tips-advice/business-center/guidance/consumer-review-fairness-act-what-businesses-need-know.
[140] Press Release, *New York Attorney General Office, A.G. Schneiderman Announces Agreement with 19 Companies to Stop Writing Fake Online Reviews and Pay More Than $300,000 in Fines* (September 23, 2013), *available at* http://www.ag.ny.gov/press-release/ag-schneiderman-announces-agreement-19-companies-stop-writing-fake-online-reviews-and.

of false review schemes that catch the eye of a state regulator, a franchisor must conduct due diligence of the advertising and public relations it retains.

3. Final Considerations

Because state and federal governmental resources and funding are often low, these regulatory agencies will typically direct investigations to pursue the most blatant violators. It is unlikely that one or even multiple unintentional violations will consume the attention of the FTC or state regulator. However, since the FTC publishes every settlement in a press release posted on its website, even a seemingly innocuous consent order can attract unwanted attention for a franchise system. In addition, if similar violations exist across multiple franchises, or if the FTC identifies a pattern of violations, the entire franchise system may be subject to heightened scrutiny or investigation.

C. Practical Tips and Guidance for Franchisors and Franchisees

Understanding how the FTC and federal and state agencies regulate advertising and marketing online is the first step to promoting a franchise brand in compliance with the law. The final portion of this paper provides a number of practical tips and guidance that a franchisor can implement to ensure that everyone in the franchise system is able to promote its products, services and businesses online while maintaining a web presence that will withstand regulatory scrutiny and avoid legal issues.

1. Consistently Monitor Online Activity

Every franchisor should monitor its reputation and third-party use of its brands, including on traditional media channels and social media, and have a plan in place to manage negative publicity before it happens. One best practice includes using proactive third-party monitoring companies and social listening platforms to measure a brand's health and reputation and setting up alerts for negative chatter. Many of these monitoring companies create a baseline reputation score for a company and then alert a company when that reputation score starts to dip below that baseline. Social listening tools may also prove helpful by monitoring online chatter that can potentially have a material impact on the brand's health. These tools measure how prevalent and widespread the chatter is and will answer questions such as:

(1) Are news outlets or social influencers discussing it?
(2) How extensive is the social chatter?
(3) What is its nature of the social chatter (is it mild, just annoying or does it involve something more serious like a life-threatening event or an extremely polarizing subject matter)?

Consistent and thorough monitoring of online activity allows a franchisor to be in front of an issue the second it appears. Remember, however, that a franchisor is responsible for its vendors. A franchisor should never engage a monitoring company that attempts to change the online negative narrative by employing techniques that may run afoul of Section 5 of the FTC Act.

2. Prepare a Multi-Level Reactive Plan in Advance of Potential Online Issues

Another best practice includes preparing and having a multi-level reactive plan in place characterized by level of issue (e.g., incident, serious incident, emerging issue, and full crisis). The components of the reactive plans should include identifying the team of personnel who need to be involved at each level (including business and legal members), what level of authority these team members have to make decisions, and when and how the issue escalates to the next level. This includes discussions with the franchisee if the chatter is about a situation that occurred at or about a franchised location or product and then whether and how to best address the brand reputation issues and the independence of the franchisee from the franchisor. In determining how to respond to negative publicity and/or monitor and contain a negative event, a number of factors should be considered in advance, including for example:

(1) what is the scale and tone of the conversation
(2) where is the conversation taking place (Franchisee or Franchisor channels, news, social media);
(3) how frequently is content being shared;
(4) is the volume increasing or declining;
(5) is misinformation being shared and if so, what is the best way to correct that message;
(6) does the company have enough information to craft a response, and if not, what other statements can be made while awaiting the additional information
(7) what tone should be used in responding; and
(8) has the volume and/or reputation risk reached the level that company paid advertising should stop.

In determining whether and how to respond, it is wise for a franchisor to have pre-approved proactive messaging that has been previously vetted and approved by the business, risk management and legal departments for use in certain defined situations. Finally, after any negative event or crisis, the company should perform a post-mortem analysis and update and roll-out additional internal training and/or guidance to franchisees as necessary to better address and handle a similar situation in the future.

3. Maintain and Consistently Update a Social Media Policy

Few franchise systems would dare operate without implementing a detailed social media policy; however, it is important to consistently update such policy to account for new guidance provided by the FTC and changes to state and federal laws. As such, it is recommended that such policy be reviewed on an annual basis. The elements of a thorough social media policy may include: (1) definitions; (2) blogging and microblogs; (3) the use of personal websites or webpages; (4) proper guidelines for forming or participating on listservs and maintaining mailing lists; (5) best practices when providing free services, gifts (gifts cards or other promotional items), or anything of monetary value to social media influencers; (6) social networking or affinity websites (such as Facebook, LinkedIn, Sina Weibo, and Renren); (7) audio, photo or video-sharing websites (such as YouTube, Instagram, Flickr, Picasa or Google Video); (8) internal intranets or networks; (9) web bulletin boards or chat rooms; (10) text-messaging or instant-messaging (including through WeChat, WhatsApp, etc); and (11) virtual worlds.

In addition, any good social media policy should, at a minimum, require all parties to agree to:

(1) act responsibly, professionally and not engage in prohibited activity;
(2) not share confidential information or market moving information;
(3) not engage in harassment;
(4) be transparent;
(5) include appropriate disclosures whenever using endorsers or social media influencers;
(6) prohibit family members, employees or agents of the franchisor or franchisee from endorsing the system, its products, services or events unless the relationship is properly disclosed;
(7) use brand names and logos appropriately;
(8) comply with copyright laws;
(9) respect competitors and refrain from posting misleading or fraudulent reviews/blogs/comments about a competitor; and
(10) respect your company—don't post negative reviews/blogs/comments about branded properties-take any issues or concerns internally and through appropriate channels.

A social media policy should also reference other applicable policies (e.g., (no) expectations of privacy, social media in recruitment, reporting, hotlines, ethics).

If your franchise system engages any public relations or marketing vendor, then thoroughly research the vendor before engaging it to confirm that it complies with the FTC and state laws when providing reputation management services. The company is ultimately responsible for what others do on its behalf. Accordingly, a franchisor engaging such vendor should be sure that the vendor has an appropriate program in place to train and monitor members of its social media network. In addition, the franchisor should ask for regular reports confirming that the program is operating properly and monitor the network periodically. Delegating part of the franchise system's promotional program to an outside entity does not relieve the franchisor of responsibility under the FTC Act.

4. Provide Guidance to Franchisees in the Operations Manual and Through Training Seminars

For franchisors, its social media policy should only apply to franchisor-owned and managed properties and corporate. Franchisors should, however, provide guidelines and recommendations, as appropriate, to franchisees regarding brand intellectual property use and protection and reputation through the operations manual and during periodic training and annual conventions.

5. Drafting Franchise Agreement Provisions & Misuse of Marks Online

Within the Franchise License Agreement ("License Agreement") that franchisees execute to operate the franchise, there should already be trademark provisions that outline the ownership rights and permitted uses of franchisor's trademarks ("Marks"). For example, the License Agreement should not just identify franchisor's Marks and grant the franchisee a limited license to use the Marks as provided by franchisor, but it should also contain provisions specifying that:

a. the franchisee must acknowledge that the franchisor has the absolute and exclusive right and title to the Marks;
b. the franchisor has established a certain level of reputation with the public as to the quality of the products associated with the Marks;
c. the franchisor has the right to monitor and control the use of its Marks as it deems appropriate to protect its Marks and the goodwill that such Marks represent; and,
d. the franchisee should acknowledge that goodwill created by franchisee's licensed use of the Marks, inures to the sole benefit of the franchisor.

Another best practice is to have franchisees agree to report any misuse of the Marks or possible infringements to the franchisor and require the franchisees to agree to cooperate with the franchisor's defense of its rights in the Marks. Finally, as part of the limited license, it is imperative that the franchisee agree to use the Marks only as permitted by franchisor, which also would include abiding by all brand standards developed by the franchisor to market and sell the branded products. Either within the License Agreement or within such brand standards, the franchisor should delineate requirements for proper trademark use. Typical protocols for proper trademark use, include the following:

a. always using the Marks as registered,
b. always using the proper registration symbols and ownership statements with the Marks,
c. never making any changes to the Marks (including changing colors, layouts, fonts, and/or adding/deleting text or graphics),
d. always using the Marks as adjectives, instead of nouns or verbs,
e. only using the Marks in connection with the goods and services for which the Marks are registered, and
f. not registering any domain names that include the Marks without franchisor's prior written permission.

In an ideal situation, a franchisor should conduct quality audits to make sure its franchisees are using the Marks properly and maintaining the right levels of quality for the products associated with those Marks. This review should include website reviews. As a practical matter, this can be done in conjunction with other quality control practices. Most importantly, if a franchisor discovers a use that is not compliant, whether through a formal inspection or otherwise, the franchisor should take steps to have the subject franchisee promptly correct the non-compliant use. If the franchisee fails to correct the non-compliant use after notification, the franchisor should have a process to bring franchisee into compliance or, in egregious cases, terminate the License Agreement and/or bring an infringement/misuse action. It is important to enforce infringement and misuse of Marks in order to avoid the risk of losing rights to the Marks. This includes ensuring a terminated franchisee has de-identified its property and/or otherwise stopped using the Marks.

IV. CONCLUSION

The increased opportunities for brand recognition and advertising advanced through the Internet and social media, while likely beneficial to a franchise system, also presents new and unique problems that must be properly addressed especially with respect to trademark and brand protection. Accordingly, a franchisor should take care to ensure that it both actively defends its trademark, reputation and brand in the face of online attacks and actively promotes its trademark, reputation and brand in a manner that complies with the new and ever evolving legal landscape concerning the Internet and social media. This paper provides a guide for accomplishing these dual tasks.