

Evelyn M. Sommer joined the Stamford office of Cummings & Lockwood in 2001 as of counsel in the Firm's Intellectual Property Group. Prior to joining C&L, Evelyn worked as "of counsel" with the New York law firms of Patterson, Belknap, Webb & Tyler, LLP, and Skadden, Arps, Slate, Meagher & Flom LLP practicing intellectual property law. Previously, she also spent 20 years as chief patent and trademark counsel to Champion International Corporation, a *Fortune* 100 company based in Stamford, Connecticut. Evelyn's practice focuses on various aspects of intellectual property law, including patent and trademark prosecution; patent, trademark, licensing and technology exchange agreements; interference practice; ex parte and inter partes patent and trademark proceedings; preparation of patent validity, infringement and enforceability opinions; and the intellectual property aspects of corporate transactions.

In her 40-plus years as an attorney, Evelyn has contributed to over 800 patents, argued appellate cases before various District Courts, the Court of Appeals for the Federal Circuit and the Court of Customs and Patent Appeals. She has participated in transactions involving trademarks, technology, and know-how, including license and franchise agreements, security interests, mergers and acquisitions, divestitures, and the like, involving intellectual property transfers, joint ventures, and research and development alliances.

Ms. Sommer has served on several pharmaceutical firm boards, including Allendale Pharmaceuticals, Inc. and was Patent Editor for Integrative Psychiatry. She is presently an editor and frequent contributor to The Licensing Journal and The Litigator. She is a special master for the United States District Court, District of Connecticut, an intellectual property adjunct professor at Quinnipiac University School of Law and a Director of the National Inventors Hall of Fame. Evelyn has also lectured on patent and

other intellectual property topics at seminars conducted by the Practising Law Institute, the American Management Association, the Bureau of National Affairs, Licensing Executive Society, ALI-ABA, American Intellectual Property Law Association, Connecticut Bar Association, Connecticut Patent Law Association, Westchester Fairfield Corporate Bar Association, Association of University Technology Managers, National Association of Purchasing Managers, Franklin Pierce Law School and other organizations. Evelyn has also written or contributed to numerous articles and books on both legal and scientific topics, and is a director of, or adviser to, various civic, business and legal organizations.

Evelyn attended New York University's Graduate School of Arts & Sciences, receiving her B.A. in Chemistry from Hunter College and her J.D. from Brooklyn Law School.

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FRANCHISING

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Evelyn M. Sommer
Zhiqiang Liu

What is a franchise

License

System
marketing plan/
community of interest

Mark
product/service

Franchisor

Franchisee

Fee





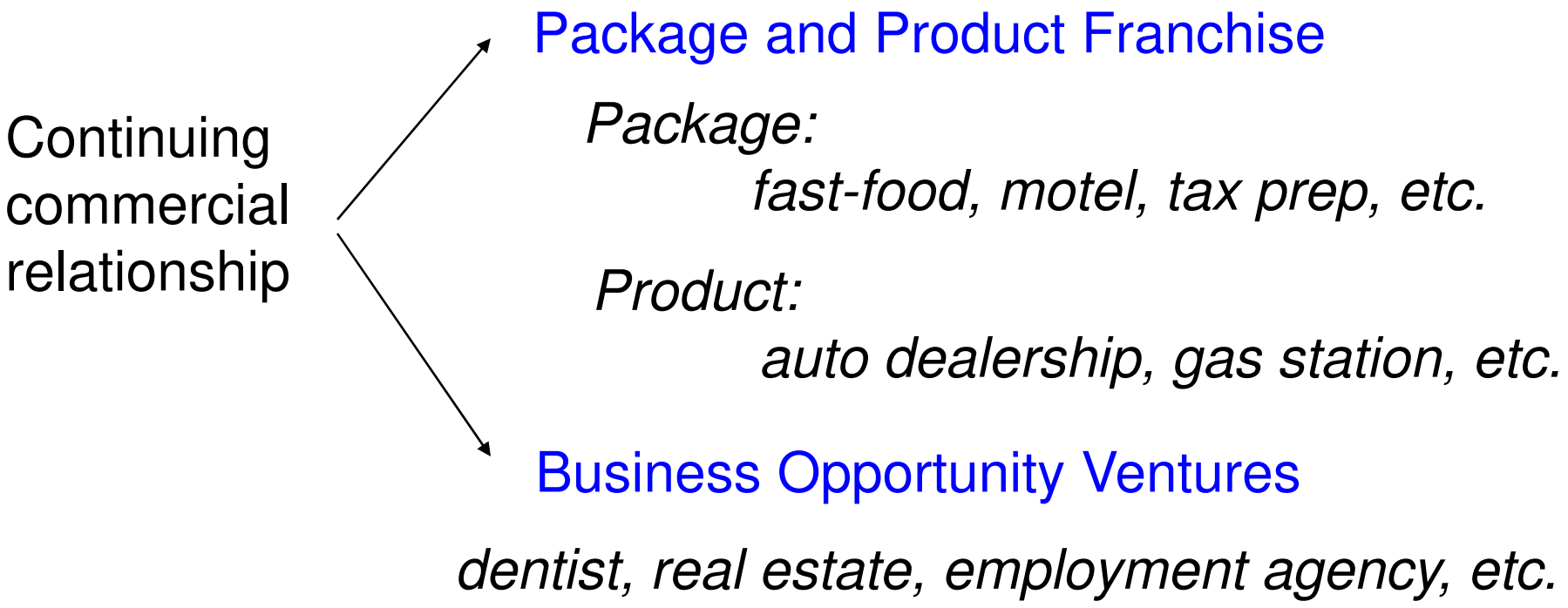




Franchise implies

1. A blend of business independence and dependence.

2. A continuing commercial relationship.



Licensing of Proprietary Marks: the  of Franchising

1. Trade marks
2. Service marks
3. Trade names
4. Trade dress ⟶
5. Patents
6. Logos
7. Emblems
8. Mottos
9. Copyrights
10. Other Proprietary Marks








System in Franchising:

Significant control and/or assistance
of the Franchisee's operation by the Franchisor

Control:

Site Approval
Site Design
Operating Hours
Production Tech
Accounting Practices
Personal Policies and Practices
Promotional Campaigns
Restrictions on Customers
Location or Sales Area Restrictions

Assistance:

Training Programs
Accounting System
Financing/Credit
Management/Marketing
/Personnel Advice
Site Location Selection
Operating Manual

Fees in Franchising



Required Payments to the Franchisor

Contract:
Fees per franchise agreement, rent, advertising, equipment, Supplies, training and other non-inventory items.

Practical Necessity:
Equipment available only from the franchisor or its affiliate.

Business Opportunity Ventures

1. The Franchisee sells goods/services supplied by Franchisor / Affiliate / Suppliers,

2. The Franchisor secures retail outlets or accounts for the goods or services, or secures locations for vending devices or racks, or assist the franchisee in obtaining such services from others, and

3. The Franchisee is required to pay a fee to the Franchisor / Affiliate.





Franchise: Absence of a Universal Definition

A widely used definition:

An oral/written arrangement for a definite or indefinite period, in which a person grants to another person a license to use a trade name and in which there is a community of interest in the marketing of goods or services at wholesale, retail, leasing, or otherwise in a business operated under said license.

California's Franchise Investment Law

A contract or agreement, either expressed or implied, whether oral or written, between two or more persons by which:

1) A franchisee is granted the right to engage in the business of offering, selling or distributing goods or services under a marketing plan or system prescribed in substantial part by a franchisor; **and**

2) The operation of the franchisee's business pursuant to such plan or system is substantially associated with the franchisor's trademark, service mark, trade name, logotype, advertising or other commercial symbol designating the franchisor or its affiliate; **and**

3) The franchisee is required to pay, directly or indirectly, a franchise fee.

New York General Business Law

A contract or agreement, either expressed or implied, whether oral or written, between two or more persons by which:

1. A franchisee is granted the right to engage in the business of offering, selling, or distributing goods or services under a marketing plan or system prescribed in substantial part by a franchisor, and the franchisee is required to pay, directly or indirectly, a franchise fee, **OR**

2. A franchisee is granted the right to engage in the business of offering, selling, or distributing goods or services substantially associated with the franchisor's trademark, service mark, trade name, logotype, advertising, or other commercial symbol designating the franchisor or its affiliate, and the franchisee is required to pay, directly or indirectly, a franchise fee.

New York v. Most Other States

New York	Most Other States
Trademark + Fee OR Marketing Plan + Fee	Trademark + Marketing Plan + Fee

Broadest Coverage

Franchise: as defined by a Community of Interest

A contract or agreement, either express of implied, oral or written, for a definite or indefinite period, between two or more persons:

1. By which a franchisee is granted the right to engage in the business of offering or distributing goods or services using the franchisor's trademark, tradename, service mark, logotype, advertising, or other commercial symbol or related characteristics;

2. In which the franchisor and franchisee have a community of interest in the marketing of goods or services at wholesale, retail, by lease, agreement or otherwise, and

3. For which the franchisee pays, directly or indirectly, a franchise fee.

Five Basic Types of Franchises

1. **Manufacturing Franchise**.
   Franchisee makes and sells products using either raw material and/or specifications supplied by the franchisor.

   Mattress, bedding manufacturing, local bottling and canning of soft drinks, etc.
2. **Distributing Franchise**.
   Franchisee serves as an outlet for products manufactured by or for franchisor.

   Bicycles, automobiles, gasoline, etc.
3. **Licensing or Business Format Franchise**.
   Franchisee obtains a license for business format or system rather than sells goods identified with the franchisor.

   Restaurants, convenience stores, hotels, motels, car rental, etc.

Five Basic Types of Franchises. Continued.

4. **Affiliation Franchise**
   Franchisees recruited into the system by Franchisor.

   Insurance, financial, real estate brokerage, etc.

5. **Co-branding**
   A single outlet is franchised by two or more franchisors

Franchise: a Win-Win Recipe for Both Parties

Franchisor's Benefits

1. contribution of Franchisee's local entrepreneurship
2. infusion of capitals for rapid system expansion and market penetration.
3. Generous financial rewards from a variety of sources.
4. Large number of highly motivated indirect employees.

Franchisee's Benefits

1. Nationally known trademark or service mark at inception.
2. Availability of expert guidance.

Structuring a Franchise System

1. Franchisor must possess relevant business expertise.
2. Relationship defined in a contract.
3. Appropriate length of term.
4. Grant of territorial rights.
5. Selection of the location and construction of the unit
6. Fee structures and schedules.
7. Sale or transfer of the unit by the franchisee.
8. Conditions for termination of the franchise.
9. Renewal of franchise.
10. Individual/unit franchise versus area franchise.

History of Laws Governing Franchise

Prior to 1970's	General business laws (contract, real property, antitrust, Lanham Trademark Act, and etc.)
1971	California Franchise Investment Law
1972	FTC Franchise Rule State level enactments in 19 jurisdictions
1978	FTC Disclosure Requirements and Prohibitions Concerning Franchises and Business Opportunity Ventures

Aspects of Intellectual Property Laws in Franchise

1. Trademark Law. First and foremost.
   Vicarious liability on franchisors for acts committed by franchisees.
2. Trade Dress Law
3. Trade Secret Law
4. Copyright Law
5. Patent Law

FTC Rule on Disclosures

1. Basic Disclosures
2. Advertised Claims
3. Earnings Claims
4. Franchise Agreements
5. Refunds
6. Contradictory Claims

Pre-Sale Only

No Federal Filing or Registration

No Private Right of Action for the Franchisee

Penalties for Violations:
Civil penalties of up to $10,000 per violation, remedies, cease-and-desist orders

State Registration and Disclosure Laws

1. State Registration and Disclosure can be used to satisfy the requirement of the FTC Rule.

2. Sixteen states require registration and dissemination of a disclosure.
   Disclosure required at the earliest of
   a) the first personal meeting,
   b) ten business day prior to execution of agreement,
   c) tens business day prior to payment

3. Exemptions
   blue chip, sale of a franchise by a franchisee or subfranchisor on their own account, etc.

Franchise Relationship Law

Eighteen states, Puerto Rico and DC have Franchise Relationship Law

Elements of Franchise As Defined by Franchise Relationship Law include

1. Either a marketing plan or a community of interest element,

   Wisconsin: a community of interest exists where the parties have a continuing financial interest and a degree of interdependence.
   New Jersey: in addition to Wisconsin standards, the courts have required the franchisor to maintain a higher degree of control.

2. A trademark element, and
3. A fee element.

Uniform Franchise Offering Circular (UFOC)

Mid 1970's	Uniform Franchise Offering Circular developed by North American Securities Administrators Association
1987	Uniform Franchise and Business Opportunity Act approved by the National Conference of Commissioners on Uniform State Law
1996	New UFOC in effect governing initial franchise applications and renewals

Recent Administrative Developments

1. FTC conducting revision of FTC Franchise Rule

   No FTC interest in applying the Rule to International transactions involving US franchisors.
   Flip-flop regarding co-branded franchises.

2. FTC contemplating regulating franchise activities taking place over the Internet and through other electronic communication modes. Potential encroachment. Electronic disclosures allowed.

3. Proposed changes to mandatory disclosure requirements. Financial Performance Representation disclosures

Franchise and Antitrust

Illegal tying: the seller of a product conditions its sale upon the buyer's agreement to purchase a second (presumably) unwanted product.

Four elements of illegal tie:

1. Two distinct products
2. Seller requires the buyer to purchase the tied product in order to obtain the tying product
3. The seller has market power in the market for the tying product, and
4. The tying arrangement affects a substantial amount of commerce

Case Study: Eastman Kodak Co. v. Image Technical Services, Inc. 504 U.S. 451 (1992)

Franchise and Evolving Technologies

Caveats of Internet for franchise:

1. Internet presence should have uniform “look and feel”.
2. System and model for easy updating.
3. Coordinated approach to domain name registration and renewal.
4. Robustness of e-commerce systems.
5. Prominent positions in Internet search results.
6. Internet presence consistent with in-store experience.
7. Potential encroachment.