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Forum on Franchising

The Franchise Lawyer

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Message from the Chair

By Ron Coleman, Parker, Hudson, Rainer & Dobbs LLP

RON COLEMAN
Parker, Hudson, Rainer & Dobbs LLP

I usually use this Chair's Message to update our members on the activities of your Forum's leadership. We recently had our mid-winter Governing Committee meeting with a lot going on, and I'll get to that topic in a minute.

It struck me, however, that this mid-winter GC meeting was the last in-person GC meeting I will attend as Forum Chair, as my term ends on August 1. That got me thinking about things I want to say before I'm done as Chair, and the most important thing running through my mind is to convey why the Forum has been so valuable to me over the course of my 35+ years of practicing law. I could say a lot of things, but I'll give you two main reasons.

First, I have learned so much through the Forum. As a younger attorney, I got my education and foundation in franchise law from more senior lawyers who presented workshops and intensive sessions at Forum meetings. As I got more involved in the Forum, I learned from writing articles and workshop papers myself and from preparing to present at our meetings. I certainly didn't want to embarrass myself in front of my colleagues! After I became a senior lawyer myself (when did that happen?!), I have continued to learn a lot from other members who provide fresh insights and new perspectives. All this has continually made me a better lawyer, and not just a better franchise lawyer. So much of what we do in the Forum applies to commercial law outside the confines of a franchise relationship.

Second, my involvement in the Forum has made me a happier, more professionally satisfied lawyer. Much of what we do as lawyers is demanding and stressful. It has been so important for me to have an outlet for professional involvement beyond my day-to-day client work and to be part of a group that provides opportunities for professional and personal interactions that lead to lasting friendships. That has been my experience throughout my involvement in the Forum. Simply put, it has been the most rewarding professional organization of the many in which I've been involved over my career, and some of my closest professional bonds are with Forum friends.

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A New Opportunity: NIL and Franchise Systems

By Josh Piper and Max Forer, Miller Nash LLP

Since the formation of the National Collegiate Athletic Association ("NCAA") in the early 1900s, NCAA rules restricted amateur athletes or "student-athletes" (as coined by Walter Byers, the NCAA's first executive director) from profiting off their own name, image, and likeness ("NIL") for the ostensible purpose of preserving "amateurism" in college athletics. That prohibition remained mostly intact for over a century. But on July 1, 2021, a years-long game plan to eliminate those restrictions culminated in the NCAA modifying its rules to allow college student-athletes to generally profit from their own NIL, including endorsement agreements, NIL-related business ventures, and professional representation agreements. In turn, high school districts around the country have also begun changing their rules to mirror the NCAA's rules to allow high school athletes to profit from their own NIL.

These changes (along with new state laws) have opened an estimated $14 billion marketplace, with various industries increasingly exploring and embracing NIL deals, including franchised brands such as Walk-On's Sports Bistreaux and Zaxby's. But these recent changes do not mean that one size fits all for NIL deals, that the same endorsement deal put together for a professional athlete will work for a student, or that NIL deals have no limits. Several layers of rules govern NIL deals, all of which require careful consideration to protect not only the brand but also the students and their schools. In this article, we recount the legal history leading to these recent changes, discuss the types of laws and rules that apply to NIL deals, explore some nuances specific to franchise brands, and offer some best practices for NIL deals in general.

NCAA and NIL Caselaw and Legislative History

The beginning of the end of NCAA NIL prohibition started with *NCAA v. Board of Regents of the University of Oklahoma*, 468 U.S. 85 (1984), an antitrust case challenging the NCAA's television plan, which set certain constraints on colleges negotiating with ABC and CBS. In *Board of Regents*, the Supreme Court ruled the NCAA's restrictions violated the Sherman Act, effectively releasing television rights to college athletic conferences. Although the Court ruled against the NCAA, Justice Paul Stevens's opinion contained an influential passage of dicta:

> The N.C.A.A. plays a critical role in the maintenance of a revered tradition of amateurism in college sports. There can be no question but that it needs ample latitude to play that role, or that the preservation of the student-athlete in higher education adds richness and diversity to intercollegiate athletics and is entirely consistent with the goals of [antitrust laws].

In this passage, the Court intimated that antitrust deference or immunity was required to maintain the unique amateur status of student-athletes. That view would hold for another 30 years.

The next major domino fell in *O'Bannon v. NCAA*, 802 F. 3d 1049 (9th Cir. 2015). Filed by former UCLA basketball player Ed O'Bannon on behalf of the Division I football and men's basketball players, O'Bannon challenged the NCAA's use of the images of its former student-athletes for commercial purposes (such as in video games) without compensation. The Ninth Circuit held that antitrust laws applied to NCAA rules barring NIL compensation and enjoined the NCAA from prohibiting colleges from granting scholarships up to the full cost of attendance. While this constituted a victory for student-athletes, the court also found amateurism to be integral to the NCAA's market and established a distinct line between educational expenses and offering cash consideration untethered to educational expenses.

After *Board of Regents* and *O'Bannon*, the action shifted to the state legislatures. In September 2019, California passed the Fair Pay to Play Act, Cal. Educ. Code § 67456, which allowed college athletes (starting in July 2023) to hire agents and promote products and companies and financially benefit from their college sports activities. That kicked off similar legislative efforts in multiple states to

Josh Piper
Miller Nash LLP

Max Forer
Miller Nash LLP

push the NCAA to act and allow student-athletes to profit from their NIL. And while the NCAA had begun working with Congress to create a uniform national solution on NIL issues, Florida passed its own state law with a scheduled effective date of July 1, 2021, which significantly reduced the time for the NCAA to act. From there, over 20 states enacted legislation prior to July 1, 2021, to ensure that the student-athletes in their respective states could profit from their NIL (an obvious recruiting advantage).

As the legislatures in California, Florida, and a bevy of other states enacted NIL legislation, *NCAA v. Alston*, 594 U.S. ___, 141 S. Ct. 2141 (2021), made its way to the U.S. Supreme Court. In *Alston*, a number of Division I football and basketball players alleged that the NCAA's restrictions on non-cash education-related benefits violated antitrust law. The Court unanimously ruled in favor of the student-athletes, making it possible for schools to provide uncapped educational benefits like computers, equipment, and other tangible items related to the pursuit of academic studies. The Court also challenged the *Board of Regents*' dicta regarding the NCAA's "revered tradition of amateurism" being a shield against antitrust suits. Justice Brett Kavanaugh's concurrence went even further, suggesting the NCAA's remaining compensation rules may not pass muster.

Soon thereafter, the NCAA passed interim NIL rules and policies allowing NIL activity beginning July 1, 2021. While the public and media often mistake *Alston* to itself permit NIL activities, the case invalidates only NCAA restrictions on educational benefits—the Supreme Court has yet to address the NIL issue itself. Nonetheless, *Alston* amounted to another major crack in the NCAA's armor on athlete compensation issues and its historical claims to protecting amateurism in college athletics. In the end, the *Alston* ruling combined with the new state NIL laws looming appeared to motivate the NCAA to change its approach to NIL mid-process and to adopt a permissive interim policy instead of more restrictive rules.

Key Rules of NIL Arrangements

Franchisors, franchisees, and their counsel should consider three major areas of rules and laws when exploring NIL contracts and related arrangements. First, state law, whether legislative or through executive order, may govern NIL deals. Currently, over 20 states have an NIL law or executive order, and nearly all of these laws vary in some way. In general, each law or executive order prohibits the educational institution and the NCAA from restricting or penalizing a student-athlete's exercise of the student-athlete's right to earn compensation for use of their NIL. Yet each of these laws has one or more wrinkles. Some states, like Texas, prevent alcohol, gambling, adult entertainment, and cannabis businesses from signing deals with student-athletes. Other states, like California, prohibit companies from signing a student-athlete to an endorsement deal if the student-athlete's team has a preexisting corporate agreement in the same industry category. In Oregon, if a lawyer has represented an educational institution, the lawyer cannot represent an athlete. On the other hand, industry groups operating in the majority of states that do not have any NIL legislation or executive orders have one less hurdle to clear when drafting these NIL contracts. This has led to the ironic result that while these state NIL laws helped spur the NCAA to modernize its approach to NIL, industry groups now see those laws as hindrances and push states to repeal them.

Second, the educational institution in question will typically have policies or contracts that affect certain NIL opportunities. For example, in most of the state NIL laws, a student-athlete may not enter into an NIL contract that conflicts with team rules or the terms of a contract entered into between the institution and a third party. In addition, the laws often provide that the institution may continue to enforce a general code of conduct. For instance, Brigham Young University requires student-athlete NIL deals to adhere to the university's honor code. This presumably bars companies promoting alcohol, tobacco, or cannabis products from collaborating with the school's student-athletes.

Third, industry groups must take into account the NCAA's interim NIL rules. These rules continue to prohibit: (1) improper benefits (e.g., gifts); (2) inducements to attend an institution; (3) compensation for athletic participation or achievement; and (4) educational institutions providing NIL compensation. NIL contracts must continue to satisfy these NCAA interim rules, otherwise, the contracting party risks the NCAA finding the student-athlete ineligible and unable to compete, a potentially devastating result for the student-athlete and a public relations disaster for the brand and college.

Finally, because of the nascent nature of the NIL legal landscape, the relevant laws and policies change on an almost daily basis, and lawyers who represent brands in NIL deals must stay up to date on these changes, as the downsides of getting it wrong can be significant.

Considerations for Franchise Brands

The NIL industry represents a significant new marketing opportunity for franchise brands, especially those that have an association with sports or fitness or that cater to college students and college sports fans. Franchise systems that want to include NIL deals as part of their overall marketing strategy should carefully consider not only the legal rules noted above but also how best to implement the NIL effort within their systems.

To begin with, consider that the vast majority of potential NIL contracts will involve student-athletes primarily known only in the limited geographic area around their college. That limited market reach has two important implications for franchise systems. First, the cost of NIL deals pales in comparison to other athlete endorsements. This allows franchisors to experiment with NIL deals without significant investment and allows some franchise systems access to athlete endorsements for the first time. Second, NIL deals in a franchise system may fit better with local (franchisee-generated) marketing efforts targeted to specific markets where the athletes' endorsements would generate better value. This means franchisors that choose to embrace or allow NIL deals within the system will need to determine how best to support franchisee efforts in securing NIL deals.

Franchisors might take a few different approaches. At a minimum, as with any franchisee-led marketing efforts, Franchisors should retain the right to approve all NIL arrangements and should reserve sufficient time to evaluate any proposed NIL deals with their counsel to ensure compliance with all applicable laws and rules.

Franchisors who want to go a step further and facilitate franchisees' use of NIL deals should consider establishing a formal policy governing NIL deals (e.g., the types of arrangements permitted with student-athletes and the information that the franchisor requires for review and approval), which could even include training and optional sample forms for the franchisees to use (with the advice of their own counsel) on NIL deals.

Still, many franchisees might feel daunted by the layers of rules involved in properly structuring an NIL deal and look to the franchisor to leverage its ability to access more specialized legal advice. In that case, franchisors might also consider establishing a special fund (from franchisee contributions or otherwise) that the franchisor manages and uses to sign NIL deals directly with student-athletes proposed by franchisees. This involves more work on the franchisor's part but also provides the franchisor more control over the terms and execution of NIL deals.

In any of these scenarios, franchisors may also want to consider whether the system's franchise agreements allow any marketing fund contributions to be used to cover the cost of supporting NIL efforts.

Tips and Traps

While NIL rules and best practices will likely continue to evolve, consider the following tips and traps:

- **Know the Rulebook.** With the NCAA interim rules as the lone exception, NCAA bylaws still apply to student-athletes and NIL deals. For instance, the bylaws state that a contracting party cannot provide something of value for free to the student-athlete. To avoid this otherwise "impermissible benefit," the athlete will need to do something (e.g., social post, attend an autograph session, or do a photo shoot) to receive the value.
- **Keep It Simple.** NIL contracts should use plain English as much as possible. Amateur athletes will frequently sign NIL contracts without representation to help them navigate the contract negotiations.
- **Caution with International Players.** Currently, an international student on a student visa could lose their immigration status by performing (or "working") an NIL deal in the United States. International visas largely bar foreign students from off-campus employment, and U.S. Immigration and Customs Enforcement ("ICE") has so far not given any clear guidance about NIL deals for international student-athletes. While some groups may explore strategic workarounds in the absence of guidance from ICE, even creative "solutions" may still expose international student-athletes to the risk of visa revocation.
- **No School Ties.** Student-athletes cannot use their educational institution's trademarks with their NIL activity without consent from the institution. NIL activities generally

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Update: Franchise Anti-Poaching Provisions: After Five Years, What Have We Learned?

By Michael L. Sturm, Lathrop GPM LLP

One year ago in *The Franchise Lawyer* when the author initially examined anti-poaching provisions, it appeared that franchisors would generally omit them from franchise agreements going forward but also that the threat of civil antitrust litigation seeking massive damages based on their past use had receded. *See* Michael L. Sturm, "Franchise Anti-Poaching Provisions: After Four Years, What Have We Learned?" 25 *The Franchise Lawyer* 3 (Winter 2022). Surprisingly, the last year has seen a potential revival of these types of claims, and the coming year may bring major developments in the governing law that could have repercussions throughout the franchise industry. This is true even though there is scant evidence that these provisions actually suppressed wages as originally postulated.

As the only federal circuit court decision, the most important development in 2022 was the Eleventh Circuit's reversal of a decision dismissing claims against Burger King. *Arrington v. Burger King Worldwide, Inc.*, 47 F.4th 1247 (11th Cir. 2022). The reversal was unsurprising because, as the Eleventh Circuit noted, the district court's holding that the franchisor and its franchisees represented a unitary entity legally incapable of conspiring under Section 1 of the Sherman Act was difficult to reconcile with the Supreme Court's decision in *Am. Needle, Inc. v. Nat'l Football League*, 560 U.S. 183 (2010). Paradoxically, while helpful to antitrust plaintiffs, the Eleventh Circuit's portrayal of the franchisor and franchisees as virtually atomistic entities independently competing for employees may cause difficulties for employee counsel seeking to have franchisors deemed joint employers of franchisee employees.

Michael L. Sturm
Lathrop GPM LLP

While the *Burger King* decision was unique, the Seventh Circuit will soon decide broader questions concerning the fundamental validity of the plaintiffs' antitrust theory. In *Deslandes v. McDonald's USA, LLC*, No. 1:17-cv-04857, 2018 WL 3105955 (N.D. Ill. Jun. 25, 2018), the plaintiffs initially avoided dismissal and even persuaded the district court that they potentially could proceed under the "quick look" doctrine applicable to plainly anti-competitive but not *per se* illegal restraints. After years of discovery, however, the district court ultimately reversed course, rejected class certification, and entered judgment on the pleadings in favor of McDonald's. *Deslandes v. McDonald's USA, LLC*, No. 1:17-cv-04857, 2021 WL 3187668 (N.D. Ill. July 28, 2021) (denying class certification); 2022 WL 2316187 (N.D. Ill. Jun. 28, 2022) (granting judgment on pleadings), *appeal noted*, No. 22-2333 (7th Cir. filed Jul. 27, 2022).

Among other critical rulings, the district court in *Deslandes* held that any claim founded on the former anti-poaching provision in the franchise agreement would need to be evaluated under the full rule of reason, which would weigh both pro- and anti-competitive effects and would also require a showing of power in defined product and geographic markets. In support of its decision, the court cited the Supreme Court's recent decision in *NCAA v. Alston*, 141 S. Ct. 2141 (2021), which clarified that the quick look doctrine should be applied sparingly and only where courts "have amassed considerable experience with the type of restraint at issue and can predict with confidence that it would be invalidated in all or almost all instances." *Id.* At 2156 (quotation omitted). Here, while franchise anti-poaching provisions existed for decades prior to their demise, not a single case had found them to violate the antitrust laws.

As previously noted in *The Franchise Lawyer*, the Department of Justice's Antitrust Division submitted Statements of Interest in several anti-poaching cases, largely siding with franchisors and arguing that rule of reason analysis was required. *See* 25 *The Franchise Lawyer*, at 7. As foreshadowed in a later district court filing in the *Deslandes* case, however, the Antitrust Division has now disavowed its prior position and argued in an *amicus* brief on appeal that anti-poaching provisions could be subject to the quick look doctrine or even *per se* illegal. *See Deslandes v. McDonald's USA, LLC*, No. 22-2333, ECF No. 51 (7th Cir. Nov. 18, 2022). It is unclear whether the DOJ's unexplained reversal

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Book Review: *Franchising Strategies: The Entrepreneur's Guide to Success*

By Thomas M. Pitegoff, Offit Kurman

Many franchise lawyers like to read about the business of franchising. One particularly worthwhile read is the recently published *Franchising Strategies: The Entrepreneur's Guide to Success*, written by franchise consultant Ed Teixeira and his co-author, Richard Chan, associate business professor at Stony Brook University. Ed Teixeira & Richard Chan, Franchising Strategies: The Entrepreneur's Guide to Success (2023). The book is an excellent guide to the business of franchising. Although the authors wrote it as a business school textbook, it is also a helpful read for aspiring and emerging franchisors, franchisees, and, yes, even franchise attorneys.

The authors seek to make available to readers some of the vast amounts of research and academic writings on franchising strategies, delineating, as the authors put it, "vital aspects of franchising that are data-driven, research-backed, and experience-tested." Discussing the various stages of system development and the evolution of the franchisor-franchisee relationship, the authors make it clear that they have based their recommendations on careful research and not intuitive speculation.

Developing and Articulating the Model

The book confirms many things that franchise lawyers already know. For example, before a company begins to franchise its business, it should be able to demonstrate that the business model works. In other words, the company locations should be successful before the company starts franchising. The concept must also be easy to replicate. Those experienced in the industry know that a successful franchise system is one in which the franchisees are successful. The book emphasizes that success is most likely to happen when the franchisor has set up systems in which the franchisor pays attention to what works for its franchisees and for communicating those observed best practices to the franchisees. The franchisor needs an operations manual and a training program because the franchise disclosure document ("FDD") calls for both. The book adds that writing the operations manual gives an emerging franchisor the opportunity to organize, standardize, and document the existing operation.

The authors pay due respect to the role of the franchise lawyer, calling the franchise attorney "one of the most important members of the franchise team." The lawyer prepares the FDD and the franchise agreement that becomes a part of the FDD. Of course, the franchise attorney also regularly handles filings and registrations in compliance with state laws. Another role the lawyer might play is to prepare or review execution copies of each franchise agreement before it is signed. This can avoid costly mistakes, like a "personal" guaranty signed on behalf of the franchisee entity instead of its owner. The franchise attorney is also essential in assisting the franchisor in responding to requests for negotiated changes in the franchise agreement. Naturally, the franchisor's attorneys may also handle the trademark work, entity formations and structuring, dispute resolution, and more.

Laying the Groundwork for Success

The book lays out suggested organizational charts showing how an emerging franchisor might organize its top management team and structure its organization at different stages as the franchise system is rolled out. An early step an emerging franchisor should take in building a successful franchise development program is to target franchise territories with demographics that make them likely to have the highest demand for the products or services the concept offers. When rolling out a new franchise system, one recommended approach is for the emerging franchisor to focus on developing an area that is within a couple of hours' drive from the franchisor. These suggestions help build brand recognition, help the franchisor support its franchisees, and add value to both the franchisor and the franchisees. All of this enables an emerging franchisor to finance and grow its franchise organization.

Another recommendation from the authors is to create a franchisee profile. What are the

Thomas M. Pitegoff
Offit Kurman

qualifications of an ideal franchisee candidate for a particular system? Financial qualifications are not enough. Other qualifications include relevant business experience, personality characteristics, skills, and values. A skilled interviewer might be able to determine which candidates are likely to follow the franchisor's operating standards and which would be better off owning their own non-franchised business.

Getting the ideal franchisee profile right early in the development of a franchise system can have important consequences. The emerging franchisor will want to be sure that its initial franchisees are all successful. The contact information of these initial franchisees will be disclosed in the FDD. Their successes or difficulties can make or break a new franchise system.

In order to find good franchisee prospects, the authors discuss the importance of franchise marketing materials, including the franchise website. They cover the advantages and disadvantages of franchise brokers and franchise advertising portals, as well as blogs, social media posts, research articles, posts on websites, and online publications. They also cover franchise trade shows and print advertising. In addition, they discuss processing and qualifying franchisee leads, including the use of Contact Relationship Management ("CRM") software.

One topic of interest to many franchise attorneys is the question of what provisions of the franchise agreement an emerging franchisor might be willing to negotiate. We all know that new and emerging franchisors are far more willing to make negotiated changes than the most well-known and well-established brands. The authors list some changes that might be negotiable, like the size of the franchisee's territory or putting a limit on the personal guaranty. They suggest that other provisions are not likely to be negotiable, such as the grounds for termination by the franchisor and the nondisclosure and noncompete provisions.

Establishing Strong Franchisor-Franchisee Relations

The book reminds readers that franchisor support is one of the most important services that franchisees expect their franchisor to provide and that one of the leading causes of franchisee dissatisfaction is a lack of franchisor support. Franchisees invest in a franchise with the expectation that they will benefit from the expertise and knowledge that the franchisor has acquired in building the successful franchise business model.

The book covers a range of support that all good franchisors should offer to their franchisees. One of their recommendations is to have field representatives or regional directors visit all new franchises during the first two months after their opening. It is especially important that new and emerging franchisors are in close contact with and make frequent face-to-face visits to franchisees during the first year of each franchisee's operation. Difficulties at this early stage can harm the franchisee's confidence and jeopardize its future success. Franchisors with high franchisee satisfaction levels have learned to engage and involve their franchisees using clear, transparent, two-way communication. The best performing franchisors allow their franchisees to provide feedback. This fosters a collaborative, win-win culture.

The authors recommend that franchisors monitor the performance of their franchisees using key performance indicators ("KPIs"). This helps to identify franchisees that may require the franchisor's advice and assistance. KPIs include monthly sales growth by percent and monthly gross margin by percent and dollars. Such information helps the franchisor assess why some franchisee businesses are more profitable than others.

The authors emphasize that each franchisee should be treated with respect in view of the franchisee's investment, its contractual relationship with the franchisor, and its knowledge of the local marketplace. As the authors put it, this means using a more consultative approach rather than the supervisory role generally used in company-owned operations.

Positive relations between the franchisor and its franchisees are essential and a characteristic of successful franchise operations. In fact, franchisors should measure franchisee satisfaction levels regardless of the size of the franchise system and regardless of whether it is emerging or mature. The book recommends that franchisors measure franchisee satisfaction levels through surveys. This is especially important for new franchisees. The first one to three years is critical to each franchisee's ongoing success.

The book also recommends that franchisors share best practices with franchisees. A good franchisor knows what works because they communicate with their franchisees on a regular basis and discuss their operations. Sharing successful franchisee best practices with other franchisees can help the entire system. The franchisor can communicate this to all franchisees in a bulletin or a newsletter. As those experienced in the field know, some of the best ideas come from franchisees. The authors point out that the McDonald's Filet of Fish and Big Mac sandwiches were both creations of franchisees.

One means of communication between franchisors and franchisees is a franchisee owners association or a franchise advisory council. The advisory council is created by the franchisor, who invites selected franchisees to become members. The owners association is formed by franchisees. The book's authors write that both approaches are helpful in developing new products or strategies. Franchisors should not fear the formation of a franchisee owners association. In fact, franchisors should solicit feedback and suggestions from their franchisees. This demonstrates that the franchisor is committed to the success of the franchise network as opposed to simply mandating changes.

Trends in Franchising

In the final chapter, the authors discuss franchise trends. One trend is the growth of private equity in franchising. Franchise companies are attractive to private equity firms because franchise systems are highly scalable with dedicated franchisees who have a financial stake in the franchise system and work hard to provide a steady income stream.

The COVID pandemic affected franchising but also demonstrated the resilience of franchising. FRANdata reported that during the course of the pandemic, 10,875 franchises closed permanently. On the other hand, royalties and other continuing fees built into the franchise model enabled franchisors to provide financial relief to their franchisees by suspending, reducing, or forgiving those fees. This enabled "countless franchisees" to remain in business despite the pandemic.

Conclusion

This book is a worthwhile read not just for business students, franchisors, franchisees, and those who aspire to be franchisors or franchisees. It is also a worthwhile read for franchise attorneys. ■

A New Opportunity: NIL and Franchise Systems

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cannot take place in or otherwise use the institution's facilities without prior written authorization from the institution's athletic department, including spaces like team locker rooms. NIL activities also cannot take place during any team activities, generally understood as any activity sponsored or funded by the institution's athletic department (including team travel, practice, and competition).

NIL deals represent a significant new marketing opportunity for many franchise brands, including for franchisee-led marketing at the local level. The legal landscape that currently involves various rules and regulations will continue to evolve at a rapid pace in the near term. In the meantime, most franchise systems interested in exploring NIL deals should retain counsel familiar with this legal landscape to develop a reasonably effective, responsive NIL program. ■

When You Come to a Fork in the Road, Take It: De-identification of Former Franchised Units

By Drew Stevens, Caiola & Rose, LLC

The worlds of commercial real estate and trademark law often meet in the franchising industry, particularly when it comes to achieving the de-identification of a former franchised location. Consider: if a franchised store goes dark without first satisfying its de-identification obligations, how does a franchisor most effectively and expeditiously pursue a resolution?

Holdover Franchisees and Trademark Infringement Actions

Upon the expiration or termination of a franchise agreement, the continued use of a franchisor's trademarks by a former franchisee generally constitutes trademark infringement. *See Gutter Topper, Ltd. v. Sigman & Sigman Gutters, Inc.*, No. 1:05-CV-149, 2006 WL 3085631, at *6 (S.D. Ohio Oct. 27, 2006) (granting summary judgment to the franchisor on the claim for trademark infringement). Many courts have recognized that a former franchisee's ongoing use of the franchisor's trademarks suggests an affiliation with the franchisor that no longer exists, potentially putting the brand and reputation of the franchisor in the hands of a party no longer bound by a valid contract to operate according to system standards. *See Am. Dairy Queen Corp. v. Wardlow*, No. 4:15-CV-04131-RAL, 2015 WL 5178454, at *4 (D.S.D. Sept. 4, 2015) ("The harm that ADQ will suffer if customers have a negative experience at Defendants' restaurant and attribute this experience to the Dairy Queen® brand in general is not readily quantifiable.").

For these reasons, a franchisee's failure to satisfy its de-identification obligations may give rise to a cause of action for trademark infringement under the federal Lanham Act. A franchisor typically files suit in federal court and seeks emergency or preliminary injunctive relief requiring the franchisee to cease continuing use of the franchisor's trademarks, including removing all remaining trademarks, trade dress, and other distinctive features of a given location. *See Cottman Transmission Sys., Inc. v. Melody*, 851 F. Supp. 660, 671 (E.D. Pa. 1994) (finding that franchisor would

Drew Stevens
Caiola & Rose, LLC

suffer irreparable harm if former franchisees were "not promptly preliminarily enjoined from any further use of the Cottman name, marks, telephone numbers or proprietary materials and from holding themselves out as being or at one time having been associated with Cottman Transmissions Systems").

This strategy faces immediate challenges, however. A franchisor must prepare, file, and serve a complaint for trademark infringement and satisfy the demanding standards for preliminary injunctive relief, including showing irreparable harm, all of which consumes time and expense and subjects the franchisor to unpredictable litigation, including, quite often, the franchisee's contention that the franchisor improperly terminated or refused to renew its franchise agreement. *See, e.g.*, *Dunkin' Donuts Fran., LLC v. Panzar Boston Post, LLC*, 10 CIV. 4188 (VM), 2010 WL 11713066 (S.D.N.Y. Aug. 16, 2010) (finding no irreparable harm and denying motion for injunctive relief); *Red Robin International, Inc. v. Lehigh Valley Restaurant Group, Inc.*, 2016 WL 705988 (D. Colo. 2016) (denying motion for preliminary injunction).

Avoiding Litigation: Lease Arrangements and Other Alternatives

To avoid relying solely on relief through litigation or third-party dispute resolution, franchisors have increasingly obtained direct contractual relief by agreeing at the inception of the franchise relationship to certain lease-related terms with their franchisees and their franchisees' landlords. This approach often leads to faster, less costly, and more certain outcomes for franchisors than seeking injunctive relief in court. This approach calls for franchisors and franchisees to agree to certain landlord consents, either in the franchisee's lease itself or in a separate tri-party agreement. These agreements often provide limited rights to the franchisor to enter the leased premises without liability for trespass and for certain purposes and under certain conditions, most importantly to remove proprietary signage and other distinctive materials in the event of termination or expiration of the franchise agreement.

One leading treatise on franchise law offers the following provision for potential inclusion in a franchisee's lease:

> Deidentification.
>
> Upon termination of this Lease or of the Franchise Agreement, the Lessee shall remove all identifying signs and trademarks from the Premises. If Lessee fails to do so within five calendar days of its last day of active business or of the termination of this lease, whichever is sooner, Franchisor may remove such signs and marks itself.

1 W. Michael Garner, Franchise & Distr. L. & Prac. § 4:21 (2021–2022 ed.). Of course, to exercise these contractual remedies, a franchisor must ensure that the franchisee's lease in fact includes these provisions, which would in turn require the franchisor to remain consistent in ensuring that it can, and in fact does, review each franchisee's lease before execution. An alternative approach calls for franchisors and franchisees to enter into lease "riders" that may follow the execution of the underlying lease but nonetheless contain similar provisions that a franchisor would otherwise ask to include in the lease itself, such as the right to enter the leased premises without liability for trespass and the right to remove proprietary signage and other materials for de-identification purposes. *See, e.g.*, Meredith Barnes et al., *Protecting Real Estate Rights When the Franchise Relationship Ends*, 37 Franchise L.J. 553, 563 (2018).

On the other hand, for franchise systems where the franchisor frequently leases unit premises to franchisees, the franchisor (as the lessor) should ensure that it retains the right under the lease to remove all identifying signs from the premises either upon the termination of the franchise agreement or at the end of the lease. As recognized by a leading practice guide, "This gives the franchisor a type of control over the franchisee's use of trademarks that is different from and in addition to that available under the trademark and unfair competition laws." 1 W. Michael Garner, Franchise & Distr. L. & Prac. § 4:4 (2021–2022 ed.); *see also* Clay A. Tillack & Mark E. Ashton, *Who Takes What: The Parties' Rights to Franchise Materials at the Relationship's End*, 28 Franchise L.J. 88, 90 (2008).

Finally, the franchisor may explore owning any branded signage and granting the franchisee a revocable license to use the signage. The franchise agreement should include the terms of this revocable license and should also define the terms upon which a franchisee must return the signage to the franchisor. One practice guide has offered the following text for consideration:

> The Franchisor grants to the Franchisee a revocable license to use the Signage. . . . The Franchisee acknowledges that the Signage is owned by the Franchisor. The Franchisee

has no, and agrees not to claim that he or she has, rights in or to the Signage except as expressly granted under this Agreement. The Franchisee shall not alter or remove the Signage without the prior written consent of the Franchisor. If the Franchisor believes that an Event of Default has occurred, the Franchisor shall have the right, without notice to or consent of the Franchisee, to enter the Premises where the Signage is located and dismantle and remove the Signage without being guilty of trespass or a breach of the peace.

See Keith J. Kanouse, *Real Estate Aspects of Franchising*, Franchise L. & Prac. (Ch. 9-36-38). Under this arrangement, and because the franchisee would likely lack ownership interest in the signage, this language should typically enable the franchisor to obtain possession of signage more swiftly than seeking specific performance under the franchise agreement or bringing a replevin action. *See id*.

But as with the other strategies noted above, here too a franchisor should ensure that either in the franchisee's lease or in a lease rider, the landlord consents to the franchisor's right to enter the premises and remove its signage.

While often effective for de-identification purposes, these self-help strategies are not without their risks. Where a franchisee alleges that the franchisor improperly terminated or refused to renew its franchise agreement, the franchisor may not succeed in avoiding litigation or arbitration through these tactics. Rather, the franchisee may initiate dispute resolution in response to the franchisor's de-identification efforts or even seek injunctive relief to stop such efforts. This strategy may be particularly likely to result in a dispute with a franchisee when the franchisor takes steps to de-identify after an alleged franchisee defaults but has not actually terminated the parties' franchise agreement.

Conclusion

In the end, while the courts will always serve as one option to resolve de-identification disputes following termination or expiration, many franchise systems could benefit from proactively entering into lease arrangements or riders with franchisees and their landlords. These arrangements require franchisors, franchisees, and landlords to agree on contractual terms and reasonable limitations on the franchisor's ability to engage in self-help. Nonetheless, taking the time to work through these discussions and compromise in certain circumstances will provide the parties with at least one additional means of resolving post-termination de-identification disputes without resorting to costly, time-consuming, and unpredictable litigation or arbitration. ■

Update: Franchise Anti-Poaching Provisions

Continued from page 6

will be persuasive when the case is argued later this year. Unsurprisingly, given its importance, the *Deslandes* appeal has also generated numerous *amicus* briefs on both sides of the issue.

Notably, and perhaps in view of the doctrinal uncertainty, at least two franchisors agreed to settle the claims against them since the publishing of the prior article. *See In re: Papa John's Employee and Franchisee Employee Antitrust Litig.*, No. 3:18-cv-825-BB-RSE, ECF No. 202 (W.D. Ken. Jul. 27, 2022) ($5 million settlement); *Fuentes v. Jiffy Lube Int'l, Inc.*, No. 2:18-cv-5174-AB, ECF No. 90 (E.D. Pa. Jul. 22, 2022) ($2 million settlement).

Finally, while the legal issues move toward resolution, the question remains as to whether anti-poaching provisions ever actually reduced wages as claimed. Washington Attorney General Robert Ferguson, whose efforts initiated the removal of anti-poaching provisions from most franchise agreements, issued a press release citing a study purporting to prove that the provisions had suppressed wages. *See* Lasting Impact: Study Finds AG Ferguson's no-poach initiative boosted income for low-wage workers nationwide, https://www.atg.wa.gov/news/news-releases/lasting-impact-study-finds-ag-ferguson-s-no-poach-initiative-boosted-income-low (last visited Jan. 10, 2023). However, that study relied on old scholarship and ignored subsequent analyses demonstrating the flaws in the original methodology. *See* 25 *The Franchise Lawyer*, at 7 (citing studies). Therefore, the actual effect of anti-poaching provisions, if any, remains an open question. ■

Enjoined from What? Drafting Injunctions with Sufficient Specificity

By Anne H. Baroody, Parker, Hudson, Rainer & Dobbs LLP

Franchise businesses pursuing injunctive relief typically invest substantial time and resources in the pursuit. While litigation counsel rightly focuses on the standards and proof for obtaining relief, a recent Sixth Circuit opinion cautions counsel to put equal care into drafting the proposed injunction order itself. *See Union Home Mortg. Corp. v. Cromer*, 31 F.4th 356, 364 (6th Cir. 2022). In *Union Home*, the court vacated a preliminary injunction that used undefined and vague terms and failed to put any time limitation on the scope of relief. The opinion reminds counsel that drafting the proposed injunction should not be an afterthought. Counsel who fail to draft injunctions with sufficient specificity risk losing the very relief they fought so hard to obtain.

Rule 65 governs injunctions in federal court. Rule 65(d) requires that "[e]very order granting an injunction . . . must: (A) state the reasons why it issued; (B) state its terms specifically; and (C) describe in reasonable detail—and not by referring to the complaint or other document—the act or acts restrained or required." Fed. R. Civ. P. 65(d). Practitioners should not neglect these provisions as "mere technical requirements." *See Schmidt v. Lessard*, 414 U.S. 473, 476 (1974).

The Rule requires an injunction to function as a stand-alone document. Counsel drafting proposed injunctions should not assume that the district court's order and reasons for granting the injunction will satisfy the Rule's requirements. *See Auto Driveaway Franchise Sys., LLC v. Auto Driveaway Richmond, LLC*, 928 F.3d 670, 676 (7th Cir. 2019); *see also Original Great Am. Chocolate Chip Cookie Co. v. River Valley Cookies, Ltd.*, 970 F.2d 273, 275 (7th Cir. 1992) (district court order adopting magistrate court's report and recommendation as to grant of injunction in favor of franchisee did not contain an injunction order at all). The Rule also bars practitioners from drafting proposed injunctions that describe conduct only by reference to outside documents or agreements. Fed. R. Civ. P. 65(d)(1)(C); *Union Home Mortg. Corp. v. Cromer*, 31 F.4th 356, 364 (6th Cir. 2022).

Careful drafting is critical to keeping hard-won injunctions in multiple franchise litigation contexts. Franchisor counsel pursuing injunctions in the context of de-identification or other unfair competition disputes involving the brand's trade dress should make sure to specifically describe the subject trade dress in the injunction order. General references to "distinctive trade dress, packaging, style or labeling" are too vague to comply with Rule 65(d). *See Ideal Toy Corp. v. Plawner Toy Mfg. Corp.*, 685 F.2d 78 (3d Cir. 1982). Incorporation by reference to specific federal trademark or trade dress registrations might also fall short if copies of the registrations themselves are not affixed to the injunction order. Franchisee counsel seeking injunctive relief to restore the franchise in the context of termination disputes should be equally cautious to ensure that the resulting order complies with Rule 65(d), including that the district court enters an actual injunction order, or risk the court's ruling being deemed a nullity. *See Original Great Am. Chocolate Chip Cookie Co.*, 970 F.2d at 275–76 (7th Cir. 1992) (injunction to restore franchise in favor of franchisee failed to comply with Rule 65(d); vacated on other grounds). Injunctions involving trade secrets and confidential information can pose particular problems, as plaintiffs are not keen to disclose those items with specificity in a public injunction order. But as with other subject matters, failure to provide specificity can doom your injunction. Avoid drafting injunctions that merely recite the law or prohibit "unlawful" conduct or "misappropriation of plaintiff's trade secrets." *See Patriot Homes, Inc. v. Forest River Housing, Inc.*, 512 F.3d 412, 415 (7th Cir. 2008). An injunction should identify the types of information or categories of documents that constitute the plaintiff's trade secrets or confidential information. *See Am. Red Cross v. Palm Beach Blood Bank, Inc.*, 143 F.3d 1407, 1412 (11th Cir. 1998) (injunction barring defendant using "other documents that contain trade secrets" was impermissibly vague).

Anne H. Baroody
Parker, Hudson, Rainer & Dobbs LLP

The narrower the description of the types of information at issue, the better. Broad categories of information "that could be used to describe documents found in any number of corporations" fail to inform a defendant what information it is barred from using. *See Mallet & Co. v. Lacayo*, 16 F.4th 364, 381 (3d Cir. 2021). "While it is not always easy to ascertain what information is a trade secret or confidential at [the preliminary injunction] stage of the proceedings," the injunction must provide enough detail to "clearly delineate" the defendant's obligations. *Patriot Homes, Inc. v. Forest River Housing, Inc.*, 512 F.3d 412, 415 (7th Cir. 2008).

When given the opportunity to submit a proposed injunction order, make sure your proposed order is sufficiently specific. While some appellate courts may modify an impermissibly vague injunction to preserve the moving party's hard-won relief, *see Ideal Toy Corp.*, 685 F.2d at 84–85, most will vacate the injunction and remand for further proceedings, increasing costs and prolonging the path to certain relief for your client. Worst yet, if injunctive relief would be limited to a short time period, having an appellate court reverse a preliminary injunction may nullify the availability of an injunction altogether. ■

Message from the Chair

Continued from page 1

I hope that sharing some of my thoughts about why I've found involvement in the Forum to be so valuable will encourage some of you to get more involved and hopefully experience some of the many benefits I have. If you are already involved, I hope this will motivate you to encourage others in your firm, your company legal department, or your professional circle to get involved with the Forum. You will be doing them—and us—a favor!

Now, back to what's going on in the Forum.

We are busy planning the 2023 Forum Annual Meeting that will occur on November 1–3, 2023, at the Sheraton Dallas Hotel in Dallas, Texas. This year's Annual Meeting co-chairs are Nicole Micklich and Heather Perkins, and with the input of the program committee and the GC, they have put together a great set of plenaries, workshops, and intensives. As always, many of the program ideas came from submissions by our members, which is one of the ways we are able to put on consistently strong programs every year. Make your plans now to attend. Registration information should be available in May.

I need to say a word about our efforts to switch our communications platform from ABA Communities back to a listserv platform like we had several years ago. As I said in my State of the Forum remarks last fall in San Diego, the ABA had approved our move back to the listserv platform, but that process has not been as smooth as we anticipated. We have been working on this, and hopefully by the time you read this, we will have completed the transition to the listserv platform and be happily communicating among ourselves as we did before. I want to thank Forum Technology Officer Bob Einhorn and our ABA Forum Director Yolanda Muhammad for their significant efforts on this project.

Finally, the Forum will convene a nominating committee this spring to receive nominations and recommend candidates to fill open positions on the Governing Committee for terms starting in August 2024. Immediate Past Chair Will Woods will chair the nominating committee. I will make an announcement in the near future with the members of the nominating committee and the timing for the submission of nominations.

The Governing Committee and I are here to serve you, so feel free to contact me if you have any questions, thoughts, or suggestions about the Forum: rcoleman@phrd.com or 404.420.1144. ■

Message from the Editor-in-Chief

By Erin C. Johnsen, Garner, Ginsburg & Johnsen, P.A.

I write this letter having just returned from the Forum on Franchising Governing Committee's mid-winter meeting. These meetings are a wonderful opportunity to get together with colleagues, reflect on the fantastic contributions of Forum members in the past, and plan ahead for more high-quality programming and publications in the future.

During this meeting, we discussed efforts to get more members involved in Forum leadership and encourage members to become eligible to speak at future Forum on Franchising events. One way for members to get more involved in the Forum is to write for one of the Forum's publications, like this one! *The Franchise Lawyer* would not exist without the valuable contributions of our authors, including those featured in this Winter issue. If you would like to contribute to a future issue or have a topic you'd like to see covered here, please contact me directly at ecjohnsen@yourfranchiselawyer.com or 612-259-4807. ■

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