

Franchising Lessons in the Age of Incivility: Operations Manuals and Trade Secrets

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Abstract

The framework for a successful franchise relationship governs procedures, performance, and standards. The franchisor agrees to lend, in effect, its intellectual property and guidance, among other things, in exchange for the franchisee’s royalties and other payments. Before entering into an agreement, franchisors disclose a large bundle of information to the prospective franchisee. The data may include operational insights necessary for a franchise’s success. In practice, though, franchise operations manuals only become available to franchisees once they pay for and are bound to the franchise system. This timing, and the centrality of the manual, is the key to many franchise disputes. For example, franchisees may allege they were harmed by vague, precontractual representations about the contents of operations manuals, and in turn franchisors would justify the terminology they use as a way to provide the required disclosures while protecting trade secrets.

When operations manuals are leaked—whether negligently, maliciously, or recklessly—or when the franchisee (or ex-franchisee) uses the manual’s processes and information without permission, then trade secret or antitrust law may impute liability. In *Civility Experts Worldwide v. Molly Manners, LLC*, a franchisor claimed its franchisee infringed the franchisor’s copyright by promoting a service that competed against the franchise network; while the franchisee allegedly used the franchisor’s trade secrets in spite of the two parties’ preexisting relationship barring such conduct, *Molly Manners* illustrates how the franchisor could have proactively amended the franchise agreement to delineate franchisee duties and prohibitions. A franchisor could file claims against its franchisee under the law of trademarks, trade secrets (e.g., the Uniform Trade Secrets Act or the Defend Trade Secrets Act), and antitrust. Lessons that emerge from this Article’s survey of franchise law and practice can serve as guiding principles for franchisors and franchisees alike.

Introduction

If Hammurabi, ruler of ancient Babylonia and noted promulgator of a great code of law,¹ somehow returned to Earth as a fast-food franchisor, he would face three questions:

1. The profound—How was such an incredible feat, a resurrection after nearly four millennia, accomplished?

¹ See Kathryn E. Slanski, *The Law of Hammurabi and its Audience*, 24 *YALE J.L. & HUMAN.* 97, 101–06 (2012) (providing a detailed explanation of Hammurabi’s *Law Stele*).

2. The profane—Why franchising? Why fast food?
3. The particular—What new “code” would he have?

Only the last question is easily answered. Like all franchisors, Hammurabi would establish an operations manual. At his network of hamburger outlets, McHammurabi’s “Burger Code” (its operations manual) would rule.

Certainly, any franchisor, at McHammurabi’s or wherever, would not hold the extreme, one-sided powers of a Babylonian king. Modern franchising should instead be seen as a tale of two parties, franchisor and franchisee, sometimes—perhaps often—ignorant about and also at odds with each other.² While maintaining secrecy may be a natural, human predisposition, surely business and legal issues arise between a franchisor and its franchisees if there are more secrets between them than are kept from their joint competitors and rivals. For the franchise parties aligned within their “empire” (their business network), an indeterminate equilibrium—a chaotic confluence of confidence, cooperation and yet conflict—is frequently at the heart of disputes about their franchise system’s operations manual.

A. Operations Manuals

The operations manual is the nucleus of a franchise.³ It is the foundation governing performance, procedures, and conduct, and it establishes the expectations between franchisor and franchisee.⁴ In great detail, it states the standards, specifications, and procedures with which franchisees must abide to operate their business and adequately represent the franchisor’s brand.⁵ In short, it is the *condicio sine qua non*⁶ between the franchisor and the franchisee. It still may take the form of a traditional paper-bound manual, although franchisors often state in the franchise agreement that the “manual” also includes any e-mails, physical mail, or other types of documents

² This is a recurring theme not just in law, business, and franchising but also, broadly, life and literature. It is “[a] wonderful fact to reflect upon, that every human creature is constituted to be that profound secret and mystery to every other.” 1 CHARLES DICKENS, *A TALE OF TWO CITIES* 3 (Gutenberg Project 1994, 1859).

³ Scott G. McLester et al., *The Operations Manual—Essential to Success*, 24 *FRANCHISE L.J.* 31, 31 (2004) (referring to the operations manual as the Bible of the franchise relationship).

⁴ W. Michael Garner, *Launching Franchise Program*, in 1 *FRANCHISE & DISTRIBUTION LAW & PRACTICE* § 2:4 (Thompson Reuters 2019); Robert W. Emerson & Uri Benoliel, *Are Franchisees Well Informed? Revisiting the Debate Over Franchise Relationship Laws*, 76 *ALB. L. REV.* 193, 205 (2013).

⁵ *Id.*; see, e.g., *IHOP Restaurants LLC v. Moeini Corp.*, 2018 WL 762343, at *1–2 (S.D. Ala. Feb. 7, 2018) (describing provisions in the IHOP operations manual that were present to “insure uniformity of operations” among franchisees); *Arrington v. Burger King Worldwide, Inc.*, 448 F.Supp.3d 1322, 1331 (S.D. Fla. 2020) (explaining that the “success of [Burger King] BKC and its franchises are wholly dependent on systemwide uniformity . . . which is entirely predicated on uniform operations”), *appeal filed*, No. 20-13561 (11th Cir. Sept. 23, 2020).

⁶ The term refers to an indispensable and essential action, condition, or ingredient. *Sine qua non*, *BLACK’S LAW DICTIONARY* (11th ed. 2019) (mentioning that this phrase is also termed *conditio sine qua non*).

received by the franchisee.⁷

The manual may be considered the *Magna Carta*⁸ or the Ten Commandments of the relationship between the franchisee and franchisor.⁹ If, for example, a franchisee runs afoul of the expectations established in the operations manual or engages in unfair competitive conduct—such as using the information in the manuals to outcompete other franchisees—antitrust laws would, arguably, be violated.¹⁰ In contrast, if the contents of an operations manual unreasonably restrained what a franchisee could and could not do, there would also be a violation by the franchisor. With this established framework we turn to the aptly named *Civility* case.

B. *Civility Experts Worldwide v. Molly Manners, LLC*

In *Civility Experts Worldwide v. Molly Manners, LLC*,¹¹ there were two Rocky Mountain enterprises whose livelihood revolved around etiquette and propriety. Both promoted “civility training solutions”¹²; their core business models emphasized

⁷ David J. Kaufmann, *What Is a Franchise Operations Manual?*, MSA WORLDWIDE, <https://www.msaworldwide.com/blog/franchise-operations-manual/> (last visited Aug. 3, 2021).

⁸ The American Association of Franchisees & Dealers (AAFD) has gone as far as to state that the Magna Carta was the first franchise agreement. ROBERT L. PURVIN, JR., *THE FRANCHISE FRAUD* 20–35 (J. Wiley 1994); Robert L. Purvin, *Was the Magna Carta the Very First Franchise Agreement*, AM. ASS’N OF FRANCHISEES & DEALERS (Feb. 13, 2017), <https://www.aafd.org/new-site/magna-carta-first-franchise-agreement/>; see Don Sniegowski, *Why Independent Franchisee Associations are Critical to Franchise Owners*, BLUE MAUMAU (Feb. 2, 2017), <https://www.blumaumau.org/story/2017/02/02/aafd-chairman-why-independent-franchisee-associations-are-critical-franchise> (an interview with Robert L. Purvin, chairman of the AAFD, which he founded in May 1992).

⁹ See, e.g., Rupert M. Barkoff, *Implementing Change in a Franchise System*, LAW J. NEWSL. (May 2011), <https://www.lawjournalnewsletters.com/sites/lawjournalnewsletters/2011/05/14/implementing-change-in-a-franchise-system/?slreturn=20191101160523> (“Together with the system’s operations manual, [franchise agreements] set the rules governing virtually every aspect of the franchise relationship”). While the Magna Carta restrained the power of the king (the franchisor), which is actually the opposite of the operations manual’s purpose (enhancing the king’s authority—that is, the franchisor’s power—to manage the franchise network), the operations manual, inasmuch as it sets forth broad principles for franchisee behavior, may be likened to the Ten Commandments from the Old Testament. See *Browning-Ferris Indus. v. Kelco Disposal, Inc.*, 492 U.S. 257, 270–71 (1989) (explaining that the Amercements Clause limited the King’s arbitrary royal power by requiring that the amercement not be so large to deprive a Baron of his livelihood and requiring the amount be fixed by one’s peers (citing Magna Charta, 9 Hen. III, ch. 14 (1225), 1 Stat. at Large (1769), confirmed 23 Edw. I, ch. I (1297))); see also *Exodus* 20:1–17. Of course, as the manual then proceeds into details about franchisee behavior, it goes far beyond fundamental proscriptions; see also Sniegowski, *supra* note 8.

¹⁰ *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 605, 605 n.32 (1985) (“Conduct that impairs the opportunities of rivals and either does not further competition on the merits or does so in an unnecessarily restrictive way may be deemed anticompetitive.”); see the Sherman Act, 15 U.S.C. § 2 (imposing felonious penalties of fines not to exceed \$100,000,000 for corporations or \$1,000,000 for individuals, and/or imprisonment not to exceed ten years, on those convicted of actual or attempted monopolization, including conspiracy, among the States or foreign nations).

¹¹ 167 F. Supp. 3d 1179, 1187–88 (D. Colo. 2016).

¹² *Id.*

“good manners and civility, and [yet] one of them stole the other’s [operations manual].”¹³ Thus, a franchising company, Civility Experts Worldwide (“Civility”), sued an independent business, Molly Manners, LLC (“Molly Manners”), alleging that Molly Manners infringed upon Civility’s copyrights with regard to three lessons used to teach manners to children.¹⁴ Civility alleged there was a “breach of the settlement agreement, tortious interference with prospective economic advantage, copyright infringement, unfair competition, and false advertising.”¹⁵

To settle a dispute prior to this litigation, the parties had agreed, in 2013, that Molly Manners would remove all references to Civility’s materials with the exception of materials that were explicitly licensed to Molly Manners.¹⁶ In this case, though, two parties, touted for their dedication to civility, good manners, and candor, could not come to an agreement. In fact, as time progressed, any kind of “civility” between the parties broke down. Molly Manners moved for summary judgment on all claims stating that it adhered to the 2013 settlement agreement when it “modified its teacher guides and materials.”¹⁷

Civility could have proven its copyright infringement claim through either direct or indirect evidence.¹⁸ Proving its claim by direct evidence required Civility to “witness [the] physical act of copying.”¹⁹ This could be accomplished if an employee or agent of Civility saw Molly Manners reproduce Civility’s work firsthand. It also could be proven if (1) a contact of Civility saw Molly Manners reproduce one of Civility’s lessons during the drafting, editing, or publishing phase, or (2) even without such a witness, Molly Manners had simply copied a particular lesson verbatim and without any form of originality.

Civility could also have corroborated its infringement claim indirectly: this required evidence that “[Molly Manners] had access to the copyrighted work and there were ‘probative similarities between the copyright material and the allegedly copied material.’”²⁰ The court held that, as a matter of law, similarities between Civility’s

¹³ Beth Ewen, *Ten Cases Rise to the Top for Two Attorneys*, FRANCHISE TIMES (Oct. 25, 2016), <http://www.franchisetimes.com/November-December-2016/Ten-cases-rise-to-top-for-two-attorneys/> (referencing *Civility Experts Worldwide*, 167 F. Supp. 3d at 1188).

¹⁴ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1187. The Civility lessons are done through workshops hosted by schools, religious groups, community centers, etc. *Macaroni and Please: Start a Civility Initiative in your School Today*, CIVILITY EXPERTS INC. WORLDWIDE, <https://www.civilityexperts.com/products/macaroni-and-please-start-an-manners-initiative-in-your-school-today/> (last visited Aug. 3, 2021). Links to sample initiatives are listed on Civility Experts Inc. Worldwide’s website. *Id.*

¹⁵ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1188.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.* at 1189.

¹⁹ *Id.* (citing 4 NIMMER ON COPYRIGHT § 13.01[B]) (footnote omitted).

²⁰ *Id.* at 1189–90 (citing *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 832 (10th Cir. 1993)). For a court deciding on probative similarities, it determines whether, “as a factual matter” it is “more likely than not that the defendant copied from the plaintiff’s work.” *Id.* at 1190.

lessons in *Macaroni and Please* and Molly Manners' *Nice is Right* cannot be "an original selection of subjects . . . [because any set of lessons covering] manners and etiquette, especially one aimed at children, will likely [overlap and is therefore] *scènes à faire*."²¹ Due to the customary mandates of etiquette, "[t]he fact that Molly Manners' lesson guides contain the same selection of topics, among others, was thus not an appropriate element [for imputing liability under a copyright infringement claim]."²²

Despite the overlap in lesson content, the court found that the evidence showed that Molly Manners engaged in behaviors that were ill-fitting—indeed, unbecoming(!)—of a business that purported to teach good manners and civility. Specifically, according to the court, there was "overwhelming evidence that Molly Manners . . . copied from Civility[.]"²³ However, even though there was sufficient evidence in the partial record, the court granted Molly Manners' motion for partial summary judgment and dismissed the copyright infringement claim, finding that no reasonable jury could conclude that Molly Manners' fragmented literal similarity constituted substantial similarity to Civility's work as a whole.²⁴ The court acknowledged that Molly Manners succeeded in "intentionally [copying and] rework[ing] Civility's [l]essons[.]" but noted that the nonfictional nature of the work left the amount of core protectable expression relatively small.²⁵ Though the court granted Molly Manners' partial summary judgment on the copyright issue, the court did not grant judgment on the allegations of contract breach because Molly Manners may have failed to adhere to good faith and fair dealing,²⁶ a concept at the heart of many franchise contract disputes.²⁷

²¹ *Id.* at 1196. *Scènes à faire* is a French term incorporated into copyright law that states certain creative work is not protectable because it is ordinary, mandated, or customary to a particular genre. *See, e.g.,* DeBitetto v. Alpha Books, 7 F. Supp. 2d 330, 334 (S.D.N.Y. 1998) (offering a complementary definition of *scènes à faire* as "elements of work that necessarily result from its subject matter or ideas"); *see also infra* note 206 and accompanying text.

²² *Civility Experts Worldwide*, 167 F. Supp. 3d at 1200.

²³ *Id.* at 1215.

²⁴ *Id.* at 1215, 1217.

²⁵ *Id.* at 1215.

²⁶ *Id.* at 1216 (noting that the covenant requires more than simply avoiding copyright infringement); *see* Robert W. Emerson, *Franchise Terminations: "Good Cause" Decoded*, 51 WAKE FOREST L. REV. 103, 115–116 (2016) (discussing the meaning of good faith, noting that good faith and fair dealing "has come to imply that actions contrary to the community standards of honesty, fairness, or reasonableness are prohibited," and finding good faith to be "derived on a case-by-case basis from the terms of the contract in question and the circumstances of the situation").

²⁷ An implied covenant of good faith and fair dealing in effect requires that the parties to a contract behave so that every party may fully benefit from the terms of their agreement. *Covenant*, BLACK'S LAW DICTIONARY (10th ed. 2014) (definition in the subtopic, "implied covenant of good faith and fair dealing"). By contract, though, the franchise parties often agree that such an implied covenant is overridden by more express terms or is otherwise irrelevant. The author's review of 500 Franchise Disclosure Documents from the year 2020—covering all industries (including lodging, restaurants, services, education, exercise, and other fields), all regions, and close to one-sixth of all extant U.S. franchise systems—found that over half of them—270—had clauses specifically stating that the

Incredibly, even though the court acknowledged that with a fully-developed record, Civility could demonstrate that Molly Manners sought to intentionally copy, rework, and sell its material, the court still granted Molly Manners partial summary judgment on the merits of the copyright infringement claim.²⁸ In essence, this case instructs us that when merely factual processes are developed, although they may be creative, the nonfiction nature of these works ordinarily falls under 17 U.S.C. § 102(b),²⁹ and they are typically devoid of protection. That is, copyright protections will only apply to those aspects of the work that “display the stamp of the author’s originality.”³⁰

So, what is a franchisor to do if its proprietary methods and operations are disclosed? What recourse is at hand if the source of a franchise network’s success was revealed to the outside world? To assist the parties and policymakers in dealing with the aftermath of a damaging disclosure, this Article addresses, among other matters, three potential solutions, found in (1) the operations manual, (2) trade secrets law, and (3) antitrust law. While the dispute between Civility and Molly Manners ultimately was decided on the court’s analysis of U.S. copyright law, the case has strong connections to additional forms of intellectual property, such as trade secrets. Molly Manners harmed competition in a way that would prevent other businesses from competing with one another; that is, the court failed to assert, openly, that Molly Manners had stolen her competition’s product instead of finding legitimate ways to compete

franchisee waived any claims for a breach of the implied covenant of good faith and fair dealing, that the express (quite pro-franchisor) terms of the franchise agreement negated any possible contrary terms under an implied covenant of good faith and fair dealing, or that no covenant will imply any rights or duties inconsistent with a fair construction of the agreement’s provisions.

²⁸ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1217.

²⁹ In relevant part, 17 U.S.C. § 102(b) states that “copyright protection [does not] extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.” Courts trace these codified principles back to *Baker v. Selden*, a U.S. Supreme Court case that found an author’s copyright over a book on a new system of accounting bookkeeping did not grant the author the exclusive right to prevent others from subsequently using or selling the ideas contained in the author’s book. *Oracle Am., Inc. v. Google, Inc.*, 750 F.3d 1339, 1355 (Fed. Cir. 2014) (referencing *Baker v. Selden*, 101 U.S. 99, 101–04 (1879)). Thus, courts will find a defendant liable for copyright infringement if the defendant’s work, as determined from the perspective of the reasonable, ordinary observer, copied protected, expressive elements of plaintiff’s copyrighted work such that the two works (when compared) are substantially similar. 18 AM. JUR. 2D *Copyright and Literary Property* § 259 (2020).

³⁰ *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 547 (1985); *Calhoun v. Walmart Stores E., LP*, 818 F. App’x 899, 905 (11th Cir. 2020), cert. denied sub nom. *Calhoun v. Walmart Stores E., LP*, 141 S. Ct. 2639 (2021); *Sieger Suarez Architectural P’ship, Inc. v. Arquitectonica Int’l Corp.*, 998 F. Supp. 2d 1340, 1347 (S.D. Fla. 2014) (mentioning that a work’s protectable aspects under copyright law are termed “expression”); see *Golan v. Holder*, 565 U.S. 302, 328 (2012) (“Due to this [idea/expression] distinction, every idea, theory, and fact in a copyrighted work becomes instantly available for public exploitation at the moment of publication; the author’s expression alone gains copyright protection” (quoting *Eldred v. Ashcroft*, 537 U.S. 186, 219 (2003))).

with its competition.³¹ This Article aims to show throughout how the case could have been decided differently if Civility had acted more aggressively (rapidly *and* comprehensively) to protect its product, and if the court had analyzed the issues under different areas of law, such as antitrust: the Clayton Act, Sherman Act, and Lanham Act.

I. History

Franchising, though not initially known by that name, has historic roots in feudalism and licensing grants from kings.³² American franchising gained its footing in the mid-1800s through brewer-licensed beer gardens, the Isaac Merrit Singer & Co. sewing machine firm, General Motors, and Rexall Drugs.³³ Numerous industries have used franchising as a distribution system where agency roles are determined by contract, although the legalities took some time to develop.³⁴ The modern franchise did not arise until roughly 1935 when Howard Johnson created the first modern restaurant franchise, approximately forty years after the passage of the first antitrust laws.³⁵

Following World War II, franchising's popularity exploded.³⁶ In 1962, the International Franchise Association estimated that over 400 companies in at least eighty different industries granted franchise rights to over 100,000 people.³⁷ Accordingly, even if Congress had considered franchising when drafting antitrust laws in the decades before the franchising boom, the antitrust law discussion, both Congressional and judicial, is unlikely to have anticipated these laws' implications in, say, the 1960s or 1970s, let alone in the current franchising context.³⁸ Thus, in a time where the

³¹ A search of the thirty-eight-page *Civility Experts Worldwide* opinion finds much discussion of Molly Manners' alleged unfair competition and intellectual property infringement, which were after all alleged in two of the plaintiff's five counts against Molly Manners, but not even a single reference to words such as theft, larceny, steal, pilfer, pocket, rob, filch, seize, misappropriate, grasp, purloin, grab, procure, or (in the right context) even the verbs take or acquire.

³² Robert W. Emerson, *Franchising and the Collective Rights of Franchisees*, 43 VAND. L. REV. 1503, 1507–08 (1990). *But see* William L. Killion, *The History of Franchising*, in FRANCHISING: CASES, MATERIALS & PROBLEMS 1, 5 (Alexander M. Meiklejohn ed., 2013) (stating that the system can be traced to the Middle Ages).

³³ Emerson, *supra* note 32, at 1507; *see also* Kerry Pipes, *History of Franchising: Franchising in the 1800s*, FRANCHISING.COM, https://www.franchising.com/guides/the_history_of_franchising_part_one.html (last visited Aug. 3, 2021).

³⁴ Emerson, *supra* note 32, at 1508–09.

³⁵ Howard D. Johnson, UNIV. OF N.H.: ROSENBERG INT'L FRANCHISE CTR., <https://paulcollege.unh.edu/rosenberg/what-franchising> (last visited Aug. 3, 2021).

³⁶ Emerson, *supra* note 32, at 1507; Michael Seid, *The Evolution of Franchising*, FRANCHISING.COM (May 30, 2006), https://www.franchising.com/articles/the_evolution_of_franchising.html.

³⁷ Leonard J. Konopa, *What is Meant by Franchise Selling?*, 27 J. OF MKTG. 35, 35 (1963).

³⁸ *The Antitrust Laws*, FED. TRADE COMM'N, <https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws> (last visited Aug. 3, 2021) (noting that the Sherman Act prohibits “every contract, combination, or conspiracy in restraint of trade,” and any “monopolization, attempted monopolization, or conspiracy or combination to monopolize;” the Federal Trade Commission Act bans “unfair methods of competition” and “unfair or deceptive acts or practices;” and that the Clayton Act addresses specific practices that the Sherman Act does not clearly prohibit, such as mergers and interlocking directorates”); *see also* 15 U.S.C. § 2, *supra* note 10.

franchise market is expected to outpace other sectors in the economy,³⁹ it is appropriate to modify antitrust laws for franchises. Franchisors have argued that they should be immune from the U.S. antitrust laws,⁴⁰ but the U.S. Supreme Court has rejected the argument and continues to apply antitrust laws to franchises.⁴¹ Furthermore, the burden of modernizing antitrust laws should not be placed entirely upon the judicial branch.⁴²

³⁹ Jenna Weisbord, Franchise Sector Expected to Outpace U.S. Economy-Wide Job Creation in 2018, According to New IFA Economic Outlook Survey, INT’L FRANCHISING ASS’N (Jan. 29, 2018), <https://www.franchise.org/franchise-sector-expected-to-outpace-us-economy-wide-job-creation-in-2018-according-to-new-ifa>. The 2018 franchise growth momentum continued into 2019 with franchises growing faster than other areas of the economy as a whole in areas such as the number of franchise establishments, employment, and profit. Rick Bisio, Franchise Growth Expected to Continue for 2019, FRANCHISE GATOR (Apr. 22, 2019), <https://www.franchisegator.com/articles/growth-expected-in-2019-12744/>.

⁴⁰ Barry M. Block & Matthew D. Ridings, *Antitrust Conspiracies in Franchise Systems After American Needle*, 30 FRANCHISE L.J. 216, 217 (2011) (mentioning that the single economic unit is the idea that regardless of legal status, two or more entities can be considered as a single entity for competition law considerations). Antitrust law’s concern is whether the alleged conspirators (e.g., a franchisor and a franchisee or two franchisees) are a single entity—whether

the alleged ‘contract, combination . . . , or conspiracy’ [between the franchise parties] is concerted action—that is, whether it joins together separate decisionmakers. The relevant inquiry, therefore, is whether there is a ‘contract, combination . . . , or conspiracy’ amongst ‘separate economic actors pursuing separate economic interests,’ such that the agreement ‘deprives the marketplace of independent centers of decisionmaking,’ and therefore of ‘diversity of entrepreneurial interests,’ and thus of actual or potential competition.

Am. Needle, Inc. v. Nat’l Football League, 560 U.S. 183, 195 (2010) (citations omitted).

⁴¹ See, e.g., *Mac’s Shell Serv., Inc. v. Shell Oil Prods. Co.*, 559 U.S. 175, 182–92 (2010) (finding the Petroleum Marketing Practices Act (PMPA) applicable in cases where a franchisee alleges that a franchisor engaged in unfair franchise termination or unlawful nonrenewal); *Volvo Trucks. N. Am., Inc. v. Reeder–Simco GMC, Inc.*, 546 U.S. 164, 169, 175–78 (2006) (finding the Robinson–Patman Act (15 U.S.C. § 13) applicable to cases of price discrimination that injure competition, including where a disfavored franchisee alleged that its franchisor offered other franchisees more significant price reductions related to the resale of the franchisor’s products over a substantial period of time, causing the disfavored franchisee to suffer an alleged “secondary-line injury” (i.e., diversion of sales or profits) that advantaged a favored franchisee); see *Will v. Comprehensive Acct. Corp.*, 776 F.2d 665, 669–71 (7th Cir. 1985) (denying the single economic unit defense); see also *Arno Park, Inc. v. Yogurt Adventures U.S.A., Inc.*, No. 94-0072-CV-W-6, 1994 WL 740895 (W.D. Mo. Dec. 9, 1994) (same).

⁴² See *Nat’l Fed’n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 707 (2012) (Scalia, J., dissenting) (“Structural protections—notably, the restraints imposed by federalism and separation of powers . . . tend to be forgotten by our citizens. It should be the responsibility of the Court to teach otherwise The fragmentation of power produced by the structure of our Government is central to liberty, and when we destroy it, we place liberty at peril.”); *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 587 (2007) (Stevens, J., dissenting) (“[T]he fact that the Sherman Act authorizes the recovery of treble damages and attorney’s fees for successful plaintiffs indicates that Congress intended to encourage, rather than discourage, private enforcement of the law.”); see *Radovich v. Nat’l Football League*, 352 U.S. 445, 454 (1957) (emphasis added) (“Congress itself has placed the private antitrust litigant in a most favorable position In the face of such a policy *this Court should not add requirements*

As noted in a variety of Supreme Court opinions, the court lacks the resources that Congress has and thus is less able to fully understand complex economics.⁴³ Furthermore, many, if not most, judges spent their formative years, before becoming a judge, practicing law in the criminal arena, which requires a vastly different analysis than the civil litigation or transactional work customary for business law matters.⁴⁴

II. Operations Manuals: Examples and Elaborations

A. Functions of the Operations Manual

The operations manual⁴⁵ serves an important function as the means by which a franchisor can alter the franchise operations without having to re-execute the franchise agreement.⁴⁶ Franchise systems must maintain flexibility so that franchisors can

to burden the private litigant beyond what is specifically set forth by Congress in those laws"); *United States v. E. I. Du Pont de Nemours & Co.*, 351 U.S. 377, 388–89 (1956) (per curiam) (“But those exceptions [to the Sherman Act] express legislative determination of the national economy’s need of reasonable limitations on cutthroat competition or prohibition of monopoly. ‘[W]here exceptions are made, Congress should make them.’” (citing *United States v. Line Material Co.*, 333 U.S. 287, 310 (1948))).

⁴³ See *King v. Burwell*, 576 U.S. 473, 515–16 (2015) (Scalia, J., dissenting) (“Congress, not this Court, [is] responsible for both making laws and mending them. This Court holds only the judicial power—the power to pronounce the law as Congress has enacted it. We lack the prerogative to repair laws that do not work out in practice . . . It is up to Congress to design its laws with care, and it is up to the people to hold them to account if they fail to carry out that responsibility.”). *But see* *State Oil Co. v. Khan*, 522 U.S. 3, 20 (1997) (“The general presumption that legislative changes should be left to Congress has less force with respect to the Sherman Act in light of the accepted view that Congress ‘expected the courts to give shape to the statute’s broad mandate by drawing on common-law tradition.’”) (citing *Nat’l Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679, 688 (1978)). Edward D. Cavanagh, *The Private Antitrust Remedy: Lessons from the American Experience*, LOYOLA UNI. CHI. L.J. 629, 636 (2010); see also *Techniques for Presenting Complex Economic Theories to Judges*, POLICY ROUNDTABLES, 6–8, 17–87 (2008) <https://www.oecd.org/daf/competition/abuse/41776770.pdf> (discussing different techniques to try to explain complex economic theories to judges); Michael R. Baye & Joshua D. Wright, *Is Antitrust Too Complicated for Generalist Judges? The Impact of Economic Complexity and Judicial Training on Appeals*, 54 J. OF L. & ECON. 1 (Feb. 2011) (noting that only 24% of 42 antitrust economists believe judges “usually” understand the economic issues that are present in a given case). While judicial review is not explicitly stated in the constitution it is rooted in the United States’ history to give the United States Supreme Court the ability to invalidate legislation or executive orders, not make law. *The Court and Constitutional Interpretation*, SUP. CT. OF THE U.S., <https://www.supremecourt.gov/about/constitutional.aspx> (last visited Aug. 3, 2021). Justice Brett Kavanaugh has stated that justices “must interpret the law, not make law.” Arthur Eisenberg, *Dear Brett Kavanaugh, Justices Do Make Law*, ACLU (Jul. 13, 2018), <https://www.aclu.org/blog/free-speech/dear-brett-kavanaugh-justices-do-make-law>.

⁴⁴ This motivates the popularity of the Court of Chancery in Delaware, which is a court that is predominately composed of business-literate individuals. This popularity is showcased in part by the number of litigated disputes before the Chancery Court, which resulted in approximately 265 opinions and orders filed by the Court in 2020. *Opinions and Orders*, DEL. CTS., <https://courts.delaware.gov/opinions/> (last visited Aug. 3, 2021).

⁴⁵ For introductory material on operations manuals, see *supra* notes 3–10 and accompanying text.

⁴⁶ James W. Denison, *Why It’s Tough to Have Hard-and-Fast Rules About Operations Manuals*, 30

adapt to changing markets or governmental regulations.⁴⁷ Without this ability, franchise agreements could be voided by changes in regulations, thus resulting in only short-term agreements to allow for adaptability, which would likely affect franchise stability.⁴⁸ In franchise agreements, franchisors will take initial steps to safeguard the right to alter the operations manual and—thereby—franchise operations in general.⁴⁹ Thus, the modifiable operations manual is the best approach for a franchisor to remain adaptable.⁵⁰ For example, template modification provisions exist:

Any part . . . , services, and products may *in good faith* be further developed, improved, changed, and modified by the Company from time to time. *However, any such changes may not materially alter the economic and other terms of this agreement unless consented to in writing by franchisee.*⁵¹

However, a natural conflict arises. When a franchisee signs the franchise agreement, she believes she is contracting for a certain system or operation.⁵² But there are

FRANCHISE L.J. 239, 239 (2011) (noting “periodic modifications” as a benefit of manuals). Case law is divided on how courts decide to handle modification of operations manuals. *See* Peter C. Lagarias & Edward Kushell, *Fair Franchise Agreements from the Franchisee Perspective*, 33 FRANCHISE L.J. 3, 16 (2013). For a franchisor to be able to change the operations manual there needs to be language in the agreement that the franchisor may change the operations manual. Leonard H. MacPhee, *Recent Franchise Cases and the Importance of Clear and Complete FDDs and Franchise Agreements*, ASPATORE, Jun. 1, 2013, at *11, 2013 WL 3773412; *see also* Stanley M. Dub et al., *Dueling Perspectives on Selected Franchise Agreement Provisions*, Am. Bar Ass’n 43rd Annual Forum on Franchising 25 (Oct. 27–30, 2020) (noting that in many instances modification to the operating manual can be done without the franchisee’s consent and can require an additional substantial investment by the franchisee).

⁴⁷ *McLaughlin v. Krystal Co.*, No. 08-0611-CG-C, 2009 WL 2514210, at *7 (S.D. Ala. Aug. 14, 2009) (“[The Franchisor] ‘may from time to time . . . require the [Franchisee] to remodel the [franchise] to incorporate a new general appearance, new services or new image, signs and décor.’”); *see* Ann Hurwitz, *Managing the Proliferation of Global Franchise Regulation*, 40 FRANCHISE L.J. 43, 49–60 (2020) (discussing some consequences of a non-harmonized variable international franchise regulatory regime, which include increased risk and costs).

⁴⁸ This would create a significant inconvenience because some franchise agreements may last ten to twenty years. Barbara A. Bagdon, *Can My Franchisor Force Me into a Big System Change*, BLUE MAUMAU (Jun. 1, 2015), <https://www.blumaumau.org/blog/2015/06/01/can-my-franchisor-force-me-big-system-change>; *see* Max Freedman, *Franchise Agreement Best Practices*, BUS. NEWS DAILY (Sept. 10, 2020), <https://www.businessnewsdaily.com/15800-franchise-agreement-best-practices.html#:~:text=the%20parties%20negotiation.,How%20long%20do%20franchise%20agreements%20last%3F,also%20often%20include%20renewal%20terms>.

⁴⁹ Lagarias, *supra* note 46, at 15.

⁵⁰ Kaufmann, *supra* note 7 (noting the broad leeway that franchisors have to alter an operations manual); *see also* Anne P. Caiola et al., *W-20 Age of Disruption: Current Issues for Restaurant Franchises*, Am. Bar Ass’n 43rd Annual Forum on Franchising (Oct. 27–30, 2020) (noting that operating manuals can be used to update the franchise system like modifying the operating agreement to include a requirement that restaurant franchises use digital delivery services).

⁵¹ Lagarias, *supra* note 46, at 10 (providing a mock modification provision).

⁵² Denison, *supra* note 46, at 239 (explaining that The FTC Franchise Rule and Franchise Disclosure

situations where a franchisee is in fact subject to terms over which there was no bargaining or even sufficient information. When the franchisor is able to unilaterally change the operations manual—something that is almost always a franchisor power⁵³—bullying of the franchisee may result.⁵⁴ Several states thus have enacted legislation allowing franchisees to rescind the franchise agreement in response to drastic changes.⁵⁵ The franchise system is traditionally franchisor-friendly, so it is important that franchisees be able to defend themselves.⁵⁶ For example, laws should enable franchisees to resist a material change⁵⁷ to the operations manual. In many franchise contracts, this would almost always be acceptable as “solely within the franchisor’s discretion.”⁵⁸ Those considerable changes to the manual, though, should only

Document guidelines recommend letting a potential franchisee preview the operations manual prior to signing).

⁵³ Robert W. Emerson, *Franchise Contract Interpretation: A Two-Standard Approach*, 2013 MICH. ST. L. REV. 641, 692 (2013) (a review of 100 franchise agreements in the United States in 2013 found that 98% declared that the franchisor has a right to revise the operations manual); Moreover, this Author gathered and reviewed 500 Franchise Disclosure Documents (FDDs) from the year 2020. The FDDs covered all industries (including lodging, restaurants, services, education, exercise, and other fields), all regions, and close to one-sixth of all extant U.S. franchise systems. The Author found that over 90% of those franchise networks (462 of them) expressly provide to their franchisor the sole discretion to amend the operations manual; franchise contract clauses specifically acknowledge the franchisor’s right to exercise broad discretion, while specifically stating that the exercise of such discretion would not breach an implied covenant of good faith and fair dealing.

⁵⁴ See Bagdon, *supra* note 48 (describing the threat that franchisees face at the hands of franchisor’s broad discretion); see also Tiffany Hsu & Rachel Abrams, *Subway got too big. Franchisees paid a Price.*, N.Y. TIMES (June 28, 2019), <https://www.nytimes.com/2019/06/28/business/subway-franchisees.html> (describing various tactics Subway used to bully its franchisees after 2015, causing many franchisees to fail to recoup their investments and close down, including a provision in the Franchise Agreement that allows Subway (as franchisor) the discretion to revise its rules “at any time during the term of [the] Franchise Agreement under any condition and to any extent.”).

⁵⁵ Bagdon, *supra* note 48; see Scott N. Opincar & Maria G. Carr, *Can you take back your Franchise Contract?*, McDONALD HOPKINS (Aug. 18, 2017), <https://mcdonaldhopkins.com/Insights/August-2017/Can-you-take-back-your-franchise-contract> (discussing various factors that courts consider when finding that a franchisee waived his or her right to rescind the franchise agreement).

⁵⁶ Uri Benoliel & Jenny Buchan, *Franchisees’ Optimism Bias and the Inefficiency of the FTC Franchise Rule*, 13 DEPAUL BUS. & COM. L.J. 411, 414–16 (2015) (providing the perspective of franchisee advocates with respect to the disparate bargaining power between the franchisee and franchisor).

⁵⁷ See, e.g., Terrence M. Dunn, *Material Changes and the FDD: Amending and Going Dark*, 34 FRANCHISE L.J. 535, 536 (2015) (citing Statement of Basis and Purpose, 72 Fed. Reg. 15444, 15455 (Mar. 30, 2007)) (The FTC Rule does not expressly define the term . . . ‘material change’ . . . the FTC regards a representation, omission, or practice to be material if it is “likely to affect consumers’ conduct or decisions with respect to the product at issue.”)

⁵⁸ There is great latitude given for a franchisor’s “discretion” in overseeing the franchise system, as specified in the franchise agreements and disclosed in the Franchise Disclosure Documents (FDDs). See *supra* note 53 (discussing the “discretion” language that this Author found in 462 of 500 FDDs from the year 2020).

Furthermore, a few states, via court holdings, have explicitly allowed franchisors “sole discretion” to negate what was presumed to be a franchisor’s implied covenant of good faith and fair dealing. *DavCo Acquisition Holding, Inc. v. Wendy’s Int’l, Inc.*, 2008 WL 755283, at *6 (S.D. Ohio Mar. 19, 2008); *Johnson v. Arby’s Inc.*, Bus. Franchise Guide (CCH) ¶ 12,018 (E.D. Tenn. Mar. 15,

be permissible under reasonable circumstances.⁵⁹

The operations manual discusses key business concepts, such as what products may be sold, franchisee advertising capabilities, franchise color schemes, required hours of operation, employee uniforms, and other intricate business details.⁶⁰ Traditionally, franchisees are bound by the operations manual. In other words, following the terms of the operational manual is not a choice, but a requirement.⁶¹ This mandate makes sense because a major attraction to the franchise business model is uniformity.⁶² For instance, a traveling consumer in an unfamiliar location can remain comfortable about her product expectations for McDonald's because company standards are uniform across the entire country.

B. Altering the Franchise Manual: A Multi-Jurisdictional Survey

1. Existing Law and Policy Considerations

Customers and clients are attracted to the promise of a certain brand, and the operations manual ensures that franchisees deliver on customers' expectations.⁶³ Therefore, the alteration of an operations manual requires balancing a franchisor's need to adapt with the franchisee's expectation of stability. Some jurisdictions, such

2000); *Patel v. Dunkin' Donuts of Am., Inc.*, 496 N.E.2d 1159 (Ill. Ct. App. 1986); *Yamin v. Moe's Sw. Grill, LLC*, 85 A.D.3d 1381, 1383–84 (N.Y.S. 2011). In *Miller v. KFC Corp.*, 2001 WL 585763, at *6–7 (N.D. Tex. May 24, 2001), the court simply noted that, for franchise agreements, Texas generally does not recognize the implied covenant of good faith and fair dealing). *See Northwest, Inc. v. Ginsberg*, 572 U.S. 273, 286 n.2 (2014) (mentioning that three states—California, Idaho, and Wisconsin—might authorize parties to use careful contractual drafting (“express provisions of the contract”) to eliminate the implied covenant).

⁵⁹ Howard Hunter, *The Implied Obligation of Good Faith*, in *THE FUTURE OF THE LAW OF CONTRACT* 2.1, 2.16 (Michael Furmston ed., 2020) (arguing that the franchisor's use of discretion “should be consistent with the overall purpose of the agreement and not arbitrary, capricious or unduly surprising”) (citing, as an example, *Lath v. BMS Cat*, 2018 WL 1835966 (D.N.H. 2018)); *see Denison, supra* note 46, at 240 (noting that a few states specifically proscribe unreasonable standards in franchise operations manuals); *infra*, Section II.B.

⁶⁰ *See Susser v. Carvel Corp.*, 206 F. Supp. 636, 640 (S.D.N.Y. 1962). It is vital to include these in the operations manual because the information inside the manual can be protected as confidential. If the information were included in the franchise agreement, it would be much more difficult to protect because of the franchise agreement's public nature.

⁶¹ *But see It's Just Lunch Int'l, LLC v. Osgood*, No. EDCV-09-1032, 2011 WL 13175466, at *2 (C.D. Cal. Aug. 11, 2011) (noting that some parts of the operations manual can be suggested specifications).

⁶² *See Rick Grossmann, Why You Should Buy a Franchise Instead of Starting Your Own*, *ENTREPRENEUR* (Dec. 9, 2016), <https://www.entrepreneur.com/article/286212> (noting that recognized service marks, trademarks, and designs are one of the benefits of a franchise); *see also supra* note 5.

⁶³ Robert Gappa, *Creating an Effective Operations Manual: A “How-To” Guide*, *FRANCHISING WORLD* 91, 92 (Mar. 2007), <https://www.franchise.org/creating-an-effective-operations-manual-a-%E2%80%9Chow-to%E2%80%9D-guide> (stating that the operations manual helps eliminate any surprises that the customer may experience while visiting a franchise location); *see, e.g., Estate of Miller v. Thrifty Rent-A-Car Sys., Inc.*, 637 F. Supp. 2d 1029, 1034 (M.D. Fla. 2009) (mentioning an operations manager's testimony on behalf of Thrifty stressing the importance of a consistent “professional presented brand”).

as Connecticut, Hawaii, and New Jersey, prohibit unreasonable standards in the franchise operations manual.⁶⁴

If a franchisor has reserved the right to modify the manual unilaterally, policy considerations must counter that right with a reasonableness standard.⁶⁵ In Norway, for instance, appellate courts have noted the importance of considering a change's effect on a franchisee.⁶⁶ This balancing protection is based entirely on Norway's judicially created laws,⁶⁷ which still respect contractual rights. Indeed, at least two cases involving unilateral changes have resulted in a ruling in favor of franchisors.⁶⁸

When addressing changes to an operations manual, courts also consider whether a change is material. Generally, courts do not allow the unilateral imposition of material changes.⁶⁹ For example, a franchisor would be unable to alter a loyalty program or increase a fee beyond what is in the franchise agreement.⁷⁰ However, if a franchisor

⁶⁴ Denison, *supra* note 46, at 240. For an example of an “unreasonable” standard, see *Beilowitz v. Gen. Motors Corp.*, 233 F. Supp. 2d 631, 644 (D.N.J. 2002) (“It is clearly an ‘unreasonable standard of performance’ within the meaning of the [New Jersey franchise statute] to require a franchisee to operate at a substantial financial loss while the franchisor attempts to implement a new and unproven marketing strategy.”).

⁶⁵ Keith Miller, *Is Your Ops Manual Changing Your Franchise Agreement?*, BLUE MAUMAU (Aug. 18, 2018), <https://www.blumaumau.org/blog/2018/08/18/your-ops-manual-changing-your-franchise-agreement> (noticing a trend that franchisors alter the operations manual to indirectly change the franchise agreement terms); see also Edward Levitt & Kathy Le, *Domestic and International Franchising, Master Franchising, and Regulation of Franchise Agreements in Canada: overview*, THOMAS REUTERS PRACTICAL L., [https://uk.practicallaw.thomsonreuters.com/6-631-2380?transitionType=Default&contextData=\(sc.De%20fault\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/6-631-2380?transitionType=Default&contextData=(sc.De%20fault)&firstPage=true&bhcp=1) (last visited Aug. 3, 2021) (noting Canada allows for franchisors to change the operations manual as the franchisor deems appropriate unless the terms are changed in bad faith or “undercut the basis bargain contained in the franchise agreement.”); Carl Arthur Christiansen, *Franchisor right to evolve its brand and consumer offerings*, RAEDER (Mar. 12, 2018), <https://www.raeder.no/en/insights/franchisor-right-to-evolve-its-brand-and-consumer-offerings/>.

⁶⁶ Carl Christiansen, *Norway: Franchisor Right to Evolve its Brand and Consumer Offerings*, INT’L DISTRIBUTION INST. (Dec. 3, 2018), <https://www.idiproject.com/news/norway-franchisor-right-to-evolve-its-brand-and-consumer-offerings>.

⁶⁷ *Id.* (noting that Norway has no franchise-specific laws); see Kjetil Vågen & Eline Thorsrud, *Norway*, in *GETTING THE DEAL THROUGH* 125, 127 (Philip F. Zeidman ed., 12 ed. 2018), <https://www.franchise.org/franchise-information/international/international-franchising-laws> (mentioning that there “are no laws or government agencies specifically regulating the offer and sale of franchises However, . . . the parties are bound by the general contractual principles requiring each party to provide the counterparty with relevant and necessary information before entering into” a franchise relationship).

⁶⁸ Christiansen, *supra* note 66 (referencing three franchisees’ breach of their franchise agreements by refusing to set up a physical office to expand the business in case LA-2016-022507 and a compensation claim by two franchisees who had lost money selling a franchisor’s “value” product at the franchisor’s suggested or recommended price in case LB-2016-036932).

⁶⁹ See generally Dunn, *supra* note 57 (discussing how various state franchise registration statutes and case law define and interpret “material change”); see also W. Michael Garner, *Modification*, in 1 *FRANCHISE & DISTRIBUTION LAW & PRACTICE* § 8:19 (Thompson Reuters 2019) (“The manual cannot be used to modify substantive provisions of the agreement.”).

⁷⁰ See, e.g., *Bird Hotel Corp. v. Super 8 Motels, Inc.*, No. CIV 06-4073, 2010 WL 572741, at *8 (D.S.D.

allowed a franchisee to purchase and use equipment that met the franchisor's specifications but then mandated a specific system, the franchisor could unilaterally impose an equipment change without obtaining franchisee approval.⁷¹ One consideration is the specificity of the franchise agreement. For example, did the agreement specify that the change at issue was possible?⁷² If so, a court will likely allow the change.⁷³

2. *The Process for Altering a Franchise Operations Manual*

The process for implementing changes to a franchise's operations manual varies among jurisdictions. For example, before making any material changes to existing franchises, a franchisor in California must provide its franchisees a timely, written disclosure; in order for the proposed modifications to occur, either the franchisees need to have agreed to those modifications or the modifications must be, in effect, spread out over time (e.g., only start more than a year after a franchise commenced) and involve fewer than 25% of the California franchises within any twelve-month period.⁷⁴ Generally, material changes require both parties to agree to the new terms and can also require additional consideration to make the modification enforceable.⁷⁵ On the other hand, a non-material change follows a less burdensome procedure. For instance, a franchisor may change a supplier or condiment arrangement by simply modifying the operations manual and providing franchisees with notice via a letter or email.⁷⁶

Feb. 16, 2010). Another example is if the operations manual imposed an expensive remodeling requirement that was not stated in the franchise agreement, nor disclosed in the Franchise Disclosure Document ("FDD"). Miller, *supra* note 65.

⁷¹ Bores v. Domino's Pizza, LLC, 530 F.3d 671, 676 (8th Cir. 2008); *see also* La Quinta Corp. v. Heartland Props. LLC, 603 F.3d 327, 336 (6th Cir. 2010).

⁷² In re Conoco Phillips Co. Serv. Station Rent Contract Litigation, No. M:09-cv-02040, 2011 WL 1399783, at *2 (N.D. Cal. Apr. 13, 2011) (holding an adjustment of rent was not a material change because the ability to adjust was included in the lease agreement).

⁷³ *La Quinta Corp.*, 603 F.3d at 336 (finding that Baymont's [the franchisor's] implementation of the L.I.S.A. System with its attendant costs was fully contemplated and permitted under the unambiguous terms of the License Agreement). *See also* Garner, *supra* note 69 (stating that the franchisors can change brands or products lines and that is not a material change when the terms of the franchise agreement specifically anticipate changes in these aspects of the franchise).

⁷⁴ CAL. CORP. CODE § 31125(b) (West 2018).

⁷⁵ 11 FLA. JUR. 2D *Contracts* § 77 (2018); accord 6 N.C. INDEX 4TH *CONTRACTS* § 104 (2018); *see also* 22 N.Y. JUR. 2D *CONTRACTS* § 475 (2018). The term consideration creates a new wave of concerns. For example, is a continued relationship consideration for additional terms? Some jurisdictions view a continued employment relationship sufficient to impose a non-disclosure or non-compete agreement after the employment has begun. *See* Signature Style, Inc. v. Roseland, No. 4:19-CV-3089, 2020 WL 58456, at *5–6 (D. Neb. Jan. 6, 2020); *see also* ADP, LLC v. Pittman, No. 19-16237, 2019 WL 5304148, at *2, *11–12 (D.N.J. Oct. 18, 2019).

⁷⁶ Chris Dull et al., *Ch-ch-ch-changes: Implementing System Changes, Upgrades and New Directions Under Existing Franchise Agreements*, in 3 INTERNATIONAL FRANCHISE ASSOCIATION 50TH ANNUAL LEGAL SYMPOSIUM, (May 7, 2017) (noting that new contracts are not needed for changing the terms of an operations manual when changes are anticipated in advance and leeway is provided in the franchise agreement).

While the franchisor may impose her own limitations on the modifications, notice still is required,⁷⁷ and such modifications always require good faith.⁷⁸ The good faith and fair dealing requirement is typically implied in all contracts and requires that all parties “exercise that discretion reasonably and with proper motive, and may not do so arbitrarily, capriciously, or in a manner inconsistent with the reasonable expectations of the parties.”⁷⁹ In other words, neither party is permitted to diminish or outright destroy the other party’s opportunity to enjoy the benefits of the contract. This limitation gives franchisees a chance to challenge a franchisor’s unilateral modifications to the operations manual that would result in financial detriment to franchisees.⁸⁰ In application, for a franchisor to alter the terms of an operations manual, it should have an economic or business reason for making the change; it cannot do so on a whim.⁸¹ Unfortunately for franchisees, proving a good faith violation is not an easy burden to meet. For example, if a franchisor decides to increase franchisees’ supply pricing, such a change is unlikely to constitute a violation of the implied covenant.⁸² Indeed, countervailing express contract terms would prevail.⁸³

⁷⁷ Recall that the change still must have been considered in the franchise agreement. Garner, *supra* note 69. See Emerson, *supra* note 53, at 657 n.93 (comparing 100 franchise network’s standard contracts in 1993 to 100 such contracts in 2013: finding “a diminution of the franchisor’s authority to mandate future modifications” of the franchised location’s layout (from 59% of the 1993 contracts down to 51% of the 2013 contracts), while those contracts prohibiting mandatory remodeling of the franchisee’s business location until after a specified time period had lapsed rose from just 8% of the 1993 contracts up to 45% of the 2013 contracts).

⁷⁸ Burger King Corp. v. E-Z Eating, 41 Corp., 572 F.3d 1306, 1308 (11th Cir. 2009) (noting that the franchisor reserved the right to make changes it “in the good faith exercise of its judgment believe[d] to be desirable and reasonably necessary”).

⁷⁹ Burger King Corp. v. Agad, 941 F. Supp. 1217, 1221 (N.D. Ga. 1996) (quoting Burger King v. Austin, 805 F. Supp. 1007, 1013 (S.D. Fla. 1992)). The United Kingdom and Austria similarly have adopted good faith requirements, through common law and statute respectively. John Pratt & Hamilton Pratt, *England and Wales, in INTERNATIONAL FRANCHISING Eng-1, Eng-27* (Dennis Campbell ed., 2nd ed. 2019); Benedikt Spigelfeld & Lukas Moser, Question 18, *Domestic and International Franchising, Master Franchising, and Regulation of Franchise Agreements in Austria: overview*, THOMAS REUTERS PRACTICAL L., [https://uk.practicallaw.thomsonreuters.com/6-632-2440?transitionType=Default&contextData=\(sc.Default\)&firstPage=true&bhcp=1](https://uk.practicallaw.thomsonreuters.com/6-632-2440?transitionType=Default&contextData=(sc.Default)&firstPage=true&bhcp=1) (last visited Aug. 3, 2021) (noting that contracts in Austria are null and void if they contravene “good morals,” analogous to American law’s “good faith” standard); EC CONSUMER LAW COMPENDIUM: THE CONSUMER ACQUIS AND ITS TRANSPOSITION IN THE MEMBER STATES 206 (Hans Schulte-Nolde et al. eds., 2008) (describing the immorality provision of Austria’s contract laws).

⁸⁰ Nat’l Franchisee Ass’n. v. Burger King Corp., 715 F. Supp. 2d 1232, 1245 (S.D. Fla. 2010) (holding that the franchisees plausibly state a claim that BKC breached its duty of good faith, when Burger King put a maximum price on a food item that would create a loss for the franchisee, even though the franchise agreement allowed maximum price amendments).

⁸¹ Dull, *supra* note 76.

⁸² Bagdon, *supra* note 48. The power to change supply pricing may be provided for in franchise documents provided to franchisees, such as operations manuals.

⁸³ *Supra* notes 27, 58. The implied covenant of good faith and fair dealing will be superseded by the terms of the contract so franchisees cannot rely on it unless there is a gap in the contract where a court could insert. See, e.g., U.S. CONST. art. I, § 10, cl. 1 (“No State shall pass any Law impairing the Obligation of Contracts”); see also *Nw., Inc. v. Ginsberg*, 572 U.S. 273, 286 (2014) (“[W]hile

C. How to Avoid Litigation: Delineating Discretion, Confidentiality, and Agency

The best way for a franchisee to combat potential abuse is to bargain for fewer opportunities for the franchisor to make unilateral changes. Franchise agreement negotiations would be exceptionally difficult for an inexperienced franchisee,⁸⁴ and most franchisees generally have little bargaining power since a franchisor could likely find another franchisee. This is often true in more established franchises with national brand recognition.⁸⁵ In fact, franchise agreements are often designed in a way that allows the franchisor to enter into a contract with multiple franchisees without having to tailor the contract to each party.⁸⁶ Furthermore, many prospective franchisees do not consult an attorney to review the terms of the franchise agreement.⁸⁷ Legal assistance would be well advised for franchisees because franchise agreements are typically considered enforceable so long as they are not unconscionable, deceptive, or against public policy.⁸⁸ Many post-contract disputes can be mitigated in the pre-con-

some States are said to use the doctrine ‘to effectuate the intentions of parties or to protect their reasonable expectations,’ other States clearly employ the doctrine to ensure that a party does not ‘violate community standards of decency, fairness, or reasonableness.’”)

⁸⁴ Emerson & Benoliel, *supra* note 4, at 203–204 (noting that the franchise model of business is attractive to new, inexperienced business owners because of the opportunity to join an already existing business system).

⁸⁵ See *Are Franchise Agreements Negotiable*, FRANCHISE LAW SOLUTIONS (<https://www.franchiselawsolutions.com/buy-a-franchise/negotiating-franchise-agreements/>) (last visited Sept. 14, 2021) (noting that it is the smaller franchise systems that are more willing to make changes to franchise agreements and grant larger concessions).

⁸⁶ Michael Seid, *Negotiating a Franchise Agreement*, THE BALANCE SMALL BUSINESS (Jan. 5, 2020), <https://www.thebalancesmb.com/negotiating-a-franchise-agreement-1350094> (noting that franchise agreements are referred to as “adhesion contracts”); see 17 AM. JUR. 2D *Contracts* § 274 (2020) (defining a “contract of adhesion” as “one that is usually prepared in printed form, drafted unilaterally by the dominant party and then presented on a take it or leave it basis to the weaker party who has no real opportunity to bargain about its terms.”); see also Zico Bahl, *Unconscionability and Standard Form Contracts*, LEGAL SERVICE INDIA (Apr. 14, 2018), <http://www.legalserviceindia.com/legal/article-118-unconscionability-and-standard-form-contracts-.html> (highlighting that standard form contracts may be unconscionable due to the “inherently unfair nature of such contracts. Scholars agree that cases wherein standard form contracts are used generally involve a predominant party that ends up dictating terms and conditions in transactions with an array of parties who are put in a comparatively more vulnerable position.”).

⁸⁷ Robert W. Emerson, *Fortune Favors the Franchisor: Survey and Analysis of the Franchisee’s Decision Whether to Hire Counsel*, 51 SAN DIEGO L. REV. 709, 719 (2014) (restating comments by franchise attorneys and reporting on a survey of 200 franchise lawyers).

⁸⁸ *Id.* at 747–53; see 17 AM. JUR. 2D *Contracts* § 271 (2020) (“An unconscionable contract is unenforceable The legal concept of unconscionability is . . . dependent by reference to: (1) the relative benefit of the bargain to the parties at the time of its making; (2) the nature of the methods employed in negotiating it; and (3) the relative bargaining power of the parties.”); see also Kourosh Akhbari, *What Is an Unconscionable Contract?*, LEGALMATCH (Jun. 25, 2018), <https://www.legal->

tract phase if a franchisee hires an attorney to help the franchisee understand disclosure documents and the franchise agreement before issues arise.⁸⁹ Thus, without an attorney, a potential franchisee may not know which terms to bargain over or even to deny,⁹⁰ and would perhaps later be exposed to unexpected, unilateral modifications in franchise operations.

Another source of manual-related litigation concerns material confidentiality.⁹¹ When it comes to business and franchises, confidential information and trade secrets are often the most valuable company assets.⁹² However, a current or former franchisee may leak information from the manual to competitors or use the information after the franchise agreement termination.⁹³ This information makes the franchise successful and unique. Business materials or trade secrets may contain information about

match.com/law-library/article/what-is-an-unconscionable-contract.html (“An unconscionable contract is one that is so one-sided that it is unfair to one party and therefore unenforceable under law. It is a type of contract that leaves one party with no real, meaningful choice, usually due to major differences in bargaining power between the parties”; accord 17 AM. JUR. 2D *Contracts* § 272 (2020) (elaborating on factors courts consider to find procedural and substantive unconscionability where a contract was obtained by undue influence, duress, unequal bargaining power, unfair surprise, or limiting warranty). Section 45 of the Federal Trade Commission Act offers protection for vulnerable consumers, including franchisees. Encompassing a broad definition of what is considered an unfair act, courts are “empowered by Section 45 to consider public policy, as established by statutes, regulations, and judicial decisions, to determine whether an act or practice is unfair.” See Robert W. Emerson, *Franchisees as Consumers: The South African Example*, 37 *FORDHAM L.J.* 455, 475 (2014).

⁸⁹ Shelley Nadler, *What’s the Average Length of a Franchise Agreement*, WHAT FRANCHISE, <https://www.what-franchise.com/questions/whats-the-average-length-of-a-franchise-agreement> (last visited Aug. 3, 2021).

⁹⁰ See 16 C.F.R. § 436.3(e)(3) (2007) (mentioning that franchisors are required to include, on the cover page of the disclosure document, a statement advising prospective franchisees to show the “contract and this disclosure document to an advisor, like a lawyer”); Emerson, *supra* note 87 (survey evidence that people contemplating the purchase of a franchise quite often fail to obtain any meaningful legal advice before making a commitment); Robert W. Emerson & Steven A. Hollis, *Bound by Bias? Franchisees’ Cognitive Biases*, 13 *OHIO ST. BUS. L.J.* 1, 16–21 (2019) (discussing how would-be franchisees’ cost-benefit analyses or other evaluations of a potential franchise investment would likely be flawed due to information asymmetry and cognitive biases such as anchoring, reactance, confirmation, and information biases). The inability to foresee reality and understand their investment is responsible for franchisee issues such as confusion, frustration, and disappointment. Robert W. Emerson, *Transparency in Franchising*, 2021 *COLUMBIA BUS. L. REV.* 172, 178 (2021).

⁹¹ McLester, *supra* note 3, at 35, 35 n.20 (noting that the confidentiality may warrant a physical return of all operations manuals).

⁹² Kristin Biedinger, *Are You Leaving Some of Your Most Important Assets Unprotected?—Trade Secrets*, TUCKER ARENSBERG (Nov. 26, 2013), <https://www.jdsupra.com/post/documentViewerEmbed.aspx?fid=4b84a470-85b0-42ab-9b17-1b07ce8b9784&height=720&width=581&contentOnly=1> (“Trade secrets can be some of the most valuable assets a company has”); *Protecting Trade Secrets for Startup Companies*, COINGETO CRYPTOCURRENCY TRADING (Feb. 27, 2018), <https://medium.com/@coingeto1/protecting-trade-secrets-for-startup-companies-f4d8bc4b3a2d> (declaring that trade secrets—i.e., confidential know-how—constitute “[t]he ‘secret sauce’ that makes a startup unique and profitable can be among its most important competitive advantages through each stage of [the startups’] existence.”)

⁹³ See *Snelling & Snelling, Inc. v. Armel Inc.*, 360 F. Supp. 1319, 1320–22 (W.D. La. 1973).

“ingredients, cooking and preparation techniques, store equipment” and more.⁹⁴ Therefore, it is essential to the success of a franchise to keep this knowledge confidential. When no statute directly regulates confidentiality and trade secrecy, the common law governs these issues.⁹⁵ Franchisors have successfully used case law to obtain injunctions preventing further use of confidential material.⁹⁶

The manual can also serve as evidence of an agency link between a franchisor and its franchisees.⁹⁷ Traditionally, franchisees are viewed more along the lines of an independent contractor with respect to determining liability.⁹⁸ However, franchisees have argued that, because the franchise is controlled by the franchisor’s requirements, the franchisors should also be liable.⁹⁹ A franchisee does not have much choice in whether to strictly adhere to the operations manual and other franchisor requirements because the franchisee risks the franchise agreement being terminated if the franchisor’s operations manual and other requirements are not followed.¹⁰⁰ It is foreseeable that a franchisee’s compliance with the operations manual could lead to a person being injured.¹⁰¹ Courts view an extensive amount of control¹⁰² as sufficient to overcome the independent contractor status and impose franchisor liability for franchisee

⁹⁴ Lagarias, *supra* note 46, at 15.

⁹⁵ Tony Wilson, *Confidential information and why you must protect it*, THE GLOBE AND MAIL INC. (February 23, 2018), <https://www.theglobeandmail.com/report-on-business/small-business/sb-growth/confidential-information-and-why-you-must-protect-it/article626822/> (commenting on Canadian franchising law).

⁹⁶ *Snelling & Snelling*, 360 F. Supp. at 1321; *see also* Wilson, *supra* note 95 (recommending explicit provisions in the franchise agreement that information within the operations manual is confidential)

⁹⁷ *See* *Miller v. McDonald’s Corp.*, 945 P.2d 1107, 1110–11 (Or. Ct. App. 1997) (determining that a jury could find that McDonald’s “retained sufficient control over the [franchisee’s] daily operations [such] that an actual agency relationship existed.”).

⁹⁸ As this is the “traditional” view, consider the oldest version of the Restatement of Torts. RESTATEMENT (FIRST) OF TORTS § 409 (AM. LAW INST. 1934) (“Except as stated in §§ 410 to 429, the employer of an independent contractor [a franchisee] is not subject to liability for bodily harm caused to another by a tortious act or omission of the contractor or his servants.”). Franchise agreements typically declare that the parties acknowledge the franchisee is an independent contractor and that the franchisee is *not* an agent for the principal. Emerson, *supra* note 53, at 697 (finding 74% of 100 franchise contracts in 2013 contained such an acknowledgment). Seventy-nine percent of the examined franchise agreements required franchisees to post notices informing the public of its independent status. *Id.* In fact, “[w]hile the franchisee works in a particular industry, such as hotel or fast-food, the franchisor usually is viewed as a licensor engaged in the business of franchising, not—as a legal matter—working in its franchisees’ industry.” Robert W. Emerson, *Assessing Awuah v. Coverall North America, Inc.: The Franchisee as a Dependent Contractor*, 19 STAN. J.L. BUS. & FINANCE 203, 203 (2014).

⁹⁹ *Dub*, *supra* note 46, at 15.

¹⁰⁰ *Id.* at 15–16.

¹⁰¹ *Id.* at 16.

¹⁰² The “control test” is arguably the most important test applied when a court is assessing whether an agency relationship exists between franchisor and franchisee. Most courts will assess the underlying circumstances between the parties, along with the franchise agreement and operations manual, in

actions.¹⁰³ For example, in *Miller v. McDonald's Corp.*,¹⁰⁴ the court held that a jury could find an agency relationship between franchisee and franchisor where the franchisor provided “methods for inventory control, bookkeeping procedures, business practices, and other management, advertising, and personnel policies” to which the franchisee was obligated to adhere.¹⁰⁵

This extensive control, as provided for in the operations manual, creates another obstacle for franchisors to overcome.¹⁰⁶ If the manual gives the franchisor control over day-to-day operations, it can result in vicarious liability for franchisee actions.¹⁰⁷ In contrast, providing extremely detailed protocols for food preparation, hygiene, and sanitation may not establish this agency link.¹⁰⁸ When examining franchise operations

determining whether sufficient control over the day-to-day operations exists in order to impose vicarious liability on the part of the franchisor. Robert W. Emerson, *An International Model for Vicarious Liability in Franchising*, 50 VAND. J. TRANSNAT'L L. 245, 250–251 (2017).

¹⁰³ One such jurisdiction to adopt the control test is Idaho. *Hoffnagle v. McDonald's Corp.*, 522 N.W.2d 808, 814 (Iowa 1994) (“[W]e likewise adopt the concomitant retained control test . . . the test for the existence of a franchisor’s duty of care to its franchisee’s employee is the extent of the franchisor’s control of the daily operation of the business.”); see also Corbin Williston, *Franchisor Vicarious Liability: Idaho Adopts Control Test*, BLUE MAUMAU (Mar. 4, 2012), <https://www.bluemau.com/blog/2012/03/04/franchisor-vicarious-liability-idaho-adopts-control-test>.

¹⁰⁴ *Miller v. McDonald's Corp.*, 945 P.2d 1107 (Or. Ct. App. 1997).

¹⁰⁵ McLester, *supra* note 3, at 31 (quoting *McDonald's Corp.*, 945 P.2d at 1109).

¹⁰⁶ *But see Kennedy v. Western Sizzlin Corp.*, 857 So. 2d 71, 77 (Ala. 2003) (stating that a franchise agreement alone is not enough to make a franchisee an agent of the franchisor). Some courts give weight to situations where the franchisor “control[s] the time and manner of executing the work, as distinguished from the right merely to require results in conformity to the contract.” *New Star Realty v. Jungang PRI USA, LLC*, 816 S.E.2d 501, 508 (Ga. Ct. App. 2018) (referring to those factors as the “historical test”). The main focus should be on the franchisor’s control of day-to-day operations. *Id.* The right to control will be given weight than an agency disclaimer. *Bartholomew v. Burger King Corp.*, 15 F. Supp. 3d 1043, 1049 (D. Haw. 2014). The Southern District Court of New York held that Subway was not liable under the Americans with Disabilities Act for its work as an “operator” under the statute even with the franchise agreement stating that a franchisee must follow an operating manual “which contains mandatory and suggested specifications, standards and operating procedures and may be updated as a result of experience and changes in the law or marketplace.” Jeffrey A. Brimer & Peter C. Lagarias, *Change is Good? Franchisor and Franchisee Perspectives in Changing System Standards*, Am. Bar Ass’n 43rd Annual Forum on Franchising (Oct. 27–30, 2020) (citing *Sullivan v. Doctor's Associates*, 1:19-cv-719-GHW, 2020 WL 353752, at *2 (S.D.N.Y. May 8, 2020)).

¹⁰⁷ See Emerson, *supra* note 102, at 251 (noting that many courts applying the control test look even further and assess whether the franchisor’s control extended to the instrumentality that caused the injury at issue).

¹⁰⁸ *Schlotsky's Inc. v. Hyde*, 538 S.E.2d 561, 562 (Ga. Ct. App. 2000); see also *Kids R Kids Int'l v. Cope*, 769 S.E.2d 616, 618 (Ga. Ct. App. 2015) (stating that periodic inspections are not sufficient to create an agency relationship). See also Caiola, *supra* note 50, at 49 (noting in *McDonald's Corp.*, 945 P.2d at 1108, that the Court found there was a triable question of potential franchisor liability for injuries the plaintiff suffered when she bit into a heart-shaped sapphire stone while eating a Big Mac sandwich at a franchised location the franchise agreement and operations manual specifically set forth the operational requirements that may have led to the plaintiff’s injury).

manuals, courts seem to be more accepting of provisions that establish brand standards than provisions that delve into the minutia of day-to-day operations.¹⁰⁹ Franchisors thus may be better off labeling an operations manual as a “Brand Standards Manual,” which suggests the purpose is to preserve franchise goodwill and to protect the brand.¹¹⁰ Compliance should be emphasized in the franchise agreement to avoid issues of control.¹¹¹ Unfortunately, there are no clear rules to delineate how much or what types of control a franchisor may exert without creating an agency link.¹¹² For now, agency tests are determined primarily through case law.¹¹³

D. Independent Contractor Statutes: No Panacea for Liability Issues

Some U.S. jurisdictions have gone beyond common law to create “Independent Contractor Statutes,” which help courts determine whether a controlled party, such as a franchisee, is an independent contractor or agent.¹¹⁴ Unfortunately, for vicarious liability or other issues, these statutes often fail to provide much guidance.¹¹⁵ So, too,

¹⁰⁹ See Susan A. Grueneberg et al., *Drafting Franchise Agreements After Patterson v. Domino’s: Avoiding the Minefield of Vicarious Liability and Joint Employment*, 36 FRANCHISE L.J. 189, 198 (2016).

¹¹⁰ *Id.* Most importantly, goodwill “is the loyalty that a business earns from its customers. Because the franchisor wishes to maintain such customer goodwill and brand value, stringent requirements are often imposed on the franchisee, ensuring that standards are met and compliance with all the contractual provisions. See Robert W. Emerson, *Franchise Goodwill: Take a Sad Song and Make it Better*, 46 U. MICH. J.L. REFORM 349, 352 (2013).

¹¹¹ *Id.*

¹¹² See *Font v. Stanley Steamer Int’l, Inc.*, 849 So. 2d 1214, 1219 (Fla. Dist. Ct. App. 2003) (noting that there is no “bright line” for “determining when the requirements and restrictions in a franchise agreement renders the franchisee an agent of the franchisor.”).

¹¹³ Robert W. Emerson, *supra* note 102, at 251 (indicating that courts will consider operations manuals and underlying circumstances in assessing whether an agency relationship exists).

¹¹⁴ *Da Costa v. Vanguard Cleaning Sys.*, MICV2015-04743, 2017 Mass. Super. LEXIS 158, at *7 (Mass. Supp. Sept. 29, 2017); MINN. STAT. ANN. § 176.205(3)(1) (West 2018) (providing control test for purposes of workers’ compensation); NEB. REV. STAT. ANN. § 48-115 (West 2018) (providing a list of individuals that are considered employees); DEL. CODE ANN. tit. 19, § 2311(a)(2) (West 2018) (defining an “independent contractor” as “any person . . . who performs work or services for a contractor, subcontractor, or other ‘contracting entity’ in return for remuneration and/or other valuable considerations but who is not an employee”). One benefit from the lack of codification is that it allows the courts to adapt the control test with the modern times. Most recently, the “Gig Economy” has changed how workers are seen; instead of a traditional 9-to-5 work day, workers are predominately doing part-time work or working on a short-term basis. TJ McCue, *57 Million U.S. Workers are Part of the Gig Economy*, FORBES (Aug. 31, 2018), <https://www.forbes.com/sites/tjmccue/2018/08/31/57-million-u-s-workers-are-part-of-the-gig-economy/#164b59a97118>. How this gig economy affects the franchise industry has yet to be determined.

¹¹⁵ *But see* OR. REV. STAT. §§ 670.600 (2)(a)–(d) (2018) (codifying the common law control test); *infra* note 117 (discussing California law). Furthermore, overall policy goals may impose liability even when there is no established agency relationship. Such liability is based on the franchisor’s ability to pay and relative deeper pockets compared to the franchisee. Both risk-spreading and prevention of harm are justifications for holding a franchisor liable in such situations. See Robert W. Emerson, *Franchisee Independence: Still Awaiting Customer Recognition*, 15 N.Y.U. J.L. & Bus. 287, 299–300 (2019).

courts in the United Kingdom take a similar approach: if a franchisee commits a tort, a franchisor may be liable because the franchisee is a partner or agent of the franchisor when: (1) the franchisee agrees that it will (a) provide work in exchange for a payment and (b) be subject to the franchisor's control; and (2) other provisions make the contract appear to be an employment arrangement.¹¹⁶ It is true that these factors are not likely to be present in a franchising relationship, so an employee classification or general agency relationship is also unlikely.¹¹⁷ Nonetheless, an operations manual must be carefully crafted if it is to keep the franchisor safe from unnecessary liability.¹¹⁸

III. The Lanham Act and the Limitations of Copyright

A. The Lanham Act: An Avenue for Relief

In *Civility*, a successful trademark registration could have prevented litigation. Civility Experts Worldwide would have been able to justifiably pursue remedies relating to trademark infringement under the Lanham Act.¹¹⁹ Under this Act, a trademark owner may register its trademark by paying a fee and filling out an application with the United States Patent and Trademark Office.¹²⁰ The owner must also submit a verified statement specifying that the person making the verification believes she is the owner of the mark being registered.¹²¹ In most cases, the trademark owner is the sole owner of the trademark; in situations where there are multiple registrants or owners, they are specified in the verified statement.¹²² In *Civility v. Molly Manners*,¹²³ Civility could have registered a specific phrase or lesson that was commonly used,

¹¹⁶ See Pratt, *supra* note 79, at Eng-26 (citing to a case that determines whether a driver is an employee).

¹¹⁷ *Id.* Still, in the United States, there remains the potential that franchisees may be considered the franchisor's employee instead of an independent contractor. While a court applying California law recently ruled that four former 7-Eleven franchisees were not employees of their franchisor, *Haitayan v. 7-Eleven, Inc.*, 2021 WL 4078727 (C.D. Cal. Sept. 8, 2021), the law of California, as declared in a California Supreme Court holding, *Dynamex Operations West, Inc. v. Superior Court of Los Angeles County*, 416 P.3d 1 (Cal. 2018) and then codified in a statute taking effect in 2020, established a three-part standard ("the ABC test") that—unless substantially modified, abandoned, or overruled—"poses a serious threat to the franchise model" of franchisees as independent-contractors, not employees. See Barry M. Heller, *Employee and independent contractor classification: Still the top legal issue in franchising*, DLA PIPER (March 30, 2021), <https://www.dlapiper.com/en/austria/insights/publications/2021/03/ipt-news-q1-2021/employee-and-independent-contractor-classification/>.

¹¹⁸ Kaufmann, *supra* note 7 (stating that a franchise consultant is often hired to craft the manual's language in a user-friendly format). The Brexit deal was, at last, finalized in late December 2020, but its long-term impact for United Kingdom franchises (and other businesses) is unknown. Jackie Bischof, *The Essential Numbers of the UK's Brexit Trade deal*, QUARTZ (Dec. 24, 2020), <https://qz.com/1950048/the-uk-eu-brexite-trade-deal-by-the-numbers/>.

¹¹⁹ 15 U.S.C. §§ 1051, 1065–66, 1071.

¹²⁰ 15 U.S.C. § 1051(a)(1).

¹²¹ *Id.*

¹²² 15 U.S.C. § 1052(d).

¹²³ 167 F. Supp. 3d at 1179.

thus preventing Molly Manners from being able to use those phrases or lessons. Further, Civility could have included a disclaimer within its operations manual stating which phrases belonged exclusively to Civility.

B. A Brief Overview of Copyright Law and its Applicable Protections

A copyright, as a form of intellectual property law, grants legal protection to original works of authorship fixed in a tangible medium of expression, from which that work can be perceived, reproduced, or otherwise communicated exclusively by the copyright owner, absent a licensing agreement.¹²⁴ Simply put, a copyright holder can prevent others from copying that work. Although the creators of copyrightable works are not required to copyright their work, doing so is highly recommended because registration is a prerequisite for recovering damages in a federal copyright infringement case.¹²⁵ Various statutes, including the U.S. Copyright Act, provide examples of what types of works can be copyrighted.¹²⁶ Franchisors can copyright illustrations, creative ads, toys, and other creative works in tangible form, thereby preventing franchisees from copying those and any derivative works without a proper licensing agreement. In short, a franchisor is authorized to take action against infringement and receive monetary or equitable remedies.¹²⁷

The law also provides that “[i]n no case does copyright protection . . . extend to any idea, procedure, process, system, [or] method of operation . . . regardless of the form.”¹²⁸ This serves as the metaphorical nail in the coffin for franchisors attempting to rely on copyright registration as the exclusive form of intellectual property protection for their processes. Regardless of how creative a franchisor’s cooking procedures are, if someone “reverse engineers” the procedure, then the franchisor cannot rely on copyright protection.¹²⁹

¹²⁴ 17 U.S.C. § 102(a). It is said that the granting of a copyright incentivizes an important social benefit (an increase in creative works) while granting to copyright holders a better legal framework for profiting from their creative works. Robert. W. Emerson & Katharine C. Collins, *Mutating Marks: Refusing to Lose the Trademark Trail*, 15 NW. J. TECH. & INTELL. PROP. 149, 151 (2018) (“Patented inventions and copyrighted expressions of creative work are thought to enrich society prima facie. Granting limited, exclusive rights to inventors and creators offers the possibility of profit, which encourages contributions to society”).

¹²⁵ 17 U.S.C. § 412 (excluding authors of visual art, as described in § 106A).

¹²⁶ 17 U.S.C. §§ 102(a)(1)–(8).

¹²⁷ Note that a variety of legal actions that involve copyright may require the registration of the copyright. However, this can be done after the infringement has occurred. *See id.* § 411(a) (2018) (stating “no civil action” may be brought “until pre-registration or registration” is complete); *see also* Julia C. Colarusso et al., *Intellectual Property for Franchisors in the USA*, LEXOLOGY, <https://www.lexology.com/library/detail.aspx?g=c76d64c9-e880-4df4-8d4d-2ddafe6487d6> (last visited Aug. 3, 2021) (mentioning different ways for franchisors to protect their intellectual property, including through registration).

¹²⁸ 17 U.S.C. § 102(b) (these types of intellectual property are typically protected by patents or claims of trade secrecy).

¹²⁹ One of the earliest cases involved an attempt to copyright a rather “creative” accounting process.

C. Attempts to Expand Copyright Law Protections

Individuals, not necessarily franchisors, have tried to expand the bounds of copyright law. For example, the Supreme Court considered whether copyright law should recognize “sweat equity” for a compilation of factual information (a telephone directory) that included phone numbers, addresses, and alphabetically listed names; the claim failed because the alleged copyright holder, i.e., the company compiling, arranging, and publishing the directory, did not organize the factual information in an original way.¹³⁰ Congress has also tried to extend the time limit for copyright protection, with supporters arguing that an extension was necessary to keep special work products from becoming part of the public domain.¹³¹ This argument ultimately failed because the U.S. Supreme Court rejected any large-scale substantive expansion of copyright concepts beyond what Constitutional framers initially intended.¹³² As evidence for this proposition, detractors pointed to the simple fact that copyrights are only allowed to exist for fixed periods of time.¹³³ Though becoming more modern, copyright law is still evolving. For example, courts have agreed that computer programs are copyrightable notwithstanding their essentially being no more than a very complex process.¹³⁴

Despite this small victory, neither courts nor legislatures have budged regarding the copyrightability of non-coding-related processes. The U.S. Supreme Court has often stated that there is no reason to extend terms beyond achieving uniformity on an international level.¹³⁵ Thus, franchisors need another body of law to protect their secret information, the very property that provides an economic advantage over any

However, the Supreme Court determined that the process was not copyrightable. *See Baker v. Selden*, 101 U.S. 99, 100–02, 107 (1879).

¹³⁰ *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 359–60 (1991) (“Originality, not ‘sweat of the brow,’ is the touchstone of copyright protection”).

¹³¹ *See* 17 U.S.C. § 302.

¹³² *Eldred v. Ashcroft*, 537 U.S. 186, 193–98 (2003) (recounting the history of the Nation’s first copyright statute). In reviewing the “limited times” restriction in the Constitution’s Copyright Clause, the Court in *Eldred* rejected a challenge to Congressional extension of how long an owner’s copyright lasts (20 additional years); the statute’s constitutionally acceptable extension of copyright time length was not considered to be an impermissible expansion of the substantive reach of copyright. *Id.* at 199–204.

¹³³ Lawrence Lessig, *Congress’ Latest Move to Extend Copyright Protection is Misguided*, WIRED (May 18, 2018), <https://www.wired.com/story/congress-latest-move-to-extend-copyright-protection-is-misguided/>; *see Ashcroft*, 537 U.S. at 199–208 (recognizing that Congress has the authority under the Copyright Clause to extend the terms of existing copyrights and that each successive Copyright Term Extension Act did not “evade or override the ‘limited times’ constraint.”).

¹³⁴ *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 836–38, 841–42 (10th Cir. 1993) (making a distinction between elements that are protectable and those that are not, and vacating the copyright infringement action, but noting that “a coherent approach to the protectability analysis” in terms of the copyrightability of computer programs has been discussed in other cases).

¹³⁵ Lessig, *supra* note 133; *see also Golan v. Holder*, 565 U.S. 302, 329 (2012) (stating “Congress adopted measures to ease the transition from a national scheme to an international copyright regime” when describing 17 U.S.C. §§ 104A(c), (d), and (h)).

competitors.¹³⁶ This combination—limited copyright protection but a significant, legitimate business need—sets the stage for trade secrets.

IV. Making or Taking Trade Secrets

A typical trade secret is information that a person or entity does not want to be known by others, especially those within the same commercial industry.¹³⁷ It extends further to business-related information, which can give the business a competitive advantage because trade secrets can include formulas, patterns, programs, devices, techniques, and processes.¹³⁸ Trade secret protection is viewed as a last resort if other forms of intellectual property law fail to offer legal protection for the information. It lives in the purgatory of intellectual property: a realm in which intellectual property contains elements from the public domain while remaining protected as unique and original ideas.¹³⁹

The hybrid nature of trade secret law is essential in the franchising context.¹⁴⁰ When other forms of intellectual property protection are not available, a franchisor can rely on trade secrecy so long as the information is actually a secret, the franchisor has made reasonable efforts to preserve the information's secrecy, the information alleged to be a trade secret has sufficient independent economic value,¹⁴¹ and the information at issue in the trade secret context is stated with reasonable particularity.¹⁴² However, public policy dictates that information considered to be generally known or readily ascertainable does not qualify for trade secret protection.¹⁴³ Perhaps the most famous example of trade secrecy involves Coca-Cola's secret formula for its soda products. When originally created, the formula was never written down, and

¹³⁶ Note the actual operations manual can be copyrighted since the manual is fixed and tangible and the words and arrangement are creative. W. Michael Garner, *Overview of Copyright Protection*, in 1 FRANCHISE & DISTRIBUTION LAW & PRACTICE § 7:49 (Thompson Reuters 2019).

¹³⁷ *Trade Secret*, BLACK'S LAW DICTIONARY (11th ed. 2019) (defining the term as "a formula, process, device, or other business information that is kept confidential to maintain an advantage over competitors."); see also 62 AM. JUR. 2D *Private Franchise Contracts* § 217 (2020).

¹³⁸ U.S. PATENT & TRADEMARK OFF., *Trade Secret Policy*, <https://www.uspto.gov/ip-policy/trade-secret-policy> (last updated Nov. 1, 2019).

¹³⁹ See *Harvey Barnett, Inc. v. Shidler*, 338 F.3d 1125, 1129 (10th Cir. 2003); see also 54A AM. JUR. 2D *Monopolies and Restraints of Trade* § 1045 (2020).

¹⁴⁰ 917246 *Alberta Ltd. v. Panda Flowers (1999) Ltd.*, 2004 ABQB 234, para. 17 (Can.), <https://www.canlii.org/en/ab/abqb/doc/2004/2004abqb234/2004abqb234.html> (stating "trade secrets are an integral part of any franchise operation").

¹⁴¹ ELIZABETH A. ROWE & SHARON K. SANDEEN, *TRADE SECRET LAW: CASES AND MATERIALS* 53 (West Acad., 2d ed. 2017).

¹⁴² *Analog Devices, Inc. v. Michalski*, 579 S.E.2d 449, 453 (N.C. Ct. App. 2003) (noting that "a plaintiff must identify a trade secret with sufficient particularity"); *Knights Armament Co. v. Optical Sys. Tech., Inc.*, 254 F.R.D. 463, 467 (M.D. Fla. 2008) (same); see *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1322, 1325–26 (S.D. Fla. 2001) (providing a working definition of "reasonable particularity" as the trade secret holder specifying the information that it claims as secret so that the opposing side does not have to "embark on a fishing expedition to ascertain what those secrets are.").

¹⁴³ ROWE & SANDEEN, *supra* note 141, at 45.

only a small number of individuals knew the formula, mostly due to its highly proprietary nature and because the formula could not be copyrighted or patented.¹⁴⁴ Similarly, if a franchisor were to create an extremely efficient method for operating its kitchens, a copyright could not be used to protect that process. Additionally, if a franchisor discovered that individuals respond positively to a certain advertising technique, that information is not protected through copyright.¹⁴⁵ Fortunately, trade secret protection is an avenue that can provide the desired intellectual property protection.

A. The Intersection between Franchises and Trade Secret Law

Franchisors strive to protect confidential information and procedures from leaking to their competitors, which may pertain to a franchisee's or franchisor's operations. For this reason, franchisors are interested and heavily invested in protecting the information given to prospective franchisees.¹⁴⁶ Some examples of this information include product mix reports, marketing plans, or other franchising materials.¹⁴⁷ Other examples of information that franchisors desire to protect include customer lists, financial information, marketing and sales information, distribution techniques, recipes, and business plans.¹⁴⁸ In the event that a franchisee fails to protect these secrets, the franchisor will have a misappropriation claim.

Misappropriation of a trade secret is a common law tort action that encompasses the acquisition of a trade secret by someone who knows it was improperly obtained, or obtained without the appropriate consent.¹⁴⁹ Traditionally, a misappropriation claim has three elements: (1) the existence of a trade secret; (2) the acquisition of the trade secret as a result of a confidential relationship; (3) the unauthorized use of the trade secret.¹⁵⁰ A misappropriation claim does not arise in the event of independent invention, including reverse engineering, and can be preempted by state trade secrets

¹⁴⁴ *The Secret is Out: Coca-Cola's Formula is at the World of Coca-Cola*, COCA-COLA CO. (Oct. 16, 2012), <https://www.coca-colacompany.com/news/coca-cola-formula-is-at-the-world-of-coca-cola>.

¹⁴⁵ While unfortunate for the average business owner, that is a necessary approach (patents, not copyrights) in order to encourage scientific innovation and technological dissemination.

¹⁴⁶ *Proteinhouse Franchising, LLC v. Gutman*, No. 2:17-cv-02816, 2017 WL 10197458, at *3 (D. Nev. Nov. 8, 2017).

¹⁴⁷ *Id.*, at *4; see *Massey, Inc. v. Moe's Sw. Grill, LLC*, 565 F. App'x 821, 824 n.7 (2014).

¹⁴⁸ Mary Goodrich Nix, *International Franchising: Confidential and Proprietary Information, and Trade Secrets*, in *FRANCHISE PRACTICE GUIDE 73* (Philip F. Zeidman ed., 2019), <https://www.hklaw.com/en/insights/publications/2019/05/confidential-and-proprietary-information-and-trade-secrets>. Large companies publicly describe the importance of service marks and other intellectual property. YUM! Brands, owner of KFC, Pizza Hut, and Taco Bell, regard its service marks as maintaining great brand value and key to its marketing efforts. A combination of contract protection, copyrights, patents, trademarks, and common law rights such as trade secret and unfair competition, safeguard company intellectual property and other proprietary information. See Robert W. Emerson & Lawrence J. Trautman, *Lessons About Franchise Risk From Yum Brands and Schlotzsky's*, 24 LEWIS & CLARK L. REV. 997, 1039 (2020).

¹⁴⁹ ROGER M. MILGRIM & ERIC E. BENSEN, *MILGRIM ON TRADE SECRETS* § 1.01(2) (Matthew Bender & Co., Inc. 2020) (citing the Uniform Trade Secrets Act ("UTSA") §§ 1(2)(i) and (ii) (West 2019)).

¹⁵⁰ See, e.g., *Allied Erecting & Dismantling Co. v. Genesis Equip. & Mfg.*, 649 F. Supp. 2d 702, 711 (N.D. Ohio 2009).

statutes.¹⁵¹

Take the recent case of *Handel's Enterprises, Inc. v. Schulenburg*,¹⁵² in which a franchisee, Schulenburg, was preliminarily enjoined from operating a competing business based on the threat of misappropriation of the trade secrets that franchisor Handel's had entrusted to Schulenburg through the franchise agreement and the operations manual.¹⁵³ The court recognized broad categories for trade secrets, including the operations manual, specifications, standards, ice cream flavors, and methods for creating such flavors.¹⁵⁴ The appeals court affirmed the trial court's injunction against the franchisee because Handel's clearly established it had provided to the franchisee information qualifying as trade secrets under the Uniform Trade Secrets Act ("UTSA"): "the information provided to Defendants [the franchisee] regarding Handel's operations and procedures was not known outside the business, was heavily restricted with confidentiality agreements, and was developed over the decades during which Handel's has been operating."¹⁵⁵ Therefore, the franchisor was able to enforce its intellectual property rights under the franchise agreement, but only because the trade secrets were explicit, and the franchisor knew exactly what the franchisee was likely to misappropriate.¹⁵⁶

In *Civility v. Molly Manners*, what if Civility had tried to keep its materials secret and confidential? That is, what if the processes Civility used to create its lessons were trade secrets? Would Civility have had a remedy under the UTSA or the Defend Trade Secrets Act ("DTSA")?¹⁵⁷ If Civility had been able to demonstrate the steps taken to safeguard its processes, materials, and information, and if Civility also demonstrated the information provided an economic advantage, Civility may have had a claim under the UTSA or the DTSA.

¹⁵¹ See *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 476 (1974) (explaining that "trade secret law . . . does not offer protection against discovery by fair and honest means, such as by . . . reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture."); see also Samuel J. LaRoque, Comment, *Reverse Engineering and Trade Secrets in the Post-Alice World*, 66 U. KAN. L. REV. 427, 438 (2017). This is one of the largest flaws of trade secrets. Other forms of intellectual property allow the intellectual property holder to protect them even if there is independent creation. Frank J. Cavico, *Business Plans and Strategies as Legally Protected Trade Secrets: Florida and National Perspectives*, 9 U. MIAMI BUS. L. REV. 1, 10 (2001); see also *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375 F. Supp. 2d 649, 659 (E.D. Tenn. 2004) (finding that the alleged misappropriation claims were partially preempted under Tennessee's version of Uniform Trade Secret Act); *Firetrace USA, LLC v. Jesclard*, 800 F. Supp. 2d 1042, 1047–50 (D. Ariz. 2010) (finding that common law tort claims for misappropriation of trade secret information were preempted by Arizona statute).

¹⁵² 765 F. App'x 117, 117 (6th Cir. 2019).

¹⁵³ *Id.* at 123.

¹⁵⁴ *Id.*

¹⁵⁵ *Id.*

¹⁵⁶ *Id.* at 124. The following year, the U.S. District Court again upheld, and in effect extended, the injunction against the franchisee. *Handel's Enters. v. Schulenburg*, 2020 U.S. Dist. LEXIS 12895, 2020 WL 419158 (N.D. Ohio, Jan. 27, 2020)

¹⁵⁷ 18 U.S.C. § 1836.

B. UTSA and DTSA: Viable Solutions to Civility's Trade Secrets Misappropriation Claim

The UTSA attempts to provide uniformity among the different states with respect to trade secret protections.¹⁵⁸ It is “the primary source of trade secret law in the United States.”¹⁵⁹ Under the UTSA, a trade secret is defined as “information, including a formula, pattern, compilation, program, device, method, technique, or process[.]”¹⁶⁰ Trade secret protection is only granted when the individual seeking trade secret protection derives actual or potential economic value from what is not available to its competitors.¹⁶¹ A key cornerstone of trade secrets is that they must be *secret*.¹⁶² Furthermore, information does not receive trade secret status if the information is readily ascertainable by competitors.¹⁶³ That is, when information is so conspicuous that any reasonable individual could have access to it, the UTSA does not provide trade secret protection.

Conceptually, this principle is clear—information that is accessible by all is not a secret and is not exclusively within the rights of one particular person or entity. To maintain a trade secret, the party seeking protection must make reasonable efforts, under the circumstances, to protect the information—reasonable efforts do not require an “extreme and unduly expensive procedure[] . . . to protect trade secrets.”¹⁶⁴ Courts may also consider additional factors, such as “sweat equity.”¹⁶⁵ Other methods a franchisor can take to preserve the secrecy of trade secrets are to explicitly define them

¹⁵⁸ The UTSA has been adopted by 49 states, with New York being the only state to not adopt the UTSA. Elliot Fink, *Is Uniformity a Good Thing?: New York Trade Secrets (Common) Law vs. the Push to Adopt the UTSA*, FORDHAM IPLJ BLOG (Feb. 5, 2019), <http://www.fordhamiplj.org/2019/02/05/is-uniformity-a-good-thing-new-york-trade-secrets-common-law-vs-the-push-to-adopt-the-utsa/>. Puerto Rico, Washington D.C., and the U.S. Virgin Islands have also adopted the UTSA. *Trade Secrets Act*, UNIF. L. COMM'N, <https://my.uniformlaws.org/committees/community-home?CommunityKey=3a2538fb-e030-4e2d-a9e2-90373dc05792> (last visited Aug. 3, 2021) (a bill in the New York state legislature, proposing that New York, too, adopt the UTSA is currently pending).

¹⁵⁹ LaRoque, *supra* note 151, at 435; see Matthew J. Frankel, *Secret Sabermetrics: Trade Secret Protection in the Baseball Analytics Field*, 5 ALB. GOV'T L. REV. 240, 244 (2012) (quoting Charlie Tait Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39, 62 (2007)).

¹⁶⁰ UNIF. TRADE SECRETS ACT § 1(4) (UNIF. LAW COMM'N, amended 1985) (2015) [hereinafter UTSA].

¹⁶¹ MATTHEW A. CARTWRIGHT, KIRK REASONOVER & JOSEPH C. PEIFFER, *Elements of a Claim—What is a Trade Secret?*, in LITIGATING BUSINESS AND COMMERCIAL TORT CASES § 14.5 (Thomson Reuters 2019).

¹⁶² See MILGRIM & BENSON, *supra* note 149, at § 1.03 (“Indispensable to an effective allegation of a trade secret is proof that the matter is, more or less, secret. In the absence of secrecy the property disappears.”). This is so “because the ‘intrinsic value’ of a trade secret ‘is based upon, or at least preserved by, being safeguarded from disclosure.’” *Amgen, Inc. v. Health Care Servs.*, 260 Cal. Rptr. 3d 873, 886 (Cal. Ct. App. 2020) (citations omitted).

¹⁶³ UTSA § 1(4)(i) (1985). Thus, information that anyone can Google is not a trade secret. *Roeslein & Assocs., Inc. v. Elgin*, 2019 WL 195089, at *10 (E.D. Mo. Jan. 15, 2019) (referencing *Mgmt. & Eng'g Techs. Int'l, Inc. v. Info. Sys. Support, Inc.*, 490 F. App'x 30, 34 (9th Cir. 2012)).

¹⁶⁴ UTSA at § 1 cmt.

¹⁶⁵ *Saturn Sys., Inc. v. Militare*, 252 P.3d 516, 522 (Colo. App. 2011) (including “amount of effort or

within the operations manual and to mandate strict compliance within the franchise agreement.¹⁶⁶ It is imperative that the franchisor states that the items listed in the franchise agreement are licensed to the franchisee as opposed to being sold.¹⁶⁷

Proving a claim under the UTSA requires three elements: (1) the subject matter must qualify for trade secret protection; (2) the holder of the subject matter must establish that reasonable precautions were taken to prevent disclosure of the subject matter, and (3) the trade secret holder must prove that the information was misappropriated or wrongfully taken.¹⁶⁸ Successful plaintiffs can obtain monetary damages, an injunction, or both.¹⁶⁹ In addition to damages and injunctive relief, the prevailing party may also obtain attorney's fees under the UTSA if a misappropriation claim was made in bad faith, a motion to terminate an injunction is filed in bad faith or is ignored, or there is willful or malicious misappropriation.¹⁷⁰

As an additional mechanism for uniformity in trade secrecy, Congress enacted the Defend Trade Secrets Act (DTSA) in 2016 with the express purpose of providing standard guidance for the courts.¹⁷¹ Before the DTSA was enacted, a party suing for trade secret misappropriation was limited to state court unless there was federal diversity jurisdiction.¹⁷² State laws about trade secret misappropriation vary from state to state, but the DTSA provides a nationwide statute that can be applied in federal

money expended in obtaining and developing the information” and “the amount of time and expense it would take for others to acquire and duplicate the information” as trade secret factors). A similar approach is adopted in the 4th Circuit as well. *See* *AirFacts, Inc. v. de Amezaga*, 909 F.3d 84, 95 (4th Cir. 2018); *see also* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. L. INST. 1939). *But see* *Feist Publ'ns*, 499 U.S. at 359–60 (“Originality, not ‘sweat of the brow,’ is the touchstone of copy-right protection.”).

¹⁶⁶ *See* Emerson, *supra* note 53, at 693 (stating that the results from a survey of 100 U.S. franchise agreements in 2013 found that 96% of the agreements restricted the franchisee's use of the franchise system's trademark and that 81% required a terminated franchisee to return to the franchisor all trademarked supplies, signs, stationary, forms or other materials).

¹⁶⁷ Nix, *supra* note 148, at 75.

¹⁶⁸ *Hooked Media Grp., Inc. v. Apple Inc.*, 269 Cal. Rptr. 3d 406, 413 (Cal. Ct. App. 2020); *see* *Modu-mental, Inc. v. Xtallic Corp.*, 425 P.3d 871, 878–79 (Wash. Ct. App. 2018); *see also* *Trade secret*, WEX LEGAL INFO. INST. (2018), www.law.cornell.edu/wex/trade_secret.

¹⁶⁹ The UTSA provides for several potential remedies for wrongs committed under the Act including injunctive relief and damages. UTSA §§ 2–3 (2018); *see* FLA. STAT. §§ 688.003–004 (2018) (same); *see also* 765 ILL. COMP. STAT. 1065/3, 4 (2018) (same). “If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.” 765 ILL. COMP. STAT. 1065/5.

¹⁷⁰ UTSA § 4 (1985).

¹⁷¹ 18 U.S.C. § 1836; *see* Linda K. Stevens, *President Obama Signs Defend Trade Secrets Act*, AM. BAR. ASS'N (May 13, 2016), <https://www.americanbar.org/groups/litigation/committees/intellectual-property/practice/2016/president-obama-signs-defend-trade-secrets-act/>.

¹⁷² Bret A. Cohen et al., *Explaining the Defend Trade Secrets Act*, 2016 BUS. L. TODAY 1, 1 (2016).

court.¹⁷³ Thus, the DTSA provides an “additional tool for American companies, especially those with a national footprint, to enforce their intellectual property rights.”¹⁷⁴ Though litigants pursuing misappropriation claims can now bring suit at the federal level, trade secret law is still largely governed by state trade secret law because the DTSA does not preempt state law remedies for misappropriation.¹⁷⁵ Nevertheless, plaintiffs can now bring misappropriation claims in federal or state court.¹⁷⁶ Similar to the UTSA, the DTSA allows a prevailing party in trade secret litigation to be awarded attorney’s fees in civil actions, subject to court discretion.¹⁷⁷

The DTSA is modeled after the UTSA and was enacted as an amendment to the Economic Espionage Act (EEA) of 1996.¹⁷⁸ Both the DTSA and UTSA require proving that the subject matter qualifies for trade secret protection as the first element of any trade secret claim. The DTSA provides a narrower definition for what type of information qualifies as a trade secret than the UTSA because the DTSA has an exhaustive definition for what constitutes protected material.¹⁷⁹ Conversely, the UTSA only provides guidance as to what constitutes a trade secret.¹⁸⁰ Although both laws provide broad definitions, the DTSA provides a list of items that are trade secrets—exhaustive and specifically defined—related directly to commerce.¹⁸¹

¹⁷³ *Id.* This is because the DTSA “conferred on U.S. district courts subject matter jurisdiction over civil actions pertaining to the theft of trade secrets used in interstate or foreign commerce.” *M.C. Dean, Inc. v. City of Miami Beach*, 199 F. Supp. 3d 1349, 1353 (S.D. Fla. 2013) (citing 18 U.S.C. § 1836(c)). The DTSA defines trade secrets as “all forms and types of financial, scientific, technical, economic, or engineering information[.]” 18 U.S.C. § 1839(3).

¹⁷⁴ Cohen, *supra* note 172, at 1.

¹⁷⁵ 18 U.S.C. § 1838. Misappropriation is broadly described as acquisition, disclosure, or use: “*acquisition* of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means.” 18 U.S.C. § 1839(5)(A) (emphasis added). “[*D*]isclosure or use of a trade secret of another without express or implied consent by a person who used improper means to acquire knowledge of the trade secret” or knew at the time of disclosure that the trade secret was acquired by improper means or under circumstances giving rise to a duty of secrecy. 18 U.S.C. §§ 1839(5)(B)(i), (ii)(II) (emphasis added).

¹⁷⁶ Stevens, *supra* note 171.

¹⁷⁷ 18 U.S.C. § 1836(b)(3)(D) (“In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may—if a claim of the misappropriation is made in bad faith, which may be established by circumstantial evidence, a motion to terminate an injunction is made or opposed in bad faith, or the trade secret was willfully and maliciously misappropriated, award reasonable attorney’s fees to the prevailing party.”).

¹⁷⁸ *Id.* §§ 1839(3)(A)–(B); Lynn B. Bayard et al., *Defend Trade Secrets Act Adopted, Creating Private Federal Cause of Action for Trade Secret Misappropriation*, LEXOLOGY (May 17, 2016), <https://www.lexology.com/library/detail.aspx?g=ba3330c0-cb31-4a68-aa6a-9cd82440bc5d>.

¹⁷⁹ *Id.*

¹⁸⁰ GA. CODE ANN. § 10-1-761(4)(A)–(B) (West 2018); *Allen v. Hub Cap Heaven, Inc.*, 484 S.E.2d 259, 263 (Ga. Ct. App. 1997). The USTA has been adopted in 45 states, the District of Columbia, and the Virgin Islands. Andrew S. Lovvorn, *An Analysis of Trade Secrets Under the USTA and State Law*, LAW LIBR. STUDENT-AUTHORED WORKS 62 (2008), https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=1061&context=lib_student. New York and New Jersey still apply common law. *Id.* Massachusetts, North Carolina, and Texas have adopted their own state statutes regarding trade secrets. *Id.*

¹⁸¹ 18 U.S.C. § 1839(3).

The second element for a misappropriation claim under both the UTSA and DTSA is that the information is “subject to efforts that are reasonable under the circumstances to maintain its secrecy.”¹⁸² Put simply, the holder of the trade secret has the burden of providing notice of the confidential nature of the information to all parties to whom the trade secret is disclosed.¹⁸³ The amount of protection required varies from industry to industry.¹⁸⁴ In some instances, a “reasonable effort” is simply to have the parties sign a non-disclosure agreement (“NDA”),¹⁸⁵ which provides a contractual obligation to protect trade secrets and serves as notice to the employee or possessor of the secret that the information must be protected.¹⁸⁶ It may also be in the franchisor’s best interest to have all parties involved in the franchise sign an NDA. For example, franchisors should require not only franchisees to sign NDAs, but also any managers that the franchisee entrusts with the trade secrets. NDA provisions maintained within franchise agreements should be supported by identified trade secrets not “only generally, but more specifically in the operations manual” as a preventative measure.¹⁸⁷ A franchisor may also provide these individuals with just some parts of the trade secret so that no one person has the entire secret.¹⁸⁸ Further, the

¹⁸² See Richard F. Dole, Jr., *Identifying the Trade Secrets at Issue in Litigation Under the Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act*, 33 SANTA CLARA HIGH TECH. L.J. 470, 474 (2017). This is a requirement in both the UTSA and the DTSA, despite the DTSA having different language regarding this requirement. Compare UTSA § 1(4)(ii) (1985) (“efforts that are reasonable under the circumstances to maintain its secrecy”), with 18 U.S.C. § 1839(3)(A) (“taken reasonable measures to keep such information secret”).

¹⁸³ *Gemisys Corp. v. Phoenix Am., Inc.*, 186 F.R.D. 551, 558–59 (N.D. Cal. 1999) (stating that the employer failed to designate certain materials as confidential).

¹⁸⁴ *Mattel, Inc. v. MGA Ent., Inc.*, 782 F. Supp. 2d 911, 959 (C.D. Cal. 2011) (noting that what constitutes reasonable efforts to maintain the trade secret’s secrecy is very fact specific); see *Oberfoell v. Kyte*, 2018 WL 492629, at *6 (Minn. Ct. App. Jan. 22, 2018).

¹⁸⁵ *PatientPoint Network Solutions, LLC v. Contexmedia, Inc.*, No. 1:14-cv-226, 2014 U.S. Dist. LEXIS 37443, at *24 (S.D. Ohio Mar. 21, 2014) (taking note of a failure to sign a non-disclosure agreement after leaving the company). But see *HCC Ins. Holdings, Inc. v. Flowers*, 237 F. Supp. 3d 1341, 1351 (N.D. Ga. 2017) (explaining that requiring employees to sign a general confidentiality agreement does not alone demonstrate reasonable efforts to maintain secrecy).

¹⁸⁶ Of course, vague language can render any agreement meaningless. The employee may not have any idea what a trade secret is! *Mattel, Inc.*, 782 F. Supp. 2d at 959; LOUIS ALTMAN & MALLA POLLACK, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 14:27 & nn.3–4 (4th ed. 2020).

¹⁸⁷ Natalma M. McKnew & Emily I. Bridges, *I’ve Got a Secret . . . and I’m Willing to Use It! Franchisors, Franchisees, and Trade Secrets*, 36 FRANCHISE L.J. 561, 579 (2017). The terms of the NDA, related to the franchisor’s trade secret as confidential information, should be careful to not be information that a court may consider as the type of information a franchisee can independently develop on its own or not be information that a court could or would interpret as public knowledge. C. Christian Thompson, *Franchise & Business Law*, 29 UTAH B.J. 36, 38 (May/June 2016) (describing the findings in *Medspring Grp., Inc. v. Feng*, 368 F. Supp. 2d 1270, 1273–80 (D. Utah 2005), against a trade secret holder on a misappropriation claim for the reasons stated previously here).

¹⁸⁸ Some courts may find this additional security to be necessary, despite there already being common law on unauthorized disclosures. W. Michael Garner, *Protection of Trademarks and Intellectual Property*, in 1 FRANCHISE & DISTRIBUTION LAW & PRACTICE § 7:3 (Thompson Reuters 2019) (recommending use of a compliance officer to maintain and enforce the franchisor’s trademark rights).

NDA can require signees to maintain secrecy even after the business relationship has ended.¹⁸⁹

If a former employee was given access to a virtual database, the ex-employer must now make efforts to remove that access.¹⁹⁰ Similarly, if a former employee were given physical property containing trade secrets, it would also be in the ex-employer's best interest to recover that property. In fact, franchisees often continue using trade secrets after the franchise agreement is no longer valid. In *2127449 Nova Scotia Ltd. v. Donna's Seashore Investments Ltd.*, the defendant's franchise was terminated, and the franchisor sued because of the continued use of its trade secrets.¹⁹¹ The *Civility* case had a similar situation because Molly Manners originally used the Civility materials in accordance with its license, but incorporated portions of Civility's materials into its own programs.¹⁹²

Courts have long spoken of the multiple elements of a trade secret: A trade secret can "exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secret."¹⁹³ For instance, a court granted summary judgment in favor of defendant Coca-Cola on all counts of a trade secret misappropriation claim for an embossed label because of independent development by proper means based on information that was partially disclosed in a patent application.¹⁹⁴ Though the court noted that independent creation or reverse engineering does not constitute misappropriation, it reaffirmed the principle that trade secrets can exist in a combination of components.¹⁹⁵ The *Civility* case raises a novel issue with respect to how franchise parties can use intellectual property laws to protect their information. While copyright and trademark law offer remedies for franchisors regarding how to protect their intellectual property, the question here is whether intellectual property laws will protect secret information when it is part of the franchise's operational procedure—that is, whether trade secret law will protect secrets stolen from franchisors or disseminated to the public in violation of an

¹⁸⁹ *PatientPoint*, 2014 U.S. Dist. LEXIS 37443, at *23.

¹⁹⁰ *Saturn Sys., Inc. v. Militare*, 252 P.3d 516, 522 (Colo. App. 2011).

¹⁹¹ *2127449 Nova Scotia Ltd. v. Donna's Seashore Invs. Ltd.* (1997), 162 N.S.R. 2d 74 (Can. N.S. Sup. Ct.), <https://www.canlii.org/en/ns/nssc/doc/1997/1997canlii695/1997canlii695.html>

¹⁹² *Civility Experts Worldwide*, 167 F. Supp. 3d at 1188 (providing the Defendant's argument). However, the Plaintiff denied that there ever was permission. *Id.*

¹⁹³ *AirFacts*, 909 F.3d at 96; *see also* *SIS, LLC v. Stoneridge Holdings, Inc.*, 2020 WL 4903992, at *14 (N.D. Ga. Aug. 20, 2020) (quoting *Imperial Chems., Ltd. v. Nat'l Distillers & Chem. Corp.*, 342 F.2d 737, 742 (2d Cir. 1965) (citations omitted); *see* *Capital Asset Research Corp. v. Finnegan*, 160 F.3d 683, 686 (11th Cir. 1998) (quoting *Essex Grp., Inc. v. Southwire Co.*, 501 S.E.2d 501, 503 (Ga. 1998)).

¹⁹⁴ *Penalty Kick Mgmt. v. Coca-Cola Co.*, 164 F. Supp. 2d 1376, 1379–80 (N.D. Ga. 2001).

¹⁹⁵ *Id.* at 1379 (noting that "a trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which is a unique combination, affords a competitive advantage and is a protectable secret"). Independent creation is discussed *infra* note 220, and reverse engineering is defined *supra* note 151 (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 476 (1974)).

NDA.

The distinction of outcomes, based on contract law versus tort law, can be vital.¹⁹⁶ For example, in *Williams-Sonoma Direct, Inc. v. Arhaus, LLC*,¹⁹⁷ a trade secret dispute based in contract law, the court found in favor of the plaintiff for claims of misappropriation. The defendant had gained financially by using proprietary information obtained from the plaintiff's former high-level employee, who was subject to an NDA specifically detailing the confidential information and other protective measures.¹⁹⁸ In another contract claim involving disclosure of trade secrets despite a valid NDA contract, the court dismissed the case because the plaintiff did not take reasonable steps to maintain secrecy of its plan to develop bubblegum packaging in a wheel design.¹⁹⁹ Specifically, the court took issue with plaintiff's failure to designate information as "confidential" in accordance with the terms of the NDA.²⁰⁰ While trade secret misappropriation claims may have a higher chance of success when an NDA contract is involved, there are some instances in which tortious misconduct in the absence of an NDA can be successful. For instance, the court in *PMC, Inc. v. Kadisha* held that a corporate officer could be liable for intentional tortious conduct if the officer invested in a corporation whose intellectual property assets (i.e., trade secrets) were knowingly obtained through unlawful conduct and the officer invested with the intent to use the unlawfully obtained information for economic gain.²⁰¹ Another example of tortious misconduct in trade secret misappropriation claims may arise after a contract has been terminated, but one party creates a defective adaptation of a product subject to trade secret protection such that reputational damage results.²⁰² So, in essence, the difference between interpretation and enforcement of misappropriation in contract disputes as opposed to tort disputes is not a defendant's alleged bad acts, which exist in both instances, but instead often revolves around the existence of—and adherence to—an NDA contract.

There are lessons to be learned from *Civility Experts*. If Civility had included an NDA as a condition of becoming a franchisee and receiving its operations manual,

¹⁹⁶ J. PATRICK HUSTON, *THE LAW OF TRADE SECRET LITIGATION UNDER THE UNIFORM TRADE SECRETS ACT* 32 (2d ed. 2020) (citing cases for the proposition that trade secret status under nondisclosure or noncompete agreements—i.e., information qualifying as a trade secret in such *contract-based* cases - may not constitute a trade secret under noncontractual claims, such as those found under the Uniform Trade Secrets Act).

¹⁹⁷ 109 F. Supp. 3d 1009 (W.D. Tenn. 2015).

¹⁹⁸ *Id.* at 1019, 1024.

¹⁹⁹ *Hoffman v. Impact Confections, Inc.*, 544 F. Supp. 2d 1121, 1126 (S.D. Cal. 2008).

²⁰⁰ *Id.* at 1126.

²⁰¹ *See Balsam v. Trancos, Inc.*, 138 Cal. Rptr. 3d 108, 128 (Cal. Ct. App. 2012) (referencing *PMC, Inc. v. Kadisha*, 93 Cal. Rptr. 2d 663, 665 (Cal. Ct. App. 2000)).

²⁰² *See, e.g., World Wide Prosthetic Supply, Inc. v. Mikulsky*, 631 N.W.2d 253, 258–59 (Wis. Ct. App. 2001) (remanding for a new trial to determine whether new evidence would indicate that defendant's conduct in creating defective variations of plaintiff's prosthetic devices, which were subject to trade secrecy, was a substantial factor in causing plaintiff's reputational damage).

Civility may have had a claim under trade secrets law.²⁰³ However, barring those circumstances, it is unlikely that Civility would have a remedy under intellectual property laws—seeing as the court stated that Civility was ineligible for copyright protections.²⁰⁴ Civility claimed that the processes it developed with its material were protected by copyright law—that the processes were original works of authorship.²⁰⁵ The court disagreed and stated that developing lessons for manners is not original, but something that is well-known and not creative—*scènes à faire*.²⁰⁶

Following the United States' example, in 2016 the European Union created trade secret laws called the Trade Secrets Directive (“TSD”).²⁰⁷ The TSD was aimed at unifying the laws related to trade secrets.²⁰⁸ The TSD defines trade secret by stating:

²⁰³ Note that trade secret law would not likely support a claim regarding information actually told to the various workshop participants. The information does provide an economic advantage, but the information is not reasonably protected. For example, someone interested in developing a manners workshop would simply attend the workshop to learn Civility’s material. However, trade secret protection could extend to certain teaching approaches in treating workshop participants and other information that is reasonably protected. Another possible example would be to have all attendees sign a nondisclosure agreement, which may be hard to do since Civility’s target audience is children.

²⁰⁴ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1194, 1197, 1206–07, 1210–12 nn.11 & 13.

²⁰⁵ 17 U.S.C. §§ 102(a)(1)–(8) (listing works of authorship as including: literary works; musical works; dramatic works; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; sound recordings; and architectural works).

²⁰⁶ *Feist Publ’ns*, 499 U.S. at 345 (“To qualify for copyright protection, a work must be original to the author . . . [meaning] only that the work was independently created by the author . . .”); see also *Civility Experts Worldwide*, 167 F. Supp. 3d at 1191 (defining *scènes à faire* as an expression that is “standard, stock, or common to a particular topic”). *Scènes à faire* are also defined as “stock scenes that naturally flow from a common theme.” *Beal v. Paramount Pictures Corp.*, 20 F.3d 454, 459 (11th Cir.1994); see *Compulife Software Inc. v. Newman*, 959 F.2d 1288, 1304 (11th Cir. 2020) (defining the phrase as “[i]ncidents, characters, or settings that are indispensable or standard in the treatment of a given topic” (alteration in original) (quoting *Corwin v. Walt Disney Co.*, 475 F.3d 1239, 1251 (11th Cir. 2007))); see also *Vallejo v. Narcos Prods., LLC*, 2019 WL 5884513, at *3 (S.D. Fla. May 24, 2019) (quoting *Herzog v. Castle Rock Ent.*, 193 F.3d 1241, 1248 (11th Cir. 1999)) (*Scènes à faire* includes “sequences of events which necessarily follow from a common theme” or “incidents, characters, or settings that are indispensable or standard in the treatment of a given topic.”).

²⁰⁷ See Council Directive 2016/943, art. 1, 2016 O.J. (L 157) (EU); see also *EU Trade Secrets Directive: What are “Reasonable Steps”?*, WINSTON & STRAWN, LLP (Feb. 7, 2019), <https://www.winston.com/en/thought-leadership/eu-trade-secrets-directive-what-are-reasonable-steps.html>.

²⁰⁸ See Council Directive 2016/943, art. 1(1), 2016 O.J. (L 157) (EU) (clarifying that “[t]his Directive lays down rules on the protection against the unlawful acquisition, use and disclosure of trade secrets.”). As one author explains:

[The TSD is a] so-called “minimum harmonization device” meaning that Member States have the possibility—if they wish—to put in place wider trade secret protection, provided that the safeguard measures expressly provided for in the Directive to protect the interests of third parties are respected. However, even if a Member State does not put such protection in place, pursuant to Article 288 of the Treaty on the Functioning of the European Union (TFEU), the wording and the goals of the Directive must be observed when national law is applied.

Kevin Nachtrab, *The Trade Secrets Directive*, 54 LES NOUVELLES 165, 165 (2019), <https://www.lesi.org/publications/les-nouvelles/les-nouvelles-online/september-2019>; see also FUNDAMENTALS OF FRANCHISING EUROPE 36 (Robert A. Lauer & John Pratt, eds., 2017).

[I]t is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; it has commercial value because it is secret; it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.²⁰⁹

This definition of trade secret is the same as the 1994 WTO TRIPS definition of trade secret.²¹⁰ This definition is relatively the same as the definition in Denmark, Spain, and Italy, but the TSD changes the existing definition more in countries such as Germany, Sweden, Poland, and Hungary.²¹¹

Not only does the TSD create a uniform policy for trade secret management in the European Union, but it also defines unlawful acquisition and remedies, though criminalization for misuse of trade secrets is not a possibility.²¹² Similar to trade secret protection in the United States, the TSD provides for a cause of action when a confidentiality agreement or NDA has been breached.²¹³ Under Article 4(3), the TSD specifically provides that use or disclosure will be considered unlawful when:

[W]ithout the consent of the trade secret holder . . . a person . . . is found to meet any of the following conditions: (a) [to have] acquired the trade secret unlawfully; (b) [to be] in breach of a confidentiality agreement or any other duty not to disclose the trade secret; [or] (c) [to be] in breach of a contractual or any other duty to limit the use of the trade secret.²¹⁴

Successful litigants are offered various remedies, including: injunctive relief; prohibitions on further production, marketing, and selling of infringing goods; seizure or delivery of infringing goods, including electronic information; court-ordered recalls, alterations, or destruction; and publicized judgments.²¹⁵ One aspect of TSD that people find concerning is that TSD allows for reverse engineering.²¹⁶

²⁰⁹ See Council Directive 2016/943, art. 2(1), 2016 O.J. (L 157) (EU); see also FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208.

²¹⁰ FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208.

²¹¹ *Id.*

²¹² Council Directive 2016/943, arts. 4(2)–(5), 6(1), 9(1), 12(1)–(4), 14, 16, 2016 O.J. (L 157) (EU); see also FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 35–37. For a more comprehensive treatment on the lack of criminalization for trade secret misuse, see Council Directive 2016/943, arts. 12(1)(a)–(d), 14(1), 2016 O.J. (L 157) (EU).

²¹³ See Council Directive 2016/943, art. 4(3)(b), 2016 O.J. (L 157) (EU).

²¹⁴ Council Directive 2016/943, art. 4(3)(a)–(c), 2016 O.J. (L 157) (EU); see FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 36.

²¹⁵ See Council Directive 2016/943, arts. 10–15, 2016 O.J. (L 157) (EU); see also FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 37–38.

²¹⁶ Council Directive 2016/943, art. 3(1), 2016 O.J. (L 157) (EU); see FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 37; see also *supra* note 147.

On the other hand, trade secret law under both the UTSA and the DTSA provides intellectual property protection for both individuals and businesses who develop proprietary procedures.²¹⁷ This means that if a business takes well-known information to develop a process and creates economic gain from this process, both the UTSA and the DTSA provide trade secret protection and a remedy for misappropriation. Here, it is likely that, under the UTSA or DTSA, Civility would have had a remedy against Molly Manners. The information was not known to its competitors, the information provided Civility with a competitive advantage, and the NDA was a reasonable step to protect the information. Civility would be entitled to breach of contract damages, royalties, injunctions, and other remedies that the court may find appropriate.²¹⁸ Other remedies may include attorney's fees if the misappropriation was made in bad faith.²¹⁹

There is one major hiccup with trade secrets: independent creation voids the trade secret protection, at least with respect to that party.²²⁰ For example, if Molly Manners had no prior contact with Civility and independently came up with the same ideas that Civility used, Civility would not have had a misappropriation claim. Independent creation is dangerous to businesses or franchises with secrets that are not necessarily complex or unique. Although marketing strategies and procedures may be creative, that still may not suffice to meet the requirements for protection. If franchise processes were public information or the franchisor failed to keep the trade secrets private, a purported misappropriator could simply point to public documents to show that identified trade secrets are not secret at all, thus failing to meet one of the elements required for protection.²²¹ The defendant and purported misappropriator is able to use its own documents, records, and financial data to show that it made no use of the plaintiff's information to show there was no misappropriation.²²² Therefore, if

²¹⁷ See, e.g., UTSA § 1 cmt. (explaining that acquisition of a trade secret by Proper means is not illegal and mentioning that "Proper means includes . . . 2. Discovery by 'reverse engineering,' that is, by starting with the known product and working backward to find the method by which it was developed."); 18 U.S.C. § 1839(6)(B) (emphasis added) (explaining that "the term 'improper means' does not include *reverse engineering*, independent derivation, or any other lawful means of acquisition). An example includes creating a world-renowned soda recipe.

²¹⁸ MILGRIM & BENSON, *supra* note 149, at § 1.01(3).

²¹⁹ *Id.* at § 1.01(4). Furthermore, the violation of trade secrets can lead to criminal penalties at the federal level. Lars S. Smith, *Trade Secrets in Franchising*, in FRANCHISING: CASES, MATERIALS & PROBLEMS 1, 147, 148 (Alexander M. Meiklejohn ed., 2013).

²²⁰ Independent creation is a "defense asserting that a later work is not a derivative of an allegedly inferior work, but is a product of coincidentally parallel labor." *Independent Creation*, BLACK'S LAW DICTIONARY (11th ed. 2019); see *What is independent creation?*, QUIZLAW, http://www.quizlaw.com/trade_secrets/what_is_independent_creation.php (last visited Aug. 3, 2021) (providing an alternate definition of Independent creation as "where someone creates, on [his/her] own, the same technology or information which someone else claims as a trade secret. If this independent creation did not wrongfully use any part of the claimed trade secret, then the creator is free to use it as he or she sees fit, without needing to seek the trade secret owner's permission, and is not liable for trade secret misappropriation.").

²²¹ E. Robert Yoches & Jia W. Lu, *Defending Trade-Secret Misappropriation Allegations*, FINNEGAN (Oct. 2011), <https://www.finnegan.com/en/insights/articles/defending-trade-secret-misappropriation-allegations.html>.

²²² *Id.*

a franchisor attempts to protect its processes as trade secrets and another business – franchised or otherwise – develops the same idea through its own efforts, the franchisor will not have a legal claim.

C. The Potential of a Trade Secret Registry to Protect Both Franchise Parties

Before analyzing the specifics of what a trade secret registry applicable to franchises would look like, it will be helpful to first explore the attributes that should be present to establish the type of registry for which this Article advocates. The trade secret registry should be an international registry,²²³ to reflect the international nature of most franchise industries.²²⁴ It should exist in an online format to permit all interested parties ease of access. The purpose of the registry would be to “identify the owners of the trade secret rights . . . but not to disclose the secrets themselves.”²²⁵ An effective trade secret registry will primarily have security measures in place to protect the owner’s asset (the trade secret), while also meeting the public notice requirement (informing the public that a particular idea is protected without revealing proprietary information that could comprise the secret).²²⁶ In the event of a security breach, where

²²³ Chagai Vinizky, *Trade Secrets Registry*, 35 PACE L. REV. 455, 495 (2014). This international trade registry will require registered owners to consent to a pre-determined choice of law, so that the registry can operate on uniform procedural and substantive laws, as a precondition for using the registry. *Id.* at 531–32. This may require amendments to existing individual country’s intellectual property laws to a uniform standard, as well as the creation of an international council to operate the registry and adopt operative rules for the registry. *Id.* at 533. Trade secret owners will also be required to pay a registration fee, which will be used to fund the registry’s maintenance, software and website updates, registrar and employee salaries, etc. For alternative trade secret registry proposals, see J. Jonas Anderson, *Secret Inventions*, 26 BERKELEY TECH. L.J. 917, 973–77 (2011); Pamela Samuelson et al., *A Manifesto Concerning the Legal Protection of Computer Programs*, 94 COLUM. L. REV. 2308, 2412–30 (1994); Jerome Reichman, *Legal Hybrids Between the Patent and Copyright Paradigms*, 94 COLUM. L. REV. 2432, 2545–58 (1994). To prevent the registry system from collapsing under the weight of its many responsibilities and to meet the demands of an innumerable number of stakeholders, the registry should be staffed by multiple registrars, assigned to one geographical area (e.g., the EU, Africa, the U.S., Russia, etc.) who are experts in the language, legal, and regulatory framework for their assigned region.

²²⁴ For example, the three largest publicly traded European franchisors are U.S.-based, with an average market capitalization of 1.131 trillion dollars. See *Top 500 European Franchises—Ranking*, FRANCHISE EUR. (May 2020), <https://www.franchiseeurope.com/top-500/> (noting that the three largest publicly-traded European franchises are 7-Eleven; Subway; and McDonald’s). This expansion of U.S. franchises into the international market has transpired, in great part, because of master franchising. Eddy Goldberg, *Master Franchising: Entering the Game at a Higher Level*, FRANCHISING.COM (Jan. 12, 2018), https://www.franchising.com/articles/master_franchising_entering_the_game_at_a_higher_level.html (defining the term master franchising as “a form of the franchise-franchisee relationship in which the master franchisee essentially becomes a mini-franchisor for a specified territory For U.S. franchise companies, master franchising is most commonly used for international expansion”).

²²⁵ Vinizky, *supra* note 223, at 496.

²²⁶ Vinizky, *supra* note 223, at 486–87. As with other firms who receive and store consumers’ data,

a third party hacker breaks into the registry and steals deposited trade secrets, various remedies are available: the registry can be insured with high policy limits and/or the registry can provide an insurance fund (financed by trade secret owner registration fees) to compensate owners for damages.²²⁷ Also, operators of the registry would be civilly liable to the registered trade secret owners for breach of contract and negligent handling of the registry.²²⁸

Second, an effective trade secret registry for franchises will be judged on reducing various costs: transaction, litigation, financing, and employment costs.²²⁹ In the case of a franchise, so long as it does not conflict with the operating manual terms detailing trade secrets, either a franchisor or franchisee could enter the trade secret information as encrypted information on the registry (saved as a unique file).²³⁰ To ensure the authenticity of ownership, the individual inputting the information should sign with an approved electronic signature.²³¹

Subsequent updates to the initial entry could be made in real time, replacing the file where the original entry is located on the registry.²³² This Article recommends

perhaps the FTC could be granted the authority to impose certain obligations on the registry's registrar and other registry employees to protect the security of consumer provided information while also file enforcement actions against the registrar and his or her employees for failing to provide "reasonable" measures to protect the security of the owner's trade secret data. *See, e.g.,* Daniel J. Solove & Woodrow Hartzog, *The FTC and the new Common law of Privacy*, 114 COLUM. L. REV. 583, 604 (2014); FED. TRADE COMM'N, *START WITH SECURITY: A GUIDE FOR BUSINESS, LESSONS LEARNED FROM FTC CASES* (2015), <https://www.ftc.gov/tips-advice/business-center/guidance/start-security-guide-business>.

²²⁷ Vinizky, *supra* note 223, at 530. Arguably, a trade secret owner's act of depositing his, her, or its trade secret into an online encrypted trade secret registry satisfy the reasonable secrecy precautions ("RSP") requirement. Deepa Varadarajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357, 360 (2017). The RSP requirement is a necessary element (under the UTSA and the DTSA) that the trade secret owner must meet to obtain trade secret protection, i.e., the owner must "engage in reasonable efforts to maintain the secrecy of the information for which protection is sought." *Id.*; Dole, Jr., *supra* note 182; *see also* Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002 (1984) ("Because of the intangible nature of a trade secret, the extent of the property right therein is defined by the extent to which the owner of the secret protects his interest from disclosure to others.") (citations omitted). Various rationales have been advanced for the RSP requirement including that it serves like circumstantial evidence of a trade secret's independent economic value; of the information's secrecy; of the wrongful acquisition or "misappropriation" of the information; and that it provides potential defendants ex ante notice that information is being claimed as a trade secret. Varadarajan, *supra*, at 475–78.

²²⁸ Vinizky, *supra* note 223, at 530.

²²⁹ *Id.* at 484. Optimally, the registry's benefits should exceed the costs of establishing and operating the registry, as well as overcome additional public costs (e.g., the means of acquiring initial ownership of the trade secret; the means for transferring ownership of it; and the creation of secondary rights for permitted uses of it). *Id.* at 484–86.

²³⁰ Vinizky, *supra* note 223, at 488. The information would also need to be encrypted when saved onto the registry. *Id.* at 488 n.80.

²³¹ *Id.* at 488. This signature would "delineate[] the scope of the information . . . and ratifies the identity of the provider of the information." *Id.* at 488–89.

²³² *Id.* at 489. In other words, the registry would operate as a "registry of transactions" that are "constantly updated." *Id.* at 492–494.

that only the individual who inputted the trade secret information into the registry, and his or her agents or subordinates, would be allowed to make updates to that original entry.²³³ The registry would allow members of the general public to view the names of various owners, the names of their agents and subordinates who made updates, and the date and time when the information was input (or updated) into the registry.²³⁴ To engage in transactions related to the trade secret, the registrant would need to list the names of all contracting parties and list the secret on the registry in his/her/its name.²³⁵ Likewise, if either party to a franchise agreement were to transact with each other or with a third party relating to an unregistered trade secret (one not in the registry), then any such transaction would be void until the secret is officially registered in the registry.²³⁶

The registry's public notice function will be useful in various scenarios. The registry's public notice aspect can prevent fraudulent transactions, such as when a terminated franchisee attempts to sell his former franchisor's trade secret to the franchisor's competitors (and vice versa).²³⁷ Similarly, the registry's notice function can assist franchisors in screening potential franchisees who may have access or knowledge about other franchisors' trade secrets; without performing this check, the current franchisor could be liable for trade secret misappropriation for executing a franchise agreement with a franchisee who possesses knowledge of a former franchisor's trade secret.²³⁸

The registry can also assist the parties to a franchise relationship by lowering the transaction costs associated with trade secrets litigation. In the event of a legal dispute where one party challenges the legitimacy of another party's ownership of a trade secret, the registrars of the trade secrets registry and their employees are the only ones that should be allowed to peruse the trade secret to comply with discovery requests or judicial request for the material.²³⁹ The registrars, along with their employees and

²³³ See *id.* at 495.

²³⁴ *Id.* at 489, 495. Vinizky proposes that there should not be a preliminary ownership verification step before inputting the trade secret into the registry; thus, the registration itself would not constitute as definitive proof that the material is a trade secret. Vinizky, *supra* note 223, at 493. Further, "[r]egistration of information as a trade secret with the proposed registry [would] not necessarily create the trade secret." *Id.* at 496.

²³⁵ *Id.* at 494.

²³⁶ *Id.* at 494–95.

²³⁷ *Id.* at 502.

²³⁸ *Id.* at 501–03; see 18 U.S.C. § 1839(5)(A) (defining misappropriation and the necessary elements to prove liability).

²³⁹ Vinizky, *supra* note 223, at 489. To accomplish these tasks, the registrar would have access to the master coding keys, which would grant him or her the ability to decode the encrypted trade secret(s). *Id.* at 489 n.81. Similarly, he or she would be granted the authority to hire experts in various fields to assist in carrying out judicial requests and powers. *Id.* at 489. Registration of a trade secret on a proposed registry such as this could be used a litigation proceeding as *prima facie* evidence of intent to protect a trade secret; absent a showing that the registered secret was well-known or the registrant

the experts they hire, will need to be bound by a duty of confidentiality to the trade secret owner as third party certifiers,²⁴⁰ akin to the duty applicable to a patent registrar and his or her employees.²⁴¹ In addition, depositing the trade secret into the registry clears up issues regarding when the trade secret came into existence (there is a record date), and the registrar's certification of what the owner deposited as the trade secret can be used as prima facie evidence regarding the scope of the secret.²⁴² Similarly, claims of trade secret misappropriation can be filed with ease since the owner of the trade secret can use the registry to identify former business associates (franchisee or franchisor) that may have used the trade secret in a new franchise.²⁴³

Further, the registry has the potential to significantly reduce the evidentiary costs between the parties to a franchise relationship on this singularly important issue in litigation: Did party A have one or more trade secrets to which party B was exposed (or perhaps had constructive notice of) and then party B misappropriated? Indeed, suppose that a franchisee was in negotiations with a well-known franchisor to transfer the franchisee's trade secret (which was already deposited in the registry) to the well-known franchisor.²⁴⁴ Suppose further that those negotiations break down, but the franchisee later learns that the well-known franchisor had been using the franchisee's trade secret in the interim. Assuming that the well-known franchisor did not register similar information prior to negotiations, a strong evidentiary presumption exists that the franchisee disclosed his secret to the well-known franchisor during negotiations and that the franchisor used it illegally.²⁴⁵ Alternatively, assuming that the negotiations went well, recording the transfer of the trade secret from the franchisee to the well-known franchisor is easy: the franchisee's title on the registry would display

used reasonable efforts to protect her secret, courts are likely to assume that the registered trade secret was reasonably protected. Anderson, *supra* note 223, at 976.

²⁴⁰ Derek E. Bambauer, *Secrecy is Dead—Long live Trade Secrets*, 93 DENV. L. REV. 833, 851–52 (2016).

²⁴¹ Vinizky, *supra* note 223, at 489; see 35 U.S.C. 122(a) (detailing that, with certain exceptions, “applications for patents shall be kept in confidence by the Patent and Trademark Office and no information concerning the same given without authority of the application or owner.”). Perhaps the scope of the attorney-client privilege, applicable to the trade secret registrant's and his/her/its counsel, should extend to cover the registrar and his or her staff during trade secret litigation to prevent inadvertent disclosure of the trade secret (since it can be classified as a communication). RESTATEMENT (THIRD) OF THE LAW GOVERNING LAWYERS § 69 (AM. LAW INST. 2000) (defining that the privilege applies to any communication, i.e., “any expression through which a privileged person, as defined in § 70, undertakes to convey information to another privileged person, & any document or record revealing such an expression.”); see *id.* § 68 (defining the four necessary elements to the attorney-client privilege); see also *id.* § 73 (explaining that the privilege applies to certain communications when the client is an organization).

²⁴² Vinizky, *supra* note 223, at 504.

²⁴³ *Id.* at 505.

²⁴⁴ A similar hypothetical is presented in Vinizky, *supra* note 223, at 510.

²⁴⁵ *Id.* The well-known franchisor can refute this presumption by presenting evidence that the information was in its possession before the negotiations took place. *Id.* For a case on franchisees suing a franchisor on the misuse of a trade secret, see *Camp Creek Hospitality Inns, Inc. v. Sheraton Franchise Corp.*, 139 F.3d 1396 (11th Cir. 1998); Mark S. VanderBroek & Christian B. Turner, *Protecting and Enforcing Franchise Trade Secrets*, 25 FRANCHISE L.J. 191, 195 (2006).

“former owner” while the well-known franchisor’s title on the registry would display “current owner.”²⁴⁶

Maintaining these titles displayed in the registry for a reasonable time (perhaps five years) after the transfer occurs is likely to deter “former owners” from succeeding in reselling the secret.²⁴⁷ The same deterrent effect can apply to situations where former franchisees (of a well-known franchisor) attempt to sell the franchisor’s trade secret to one of the franchisor’s competitors without disclosing the source of the secret,²⁴⁸ or when a licensee who possesses an exclusive license to use a trade secret (obtained from the owner) attempts to either register himself as owner of the trade secret or to sell the license to a third party.²⁴⁹

D. Analyzing International Trade Secret Law

The Trade Related Aspects of Intellectual Property (“TRIPS”) Agreement sets the minimum standards for property protection such as copyrights, trademarks, geographical indications, industrial designs, patents, undisclosed information, and integrated circuit layout designs for World Trade Organization (“WTO”) members.²⁵⁰ The TRIPS Agreement also sets the minimum standards for enforcement of intellectual property rights.²⁵¹

A similar approach to trade secrets is taken abroad. International treaties concerning intellectual property require countries to protect undisclosed information,

²⁴⁶ Vinizky, *supra* note 223, at 511. Of course, this scenario can well have the parties in reverse, with a franchisor’s trade secret and a franchisee’s access to, and possible theft or misappropriation of, that secret.

²⁴⁷ *Id.* at 512. According to the procedures of the proposed trade secret registry, a former owner of a trade secret who attempts to resell a trade secret would have to register again as owner of the trade secret. *Id.* at 512. In this scenario, the trade secret registrar would perform a conflict check (as it would do for any initial registration of a secret) between the status of the secret and the potential registrant/seller (who’s in actuality the “former owner” of the secret in this scenario). *Id.* If the trade secret registrar discovers that the secret information is similar to the one that the potential seller had transferred previously, he would be allowed to prevent the transaction from happening. *Id.* Further, the registrar should have the discretion to disclose the attempted fraudulent sale to the current owner of the secret; this is akin to the Model Rule allowing a lawyer to permissively disclose confidential information relating to the representation of a client “to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result” (emphasis added). MODEL RULES OF PROF’L CONDUCT r. 1.6(b)(2) (AM. BAR ASS’N 1983).

²⁴⁸ Vinizky, *supra* note 223, at 513.

²⁴⁹ *Id.* at 515–19. For further discussion on this issue, see Abraham Bell & Gideon Parchomovsky, *Of Property and Information*, 116 COLUM. L. REV. 237 (2016); Derek E. Bambauer, *supra* note 240; Deepa Varadajan, *Trade Secret Precautions, Possession, and Notice*, 68 HASTINGS L.J. 357 (2017); and Chagai Vinizky, *Intellectual Property Registries in Judea and Samaria and the Gaza Strip*, 98 J. PAT. & TRADEMARK OFF. SOC’Y 266 (2016).

²⁵⁰ *Council for Trade-Related Aspects of Intellectual Property Rights*, OFF. OF THE U.S. TRADE REPRESENTATIVE, <https://ustr.gov/trade-agreements/wto-multilateral-affairs/-world-trade-organization/council-trade-related-aspects-in> (last visited Aug. 3, 2021).

²⁵¹ *Id.*

otherwise known as trade secrets.²⁵² One major treaty requires countries to offer protection to information that is (1) a secret, (2) has commercial value because it is a secret, and (3) is protected by reasonable steps under the circumstances.²⁵³ The language parallels the requirements for domestic protection, which is comparable to the United States' participation in TRIPS. TRIPS facilitates the ability of international franchisors to obtain protection wherever it is authorized. TRIPS Article 41, in combination with TRIPS Article 46, gives individuals the right to take legal action to protect their trade secrets through preemptive actions.²⁵⁴ This can be done through legal actions such as non-disclosure agreements or through litigation. International enforceability of non-disclosures is vital to protecting the contents of an operations manual. The non-disclosure agreement should explicitly state that the franchisee or potential franchise must remain silent regarding any facts he or she comes across while negotiating the franchise agreement, regardless of where the information comes from, such as from an operating agreement.²⁵⁵

Despite the existence of TRIPS, a country may go above those requirements and provide a franchisor or franchisee additional protection with respect to trade secrets. Examples include the European trade secret legislation and franchise specific legislation designed to address the intricacies of franchise law.²⁵⁶

Franchise-specific legislation has also been internationally implemented in regard to operations manuals, such as in the United Kingdom.²⁵⁷ As franchisors adapt to the new EU laws, proactive trade secret protection is important to prevent exploitation and disclosure of previously private processes that may have been subject to different regulations.²⁵⁸ For example, in Denmark, franchisors had been treated as suppliers and franchisees as independent distributors, so enactment of the TSD may result in new trade secret concerns for franchisors.²⁵⁹ Likewise, in Sweden, the operations manual, which covers prohibitions of making copies of the manual and secrecy aspects, is seen as a loan of franchisor information that terminates when the franchisee

²⁵² Agreement on Trade-Related Aspects of Intellectual Property Rights art. 39(1), Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994), https://www.wto.org/english/docs_e/legal_e/31bis_trips_01_e.htm [hereinafter TRIPS].

²⁵³ *Id.* at art. 39 (2).

²⁵⁴ *Id.* at arts. 41, 46.

²⁵⁵ Martina Parusova Zimova, *Czech Republic*, in INTERNATIONAL FRANCHISING CZR-1, CZR-4 (Dennis Campbell ed., 2nd ed. 2019).

²⁵⁶ Franchises are unique because disclosure to many parties is necessary. Consider a manufacturer with manufacturing trade secret. The secret can be contained in house and provided to a limited number of individuals on a need-to-know basis. Garner, *supra* note 188. It never has to leave the factory, which helps with protecting the secret. In the franchise context, the franchisor must expose these secrets to all franchisees and the franchisees expose those secrets to its employees. It is constantly being sent around through operations manuals, franchise agreements, disclosure documents, and emails.

²⁵⁷ FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 464.

²⁵⁸ *Id.* at 40.

²⁵⁹ *Id.* at 16.

agreement terminates.²⁶⁰ In Sweden, operations manuals are considered to have the originality needed to get copyright protection.²⁶¹ In Italy, the information in operating manuals is also protected by copyright law. The know-how that is contained in the manual must be safely kept by the franchisee, cannot be copied by franchisees for third parties, and the franchisee must return it at the end of the term for the franchise agreement.²⁶² In Malaysia, the Franchise Act requires the franchisee to provide a written guarantee that the franchisee and the franchisee's directors, spouses, immediate family members of directors, and employees will not disclose the information in the operations manual to anyone.²⁶³ Other countries that allow operations manuals to receive copyright protection are Belgium,²⁶⁴ Germany,²⁶⁵ Ireland,²⁶⁶ Austria,²⁶⁷ Cyprus,²⁶⁸ Denmark,²⁶⁹ Italy,²⁷⁰ and Singapore.²⁷¹ Some countries do not have regulations regarding operations manuals, like in the Czech Republic, which says that the operations manual itself should regulate its use.²⁷² Therefore, it is possible to have protection for franchisors through an operations manual.

Franchisors would be best suited by developing creative, original content in their operations manuals, ensuring that they would be protectable under copyright law as well as trade secret law. While there are varying approaches worldwide, a well-planned out operations manual and franchise agreement can serve as the basis for franchisor copyright and trade secret protections. A well-constructed manual will help protect the franchisor's brand reputation and credibility, while further serving as the basis for the obligations that the franchisee must follow. It is when a franchisor-franchisee relationship terminates, or a trade secret is no longer in use, that issues arise about a better franchise network service.

E. Economic Efficiency and Commercial Value Considerations

Another area to consider is what happens to trade secrets that are no longer in use. In other words, if a franchisor utilized a process but then eventually replaced it, does the former process still receive protection? To be under continued protection,

²⁶⁰ *Id.* at 392.

²⁶¹ *Id.* at 395.

²⁶² INTERNATIONAL FRANCHISING, *supra* note 255, at ITA-7.

²⁶³ *Id.* at MAY-23.

²⁶⁴ FUNDAMENTALS OF FRANCHISING EUROPE, *supra* note 208, at 81.

²⁶⁵ *Id.* at 197.

²⁶⁶ *Id.* at 241.

²⁶⁷ INTERNATIONAL FRANCHISING, *supra* note 255, at AUT-14.

²⁶⁸ *Id.* at CYP-26.

²⁶⁹ *Id.* at DEN-18.

²⁷⁰ *Id.* at ITA-7.

²⁷¹ *Id.* at SIN-12.

²⁷² *Id.* at CRZ-7. Operating agreement is also referred to as a "cookbook" in the Czech Republic because the manual describes how the franchise should be run. *Id.*

the trade secret must remain commercially valuable.²⁷³ One proposed standard is that commercial value—the worth of a business—must stem from the secret’s ability to be used in making a trade commodity,²⁷⁴ an idea that dates back to ancient civilizations trading in items like spices and seashells.²⁷⁵ The power of those civilizations was seen as proportionate to the civilization’s ability to manage a commodity exchange and hold onto secrets.²⁷⁶

Another standard states that the value of a trade secret is determined by whether the secret gives the holder a competitive edge over its competition.²⁷⁷ Therefore, if the information becomes obsolete, it provides no value and cannot be a trade secret.²⁷⁸ This analysis should be done for specific franchisors and not for a secondary market.²⁷⁹ For example, a trade secret does not retain its commercial value because it could be valuable in a secondary market—its value should be measured in the context of its value to the entity who is seeking enforcement of trade secret law with respect to the entity’s proprietary practices, procedures, or products.²⁸⁰

Policy dictates that information no longer in use should not be subject to trade secret protection.²⁸¹ Economic principles likewise hold that unused resources should be distributed in order to maximize efficiency.²⁸² Economic efficiency is reached when every resource is used in the best way possible to serve the needs of individuals and entities while waste and inefficiency are minimized.²⁸³ In other words, we witness this utmost level of efficiency when nothing can be changed in a way that makes one

²⁷³ See Chris Simboli, *Intellectual Property Law Considerations for Business Lawyers*, 61 THE ADVOC. 38, 39 (2018) (noting that trade secret protection can last in perpetuity as long as it remains secret or confidential).

²⁷⁴ Taylor v. Babbitt, 760 F. Supp. 2d 80, 88 (D.D.C. 2011) (citing the plaintiff’s assertion).

²⁷⁵ Nick K. Lioudis, *Commodities Trading: An Overview*, INVESTOPEDIA (May 21, 2019), <https://www.investopedia.com/investing/commodities-trading-overview/>.

²⁷⁶ *Id.*

²⁷⁷ Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1011 n.15 (1984) (“We emphasize that the value of a trade secret lies in the competitive advantage it gives its owner over competitors.”).

²⁷⁸ Taylor, 760 F. Supp. 2d at 88.

²⁷⁹ *Id.*

²⁸⁰ See *id.* at 89 (“[The materials] are not commercially valuable because their economic value does not derive from the competitive advantage they confer upon Fairchild within the antique aircraft market.”).

²⁸¹ While there is no uniform definition of “trade secret,” there are common elements that every definition shares. A trade secret is something that is *used* in a company’s business that “(a) is now known or readily accessible by competitors, (b) has commercial value or that provides a competitive advantage in the marketplace, and (c) the owner of the information protects from disclosure through reasonable efforts to maintain its secrecy.” Michael J. Kasdan et al., *Trade Secrets: What You Need to Know*, 11 NAT’L L. REV. 257 (2019).

²⁸² Caroline Banton, *Efficiency*, INVESTOPEDIA (Nov. 14, 2020), https://www.investopedia.com/terms/e/economic_efficiency.asp.

²⁸³ *Id.*

part better without making another part worse off.²⁸⁴ Therefore, even though a business may no longer choose to use it, another individual may be able to use that obsolete system (the former trade secret) or adapt it for his or her own purposes. This revitalized use of the former trade secret creates heightened efficiency, which benefits the economy in the long run.

On the other side of that argument is business owner consideration. The framers of the Constitution undoubtedly considered intellectual property in drafting the document, as evidenced by the express protections granted to science and innovations.²⁸⁵ Without such protections, franchises would be harmed because free riders could gain all of the benefits from the intellectual property without doing any of the work. If people were able to just wait until someone else invented an idea, there would be little incentive for research and development. Discovery of a new and innovative idea normally takes a substantial amount of resources, dedication, and time, and usually requires some sort of incentive or payout. A franchisor may dedicate significant revenue toward reformulating advertising strategies, secret sauces, or production lines.²⁸⁶ If a franchisor creates a new recipe, the old recipe may not necessarily lose its value even though the old recipe simply sits in the back of the franchisor's intellectual property drawer. Take for example the McDonald's McRib recipe. The McRib is not always on the menu and should not lose its value while awaiting future use; when the McRib is placed on the menu, for limited times, it is a popular item. In such circumstances, a way to try to protect trade secrets is to have a confidentiality agreement with franchisees in tandem with a trade secret protection policy.²⁸⁷

²⁸⁴ *Id.* Perhaps one could say that is comparable to the legal principle of adverse possession in real property law. Marya Baron, *Weeks v. Krysa: Cultivating the Garden of Adverse Possession*, 62 ME. L. REV. 289, 301 (2010) (recognizing the existence of this presumption). Adverse possession is “a method whereby a person who was not the owner of property obtains a valid title to that property by the passage of time. The concept of adverse possession allows a person to claim title to property presently titled in another and permits one to achieve ownership of another’s property by operation of law. [It] is thus recognized as a mode or method of acquiring title to property, but is not a favored one.” 3 AM. JUR. 2D *Nature of Adverse Possession* § 1 (2020).

²⁸⁵ For a discussion on the framers’ intent, see Dotan Oliar, *Making Sense of the Intellectual Property Clause: Promotion of Progress as a Limitation on Congress’s Intellectual Property Power*, 94 GEO. L.J. 1771 (2006).

²⁸⁶ The best example of such research and development (“R&D”) costs come from any food service business. In order to attract and maintain customers, franchisors must engage in creating value for both the business and its customers. This may include R&D projects that find ways of cutting costs during times of increasing food prices. Customer feedback is essential to any R&D project, analyzing trends and focusing on what is important to the consumer. Julie Ricchuito, *How a Franchisor Brands Can Both Test & Market Regional Menus*, FRANCHISE-INFO (Mar. 11, 2013) (https://www.franchise-info.ca/supply_chain/2013/03/onsite-insights-from-location-specific-menu-testing.html#.YUDQJp1Khyw).

²⁸⁷ Andrew Leonatti et al., *Ten Strategies for Trade Secret Protection*, FINDLAW, <https://corporate.findlaw.com/litigation-disputes/ten-strategies-for-trade-secret-protection.html> (last visited Aug. 3, 2021).

Therefore, another balancing act is required between the need to allocate resources for efficiency versus the need to incentivize business owners to develop and protect their processes. An ex-franchisee may still remember a sauce and be able to use it for a different purpose. This allows the creation of a new business and the competition necessary for a market-based, capitalist economy. However, this may result in franchisors being hesitant in updating their trade secrets due to fear of losing them in the public domain. If the franchisor believes that new secret sauces, production lines, and other improvements would make the old methods and recipes available for use by competitors, the franchisor is less likely to put time and money into developing new ideas.

Thus, to solve the problem with non-used trade secrets, a focus should be placed on the business's use of the trade secret. A trade secret may be classified as information known to only a small number of people in an industry, with the benefit coming from the small number of businesses that can use the information to their advantage.²⁸⁸ If a franchise's secret becomes unused, the franchisees are among the few individuals privy to such information. The trade secret still may retain most of its value. In proving commercial value, an exact science should not be required. A business should not necessarily have to give a specific date on which the value will arise.²⁸⁹ Let us return to the McDonald's McRib previously mentioned. It may not be used by the franchisee all the time because the item is only offered as a special during "McRib season,"²⁹⁰ but the McRib's recipe is considered a trade secret of McDonald's. The franchisors and franchisees are among the few individuals privy to the recipe, which provides value to those involved.

Lastly, establishing a lease-like relationship, in addition to or separate from the franchise, may benefit both parties. In such a situation, if a franchisee operated the franchise effectively for a specified term in the lease, the franchisee would, per the terms of the franchise or the lease, be able to keep using one or more designated trade secrets after the franchise relationship is terminated.²⁹¹ This would create a less daunting investment for franchisees because they would be able to continue using parts of

²⁸⁸ Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841, 851 (1998). While this type of information may not necessarily be a trade secret (because unrelated groups may discover the information independently), the same logic can still be used to define the value of a trade secret.

²⁸⁹ In a lawsuit for misappropriation of a trade secret, one may ask what should be required: A mere showing that the trade secret had value to the owner or that provides a competitive advantage to other businesses if allowed into the public domain? In other words, a sauce recipe, for instance, has value because of the time that it took to develop it; even if the new recipe is objectively better, misappropriating even the older recipe might lessen the gap between industry leader X and competitor Y, who has directly acquired X's old recipe or at least seen it fall into the public domain.

²⁹⁰ *The Sauciest Time of the Year: McRib Season is almost here*, MCDONALD'S NEWSROOM (Oct. 3, 2019), <https://news.mcdonalds.com/news-releases/news-release-details/mcrib-season-almost-here> (stating that the McRib season was starting around October 7, 2019, for a limited time).

²⁹¹ A franchisee's continued use of the trademarks and trade secrets of the franchisor poses an interest-

their investment instead of franchise-specific things going to waste. This mechanism would give franchisors a stronger advertising incentive as well as a more amicable relationship with the franchisee. Also, it would leave franchisors with the ability to pick which trade secrets a franchisee could continue to use and which the franchisor would retain for future use. Meanwhile, a franchisee would not have to worry about future infringement claims for cases where a franchisor's ownership of the trade secrets ceased when the franchise relationship ended; the trade secret would at that point belong to the ex-franchisee, not the former franchisor.

Indeed, a key question would remain: the separability, or not, of a trade secret's components into their own distinct secrets. Perhaps, if franchisors give parts of a heretofore unified, single trade secret to their franchisees, the franchisors would not be able to control who has access to the trade secret as whole (e.g., an entire business process) and would not be able to bring claims against the franchisee because the full trade secret at that point would belong to the franchisee.²⁹² In the end, though, any such issues, if too problematic—whether, for example, a waiver of property interests or exposure to other, unintended consequences—could surely be avoided by careful planning and clear, contractual delineation. As long as the provisions governing the trade secrets and related matters remain basically the franchise parties' own private law of contract rather than state or federal mandate, these provisions would presumably remain subject to franchisor and franchisee due diligence and negotiation. Furthermore, while franchisors control the drafting of the franchise contract provisions, this may be tempered by inter-franchisor competition for investors (i.e., franchisees),

Trade secrets provide an array of benefits and concerns for a franchisor. Trade secret law covers intangible property that deserves protection but falls outside copyright, patent, or other forms of intellectual property. However, to retain a commercial benefit from the information requires franchisors to remain ever vigilant, which can be extremely costly.

V. The Applicability of U.S. Antitrust Law

In *Civility v. Molly Manners*, it was alleged that Molly Manners stole the information from Civility's operations manual and used the information to establish its own set of videos to teach children about manners and mannerisms.²⁹³ There was no

ing dichotomy. On one hand, the franchisor's goodwill may be harmed by the franchisee's unauthorized, continued use of the mark, adversely affecting the customer's impressions. However, if the franchisee continues to use the mark and maintains its value uniformly, quality does not actually go down. See Emerson, *supra* note 110, at 384.

²⁹² This idea goes to one of the most important elements of a trade secret: maintaining its secrecy. Once secrecy has been established, the franchisor must go one step further and prove that misappropriation occurred. If a franchisor willingly transfers such knowledge of a trade secret without contractual limitations, a franchisee may have free reign over the use of the trade secret and the franchisor would not have any redress under trade secret law. See Robert W. Emerson, *Franchise Savoir Faire*, 90 TUL. L. REV. 589, 603 (2016).

²⁹³ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1187–88 (alleging copyright infringement).

conduct that would fall under the purview of the Sherman Act, the federal statute that bans restraint on trade and monopolization,²⁹⁴ because there were no actions that unreasonably restrained trade, no mergers, and no combining of directorates.²⁹⁵ It would likewise not fall under the Clayton Act because there was no contract or agreement that would unreasonably restrain trade, and there was no intent or conspiracy to monopolize.²⁹⁶ Civility's only choice for recourse was under the Federal Trade Commission Act. Under the Federal Trade Commission Act, which specifically proscribes any type of deceptive or unfair behavior that affects commerce,²⁹⁷ there was a possibility for Civility to obtain a remedy.²⁹⁸ Unfortunately, Civility could not bring the claim itself, but would have to wait for the FTC to take action.²⁹⁹

The court determined that had Civility developed a more extensive set of evidence, it may have demonstrated that Molly Manners intentionally undermined the previous settlement agreement for its own benefit and intentionally used the videos and processes to develop its own lessons.³⁰⁰ If that were the case, Civility would likely have been able to demonstrate that Molly Manners, through unfair or deceptive practices, obtained this information and used it to undermine Civility's economic position in the marketplace. This would further have brought the issue under the shadow of the Sherman Act and exposed Molly Manners to the full force of antitrust litigation. Nothing in the case indicated that Civility would be entitled to receive the portion of income that its materials created. Perhaps the best outcome for Civility would have resulted if Civility had required Molly Manners to sign an NDA specifying each trade secret at issue because Civility could have brought a misappropriation claim. So as long as the agreement stated the trade secrets with adequate particularity, Civility's lawsuit likely would have had a different result.

²⁹⁴ *The Antitrust Laws*, FED. TRADE COMM'N, <https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws> (last visited Aug. 3, 2021); *see* Sherman Act, 15 U.S.C. § 1.

²⁹⁵ Clayton Act, 15 U.S.C. § 18.

²⁹⁶ *Id.*

²⁹⁷ *Id.* § 45(a)(2) ("The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.").

²⁹⁸ *A Brief Overview of the Federal Trade Commission's Investigative, Law Enforcement, and Rule-making Authority*, FED. TRADE COMM'N (Oct. 2019), <https://www.ftc.gov/about-ftc/what-we-do/enforcement-authority> (last updated October 2019) (noting "the Commission may initiate an enforcement action using an administrative or judicial process if it has 'reason to believe' that the law is being or has been violated . . . [and/or] seek preliminary and permanent injunctions to remedy If the respondent elects to settle the charges, it may sign a consent agreement.").

²⁹⁹ *The Enforcers*, FED. TRADE COMM'N, <https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/enforcers> (last visited Aug. 3, 2021) (stating that businesses cannot sue under the FTCA).

³⁰⁰ *Civility Experts Worldwide*, 167 F. Supp. 3d at 1215.

A. A Brief Overview of the Sherman, Clayton, and Federal Trade Commission Acts

Antitrust laws have had the same basic objective since the inception of the Sherman Act in 1890: “To protect the process of competition for the benefit of the consumer, making sure there are strong incentives for businesses to operate efficiently, keep prices down, and keep quality up.”³⁰¹ Antitrust laws, specifically the Sherman and Clayton Acts, were implemented to prevent unreasonable restraints of trade.³⁰² Section 1 of the Sherman Act prohibits any type of contract, agreement, conspiracy, or combination thereof from restricting trade.³⁰³ Any type of behavior in restraint of trade, such as price fixing,³⁰⁴ cartel-like structures,³⁰⁵ or collusion between competitors³⁰⁶—including certainly all types of competition law behaviors associated with franchising³⁰⁷ and the professional or educational endeavors of the franchise bar³⁰⁸ and academia³⁰⁹—is subject to both criminal and civil liability under the Sherman

³⁰¹ *The Antitrust Laws*, FED. TRADE COMM’N, <https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/antitrust-laws> (last visited Aug. 3, 2021).

³⁰² *NCAA v. Bd. of Regents.*, 468 U.S. 85, 98 (1984) (“[W]e have repeatedly recognized, the Sherman Act was intended to prohibit only unreasonable restraints of trade.”); *Times-Picayune Pub. Co. v. United States*, 345 U.S. 594, 609 (1953) (“[T]he Clayton Act’s more specific standards illuminate the public policy which the Sherman Act was designed to serve”).

³⁰³ 15 U.S.C. § 1 provides that “every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.”

³⁰⁴ *United States v. Socony-Vacuum Oil Co.*, 310 U.S. 150, 218, 223–24 (1940).

³⁰⁵ *Addyston Pipe & Steel Co v. United States*, 175 U.S. 211, 248 (1899).

³⁰⁶ *United States v. Apple, Inc.*, 791 F. 3d 290, 339 (2d Cir. 2015).

³⁰⁷ Jonathan Solish, *Franchising 101: Key Issues in the Law of Franchising*, AM. BAR ASS’N (Mar. 22, 2010), https://www.americanbar.org/groups/business_law/publications/blt/2010/03/01_solish/ (concluding, “At one time, the battle between franchisors and franchisees was waged primarily in the antitrust arena,” and referring to franchising’s “commonly litigated” antitrust cases in the aftermath of a 1971 federal circuit court of appeals holding, *Siegel v. Chicken Delight*, 448 F.2d 998 (9th Cir. 1971)).

³⁰⁸ The American Bar Association’s (“ABA’s”) Committee on Franchising was first housed within the ABA’s Antitrust Law Section. Only later did the ABA’s Forum on Franchising form, ultimately as a group within the ABA distinct from any other particular group or section. H. Stephen Ward, *Editor’s Column, Newsletter of the Forum Committee on Franchising*, 1 AM. BAR ASS’N 2, 2 (1980) (noting that the Forum started in August 1977), https://www.jstor.org/stable/29541052?seq=1#metadata_info_tab_contents; Will K. Woods, *Letter from the Chair*, AM. BAR ASS’N (Feb. 3, 2020), https://www.americanbar.org/groups/franchising/chair_letter/. Until then, one could say that franchise law, as a legal practice area and as a form of legal education, usually was treated as primarily a subset of antitrust law.

³⁰⁹ Indeed, franchise law is a modern development and most law schools do not have educational resources discussing this issue. It was finally recognized as a distinct area of law in 2009 and it is extremely popular as a method of developing a business. Thus it should be treated as a separate entity and have its own legislation instead of heavily relying on other areas of law. See Rupert M. Barkoff, *Franchise Law as an Academic Discipline*, in *FRANCHISING: CASES, MATERIALS & PROBLEMS*, *supra* note 32, at xxv, xxvi–xxxi (citing, *inter alia*, *State ex. rel. Couns. for Discipline v. Orr*, 759 N.W.2d 702 (Neb. 2009)).

Act.³¹⁰

In addition to these types of examples of trade restraints, the legislature and regulatory bodies have codified certain behaviors that are so egregious and clearly unreasonable that they are illegal *per se*.³¹¹ In other words, the conduct is illegal and there is no need to consider whether the behavior actually affected trade. However, in contrast with *per se* conduct, any other type of behavior that arguably restricts trade is subject to a “rule of reason” analysis.³¹² This doctrine is fundamental to antitrust analysis.

The Sherman Act only restricts behavior that unreasonably restricts trade.³¹³ A court must analyze and weigh both the pro-competitive benefits of the challenged conduct against the anticompetitive effect of that conduct, and prohibit conduct which, on balance, is anticompetitive.³¹⁴ In 2019, the EU opened an investigation into Amazon for its dual role in being a marketplace and retailer to use data from the company’s merchants against the merchants.³¹⁵ The same week, Amazon reached a

³¹⁰ This begs the question: In the franchising context, do antitrust laws miss the mark? Antitrust laws were written when “new technology meant ‘typewriters, buggy whips, and bicycles.’” Fiona M. Scott Morton, *Is Antitrust Enforcement Out of Date?*, YALE INSIGHTS (July 10, 2018), <https://insights.som.yale.edu/insights/is-antitrust-enforcement-out-of-date>. Commentators have stated that antitrust law needs to be updated to face the new realities of a world where the Internet is king. Shahid Buttar & Mitch Stoltz, *Antitrust Enforcement Needs to Evolve for the 21st Century*, ELEC. FRONTIER FOUND. (Feb. 27, 2019), <https://www.eff.org/deeplinks/2019/02/antitrust-enforcement-needs-evolve-21st-century>; see also Denise Hearn, *Google, Facebook, and Amazon Benefit from an Outdated Definition of “Monopoly”*, QUARTZ AT WORK (Nov. 12, 2018), <https://qz.com/work/1460402/google-facebook-and-amazon-benefit-from-an-outdated-definition-of-monopoly/> (noting that antitrust laws need to be updated in order to deal with the massive power that is today’s tech firms).

³¹¹ *Cont’l T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 49–50 (1977) (“Per se rules of illegality are appropriate only when they relate to conduct that is manifestly anticompetitive. As the Court explained . . . ‘there are certain agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and therefore illegal without any elaborate inquiry as to the precise harm they have caused or the business excuse for their use.’” (quoting *N. Pac. Ry. Co. v. United States*, 356 U.S. 1, 5 (1958))).

³¹² See *Addyston Pipe & Steel Co v. United States*, 175 U.S. 211, 239–45 (1899) (articulating the rule of reason analysis); see also *Irish v. Ferguson*, 970 F. Supp. 2d 317, 362 (M.D. Pa. 2013) (The “rule of reason,” used to evaluate Sherman Act restraint of trade claims, requires a fact-finder to “weigh[] all of the circumstances of a case in deciding whether a restrictive practice should be prohibited as imposing an unreasonable restraint on competition.” (quoting *Cont’l T.V.*, 433 U.S. at 49)).

³¹³ *NCAA v. Bd. of Regents.*, 468 U.S. 85, 98 (1984) (“[W]e have repeatedly recognized, the Sherman Act was intended to prohibit only unreasonable restraints of trade.”).

³¹⁴ See *Standard Oil Co. of N.J. v. United States*, 221 U.S. 1, 58–60 (1911); see also *Cont’l T.V.*, 433 U.S. at 49.

³¹⁵ Elizabeth Schulze, *EU to investigate Amazon over possible anti-competitive business practices*, CNBC MARKETS (Jul. 17, 2019), <https://www.cnbc.com/2019/07/17/eu-to-investigate-amazon-over-possible-anti-competitive-practices.html>; European Commission Press Release IP/19/4291, Antitrust: Commission opens investigation into possible anti-competitive conduct of Amazon (July 17, 2019).

settlement with Germany and with the House Judiciary Subcommittee on Antitrust.³¹⁶ In addition to proscribing contracts, agreements, and conspiracies in restraint of trade, the Sherman Act also forbids monopolies, attempts to monopolize, and conspiracies to monopolize.³¹⁷

A second piece of antitrust legislation, the Clayton Act,³¹⁸ “prevents and eliminates contracts, corporate mergers and acquisitions, and interlocking directorates.”³¹⁹ Congress gave broad discretion to the agencies to enforce antitrust laws. With the implementation of the Federal Trade Commission Act (“FTCA”),³²⁰ Congress sought to curtail and prevent “unfair methods of competition” and “unfair or deceptive acts.”³²¹ The FTCA established the Federal Trade Commission (“FTC”), the regulatory body empowered to enforce the antitrust laws and to punish those businesses and individuals who would undermine—through unfair practices—commerce.³²²

The FTCA was implemented in the same spirit as the Sherman Act—that is, it was enacted for a policy purpose of restricting and forbidding behavior that unreasonably restrains trade or commerce.³²³ In addition to the legislature’s goals and policies of policing anti-competitive behavior, the legislative doctrines that protect consumers were implemented for that very reason—to prevent practices “unfair” to consumers.³²⁴

B. Antitrust and Franchise Operations Manuals: Regulating and Remediating Violations

As was the case for regulation of operations manuals, antitrust laws often require a balancing act.³²⁵ On one side is the consumer benefit analysis and the desire to avoid anti-competitive behavior. On the other end, various agencies must be careful to not

³¹⁶ European Commission Press Release IP/19/4291, Antitrust: Commission opens investigation into possible anti-competitive conduct of Amazon (July 17, 2019).

³¹⁷ 15 U.S.C. § 2.

³¹⁸ *Id.* § 12.

³¹⁹ *See id.* §§ 12–27; *see also Clayton Act*, FED. TRADE COMM’N, <https://www.ftc.gov/enforcement/statutes/clayton-act> (last visited Aug. 3, 2021) (describing the FTC’s role in “preventing and eliminating unlawful tying contracts, corporate mergers and acquisitions, and interlocking directorates.”).

³²⁰ 15 U.S.C. § 41.

³²¹ *Id.* § 45(a)(1); *see also F.T.C. v. Brown Shoe Co.*, 384 U.S. 316, 317 (1966).

³²² 15 U.S.C. § 57a(a)(1)(B) (providing the ability to issue regulations to prohibit specific acts).

³²³ The Sherman Act was enacted in 1890. This Act was the first to ban monopoly business practices and allow the federal government to dissolve trusts. “Any combination ‘in the form of trust or otherwise that was in restraint of trade or commerce among the several states, or with foreign nations’ was declared illegal.” *Sherman Anti-Trust Act*, OUR DOCUMENTS, www.ourdocuments.gov/doc.php?flash=true&doc=51 (last visited Jan. 9, 2021); *see* 15 U.S.C. § 1. Individuals and companies can sue in federal court for get triple damages. 15 U.S.C. § 15(a); *see id.* § 7 (defining the word “person” or “persons”).

³²⁴ *See F.T.C. v. Sperry & Hutchinson Co.*, 405 U.S. 233, 244 (1972).

³²⁵ Daniel M. Tracer, *Overcharge But Don’t Overestimate: Calculating Damages for Antitrust Injuries in Two-Sided Markets*, 33 *CARDOZO L. REV.* 807, 808 (2011) (describing the need to balance plaintiff’s just compensation with the prevention of plaintiff’s receiving proper gains).

impede “legitimate, pro-competitive behavior.”³²⁶ While the behaviors may not look the same, it is the risk of being classified as *anti-competitive* that deters businesses from making aggressive decisions that could benefit consumers in the long run.³²⁷

An individual or business wronged by anti-competitive behavior is entitled to request injunctive relief.³²⁸ If a party seeks damages, the situation becomes more complicated.³²⁹ The applicable statute allows for any “reasonable system of estimating aggregate damages as the court . . . may permit.”³³⁰ This system creates a massive financial risk for any defendant, and the situation is aggravated by the remedy of treble damages.³³¹ In the franchising context, this could have a substantial impact. If a franchisor is found liable for an antitrust violation, treble monetary damages can put the franchisor in a dire situation. Recall that a franchisor is required to provide services to other franchisees, such as advertising, management training, and design. It has to keep investing in itself in order to remain an appealing franchise. When a franchisor has a civil liability award or judgment hanging over its head, the franchisor may not have enough capital to perform those functions.³³² In such a scenario, the franchisor may be exposed to additional franchisee suits for not performing contractual duties. One poor calculation or judgment could effectively end the franchise entirely.

In contrast, perhaps the laws are too weak to deter franchisors’ anticompetitive behavior.³³³ The FTC Franchise Rule mainly requires a disclosure and does not necessarily regulate the behavior that occurs after the franchise agreement has been signed.³³⁴ This occurs when a franchisor terminates a franchise on a whim or when a franchisor authorizes a second franchise despite its negative effects on pre-existing franchises. As of now, franchisees must rely on common law and the covenant of good faith and fair dealing. It is extremely difficult to wage a war over “good faith,” and the damages are limited to compensatory or restitution damages. This creates little incentive for a franchisee to take on the risk and cost of litigation, especially

³²⁶ Deborah Platt Majors, Deputy Assistant Att’y Gen., *Antitrust Remedies in the United States: Adhering to Sound Principles in a Multi-Faceted Scheme*, U.S. DEP’T OF JUST. (Oct. 4, 2002), <https://www.justice.gov/atr/speech/antitrust-remedies-united-states-adhering-sound-principles-multi-faceted-scheme>.

³²⁷ *Id.*

³²⁸ 15 U.S.C. § 26.

³²⁹ A party is authorized under 15 U.S.C. § 15(a) to bring a private suit.

³³⁰ 15 U.S.C. § 15(d).

³³¹ Cavanagh, *supra* note 43, at 630; *see also Damages*, BLACK’S LAW DICTIONARY (11th ed. 2019) (defining treble damages as “damages that, by statute, are three times the amount of actual damages that the fact-finder determines is owed.”).

³³² Furthermore, the FTC Franchise Rule requires the disclosure of pending litigation to the franchisee. Knowledge of this litigation can serve as a deterrent and prevent potential franchisees from signing franchise agreements. *See* 16 C.F.R. §§ 436.5(c)(1)(i)(A), (i)(B) (2018).

³³³ Cavanagh, *supra* note 43, at 631 (citing deterrence as a goal of treble damages).

³³⁴ *But see* 16 C.F.R. § 436.9 (2018) (regulating conduct that may contradict initial disclosures after the agreement was signed).

given the low probability of success for most such claims.³³⁵ Indeed, the franchise contract, drafted by the franchisor, usually bolsters the franchisor's defenses significantly.³³⁶

The sword of antitrust cuts both ways. Franchisors must concern themselves with vertical and horizontal restraints, price discrimination, and unfair trade practices.³³⁷ Unfair trade practice claims are usually grounded in state law and based on the Unfair Trade Practices Act ("UTPA").³³⁸ Wronged individuals can make a claim by alleging that an act was unfair or deceptive.³³⁹ In Florida, part of enforcement depends on a plaintiff bringing suit, but if only a relatively small amount is involved in the potential recovery for the case, there might not be enough to even recover the franchisee's legal fees.³⁴⁰ As such, potential plaintiffs might determine that the potential lawsuit is too costly and too much of a hassle.³⁴¹ This causes individual enforcement of the UTPA to fail.³⁴² The UTPA's purpose is to make consumers whole, and this goal is not served if attorney's fees are not included.³⁴³

To determine that an act was unfair, many courts have applied some variant of

³³⁵ Cavanagh, *supra* note 43 ("If antitrust recoveries were limited to actual damages, private parties would have little motivation to sue, given the unpredictability and high costs of antitrust litigation."); *see* Bell Atl. Corp. v. Twombly, 550 U.S. 554, 587 (2007) (Stevens, J., dissenting) (noting Congress's intention to encourage private enforcement of antitrust laws). Unfortunately for the franchisee, most of the litigation over good faith and fair dealing ends in the franchisor's favor. So, there is little unpredictability regarding outcome, but the actual path getting there varies from court to court.

³³⁶ A study of 100 franchise contracts found that each of these provisions were found in over half of the contracts: advising the franchisee to obtain legal counsel about the contract (51%), and declaring that the franchisee had in fact obtained counsel, accounting assistance, and other professional support (58%); the franchisee's admission that it had the opportunity to obtain clarification about any aspects of the proposed franchise (55%) and that it had conducted its own independent investigation of the merits of this particular franchise investment, for which no franchisor guarantees of profitability had been made (93%); the parties' express recognition that there is no fiduciary relationship between the franchisor and its franchisees (83%). Emerson, *supra* note 53, at 694–695. Furthermore, the author's review of 500 FDDs from the year 2020—covering all industries (including lodging, restaurants, services, education, exercise, and other fields), all regions, and close to one-sixth of all extant U.S. franchise systems—found that over half of them—270—had clauses specifically stating that the franchisee waived any claims for a breach of the implied covenant of good faith and fair dealing, that the express (quite pro-franchisor) terms of the franchise agreement negated any possible contrary terms under an implied covenant of good faith and fair dealing, or that no covenant will imply any rights or duties inconsistent with a fair construction of the agreement's provisions.

³³⁷ W. Michael Garner, *Developing Effective Compliance Programs—Antitrust Laws and Related Issues*, in 1 FRANCHISE & DISTRIBUTION LAW & PRACTICE § 2:7 (Thompson Reuters 2020) (recommending a compliance program to educate franchise employees about these issues).

³³⁸ Unfair Trade Practices Act, 15 U.S.C. §§ 45(a)(1), (a)(4)(A); CONN. GEN. STAT. § 42-110b (2018); FLA. STAT. § 501.202 (2018); LA. STAT. ANN. § 51:1405(A) (2018); 73 PA. CONS. STAT. § 201-3 (2018); S.C. CODE ANN. § 39-5-20 (2018).

³³⁹ Smith v. Wells Fargo Bank, N.A., 158 F. Supp. 3d 91, 100 (D. Conn. 2016).

³⁴⁰ LaFerne v. Scott Smith Oldsmobile, Inc., 410 So. 2d 534, 536 (Fla. Dist. Ct. App. 1982).

³⁴¹ *Id.*

³⁴² *Id.*

³⁴³ *Id.*

what was known as the FTC “Cigarette Rule.”³⁴⁴ The rule examines the following: (1) whether the practice “offends public policy”—as set forth in “statutes, the common law, or otherwise”; (2) “whether it is immoral, unethical, oppressive, or unscrupulous; and (3) whether it causes substantial injury to consumers (or competitors or other businessmen).”³⁴⁵ One example of an unfair practice is the theft of trade secrets.³⁴⁶ If a party alleges the theft of trade secrets, it becomes a misappropriation claim and follows the above analysis.³⁴⁷

Enter *Civility Experts*, this Article’s illustrative example for matters of intellectual property and antitrust. Civility’s only recourse was under the FTCA, which specifically proscribes any type of deceptive or unfair behavior that affects commerce.³⁴⁸ Unfortunately, Civility could not bring the claim itself,³⁴⁹ but would have to wait for the FTC to take action.³⁵⁰

C. Civility’s Remedy under the FTCA

On the other hand, to protect franchisees, the FTC has established a Franchise Rule that is enforced under the FTCA.³⁵¹ The rule requires franchisors to provide

³⁴⁴ Unfair Trade Practices Act, *supra* note 338 (stating the rule was adopted by the Connecticut Supreme Court).

³⁴⁵ Unfair or Deceptive Advertising and Labeling of Cigarettes in Relation to the Health Hazards of Smoking, Statement of Basis and Purpose, 28 FED. REG. § 8355 (1964); *see also* J. Howard Beales, *The FTC’s Use of Unfairness Authority: Its Rise, Fall, and Resurrection*, FTC (2003), https://www.ftc.gov/public-statements/2003/05/ftcs-use-unfairness-authority-its-rise-fall-and-resurrection#N_7_.

³⁴⁶ Garner, *supra* note 337.

³⁴⁷ *Trade Secret*, LEGAL INFO. INST., www.law.cornell.edu/wex/trade_secret (last visited Feb. 10, 2021).

³⁴⁸ 15 U.S.C. § 45(a)(2) (“The Commission is hereby empowered and directed to prevent persons, partnerships, or corporations . . . from using unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce.”).

³⁴⁹ 15 U.S.C. § 45(b); *see also A Brief Overview of the Federal Trade Commission’s Investigative, Law Enforcement, and Rulemaking Authority*, FED. TRADE COMM’N (Oct. 2019), <https://www.ftc.gov/about-ftc/what-we-do/enforcement-authority> (noting “the Commission may initiate an enforcement action using an administrative or judicial process if it has ‘reason to believe’ that the law is being or has been violated. . . [and/or] seek preliminary and permanent injunctions to remedy . . . If the respondent elects to settle the charges, it may sign a consent agreement.”).

³⁵⁰ *The Enforcers*, FED. TRADE COMM’N, <https://www.ftc.gov/tips-advice/competition-guidance/guide-antitrust-laws/enforcers> (last visited Aug. 3, 2021) (stating private parties cannot sue under the FTC Act). The court determined that had Civility developed a more extensive set of evidence, it may have demonstrated that Molly Manners intentionally undermined the previous settlement agreement for its own benefit and intentionally used the videos and processes to develop its own lessons. *Civility Experts Worldwide v. Molly Manners, LLC*, 167 F. Supp. 3d 1179, 1215 (D. Colo. 2016). If that were the case, Civility would likely have been able to demonstrate that Molly Manners, through unfair or deceptive practices, obtained this information and used it to undermine Civility’s economic position in the marketplace. This would further have brought the issue under the shadow of the Sherman Act and exposed Molly Manners to the full force of antitrust litigation. *See* 15 U.S.C. § 1. Nothing in the case indicated that Civility would be entitled to receive the portion of income that its materials created.

³⁵¹ 16 C.F.R. §§ 436.2, 436.5 (2018).

prospective franchisees documents containing specific information about the franchise, its officers, and other franchisees.³⁵² In essence, it is a disclosure provision that protects potential franchisees from any adverse economic harm by alleviating information asymmetry issues in the franchise-transaction setting.³⁵³ If there is an alleged rule violation, the Commission can review the situation and prove or disprove knowledge of deceit by showing whether the defendant had actual knowledge of the material misrepresentations, was recklessly indifferent to the reality of such misrepresentations, or was aware of a high probability that the representations were false.³⁵⁴

In *Civility Experts*, the question becomes: Did Molly Manners obtain the information from Civility in a deceptive manner, or did it misrepresent what it was going to do after the settlement agreement? The case is unclear due to the underdeveloped evidentiary record. Even if Civility could show that Molly Manners engaged in deceptive or fraudulent conduct, the FTCA remedy would still be difficult for Civility to obtain.³⁵⁵ It is more likely that Molly Manners would have to contend against the FTC in litigation, and, as a result, pay damages. However, it is unlikely that Civility would find any type of monetary or injunctive remedy under these antitrust laws.³⁵⁶ Additionally, the FTC may seek “consumer redress” from Molly Manners, but it must provide that a reasonable person would have known that the conduct was dishonest or fraudulent.³⁵⁷

Conclusion

In franchising, the best route for recourse against potential defendants who disclose confidential information—whether intentionally, negligently, or recklessly—is through trade secret law. The foundational policies behind trade secret law are clear—the protection of secret information for businesses that derive a material economic benefit from such information. Furthermore, the United States is party to international

³⁵² United States v. Bldg. Inspector of Am., Inc., 894 F. Supp. 507, 510 (D. Mass. 1995).

³⁵³ Rupert M. Barkoff, *Upcoming Review of the Franchise Disclosure Rule: Here We Go Again*, LAW.COM N.Y.L.J. (Nov. 19, 2018), <https://advance.lexis.com/search?crd=b5a49abe-ae4c-4354-bf2e-0422f82cda8d&pdsearchterms=LNSDUID-ALM-NYLAWJ-20181119UPCOM-INGREVIEWOFTHEFRANCHISEDISCLOSURERULEHEREWEGOAGAIN&pdbyasscitor-docs=False&pdmfid=1000516&pdisurlapi=true> (claiming the Rule was adopted to prevent fraudulent franchise sales).

³⁵⁴ Fed. Trade Comm’n. v. Int’l Diamond Corp., No. C-82-0878, 1983 WL 1911, at *1 (N.D. Cal. Nov. 8, 1983); see also *A Brief Overview of the Federal Trade Commission’s Investigative, Law Enforcement, and Rulemaking Authority*, supra note 349 (noting that “[T]he Commission may initiate an enforcement action using either an administrative or judicial process.”).

³⁵⁵ Note that Civility could not bring the claim itself but must wait for the FTC to take action. See supra note 299 and accompanying text.

³⁵⁶ Recall that a franchisor or other business can bring a claim for unfair trade practices. See Unfair Trade Practices Act, supra note 329.

³⁵⁷ 15 U.S.C. § 57b(a)(2); see *A Brief Overview of the Federal Trade Commission’s Investigative and Law Enforcement Authority*, FED. TRADE COMM’N (Oct. 2019), <https://www.ftc.gov/about-ftc/what-we-do/enforcement-authority>.

treaties that allow for the worldwide protection of trade secrets, like TRIPS.³⁵⁸ The framework for U.S. trade secret law mirrors these international commitments. However, trade secret law is not a perfect course of action because of vulnerabilities coming from independent creation.

In contrast to trade secret law, the policies behind antitrust law are based on the idea that two or more businesses engaging in anti-competitive conduct, irrespective of efficiencies, could lead to detrimental effects for the national economy. Therefore, antitrust laws may be more effective for franchisees or franchisors to combat anti-competitive behavior between two others. For example, if Franchisor R and Franchisee E engage in anti-competitive conduct that jeopardizes Franchisee B's business, B should be able to rely on antitrust laws for protection.

Circumstances should dictate whether a particular behavior violates trade secret law, antitrust law, both, or neither. A franchisee that takes reasonable steps to protect the franchisor's trade secrets and lacks the intent to violate trade secret laws should not be held liable if somehow, despite the franchisee's following instructions, a trade secret accidentally gets out. On the other hand, if a franchisee fails to rise to this standard of honesty, fairness, and reasonableness, the franchisee should be held liable for a foreseeable consequence—the revelation of trade secrets.

Once established, franchise relationships may appear to be stable, and the traditional approach to resolving issues is to look to the parties' – and usually that means the *franchisor's* – language. Courts, in turn, often defer to the operations manual or franchise agreement to settle most disputes. However, these agreements are neither ironclad nor foolproof. Courts must recognize, indeed play a part in, a changing legal

³⁵⁸ Trade Secret Policy, U.S. PAT. & TRADEMARK OFF., <https://www.uspto.gov/ip-policy/trade-secret-policy> (last visited Aug. 3, 2021). The blending of United States antitrust law and its foreign counterparts is not as effective. First, although generally more a matter of semantics than actual impact on policy, the term “antitrust” is not used abroad and is instead referred to as competition law. Secondly, the standards of what is considered anti-competitive is much lower than what types of actions violate European standards. In other words, actions done in the United States may be considered “fair,” but the performance of those same actions in a European country would be anti-competitive. *Compare* United States v. Microsoft Corp., 253 F.3d 34, 67 (D.C. Cir. 2001) (“As for the other challenged act that Microsoft took in integrating IE into Windows—causing Windows to override the user’s choice of a default browser in certain circumstances—Microsoft argues that it has ‘valid technical reasons’ . . . Accordingly, Microsoft may not be held liable for this aspect of its product design.”), *with* Case T-201/04, Microsoft Corp. v. Comm’n CFI (Sept. 17, 2008), 2007 E.C.R. II-03601, at ¶ 41, <http://curia.europa.eu/juris/liste.jsf?num=T-201/04> (“The Commission further . . . asserts that Microsoft’s conduct involves a disruption of previous, higher levels of supply . . . , causes a risk of elimination of competition on the work group server operating systems . . . and has a negative effect on technical development and on consumer welfare.”). Lastly, the seeds of unfair competition regulations have been placed in several different treaties. For example, it is discussed in the Paris Treaty, then referenced in the TRIPS Convention, and reaffirmed in a Europe-wide treaty and a directive. *See* Treaty establishing the European Community (consolidated version), arts. 81–82 Dec. 29, 2006, 2006 O.J. (C 321E) 37, <https://eurlex.europa.eu/search.html?qid=1586379445465&text=12006E&scope=EURLEX&type=quick&lang=en>; *see also* TRIPS, *supra* note 252.

landscape, with developments in particularly pertinent areas, such as trade secret law and antitrust law.

The operations manual has, or should have, some limitations in scope. Written contract terms and even lengthy, mutable operations manuals cannot cover every fact or issue. Case law and statutes can provide a path for resolution of disputes, giving franchisees the freedom to operate as they rightfully expected they could while providing franchisors the legal club to protect the franchise network's business, including key property such as trade secrets. New federal trade secret laws, such as the DTSA, should help courts provide a uniform approach. In turn, there could be improved franchise planning and operations, with greater network efficiency and fairness.