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Protecting Intellectual Property in a 'Flat' World

By Peter S. Chase

Thomas Friedman, a columnist for *The New York Times*, used the phrase "the world is flat" to describe the more level economic playing field created by globalization. To many, it could be added that "the world is smaller." Just as airplanes made the world feel smaller geographically, globalization and the Internet have made it feel smaller economically. The Internet has so fundamentally changed the way people do business that it is difficult to remember the days, not too long ago, when similar trademarks could co-exist on similar products and services (if not always happily) in different regions of the country.

Overlapping Territories

Today, even small start-ups need and expect to be able to do business nationally and internationally. As sales territories have expanded, they have increasingly overlapped. For businesses competing for customers in these overlapping territories, the need for brand protection has resulted in the world seeming smaller.

People today educate and entertain themselves on the Internet, but more importantly for businesses, they shop, plan, and inform themselves about products and services. For many businesses, the Internet has opened up the entire world as a customer base. For more traditional brick-and-mortar businesses, including many franchises, it is now often the most important marketing medium, offering a unique opportunity to promote and sell. For many, it is a strict necessity that they do so just to remain competitive.

The Internet makes the world smaller by making many businesses' sales territories (and therefore trademark use) bigger — vastly bigger. Single-location shops now routinely sell products and services throughout North America and the world. Each such seller must therefore protect its trademark all over this enormous new area. Not only does it make business sense to do so, the law requires it: One must protect a brand, or lose it. The law recognizes that, even with diligent policing efforts, some infringing uses will occur. Although there is no

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Q&A with Sean Kelly, Franchise Blogger

The Franchising Industry Veteran Discusses His Newest Blog

Franchisees complain about the imbalance of power between themselves and franchisors, especially when franchisor-franchisee relationships go awry. The Web has changed that dynamic significantly by giving franchisees an easy way to voice their complaints widely and anonymously.

Sean Kelly is providing one of the most popular forums for franchisees to vent about franchisors — whether fairly or unfairly. A 20-year veteran of the franchising industry who participated in the startup of more than 100 franchises concepts, Kelly started a series of franchise-related blogs in November 2006 that have quickly become must-reads for franchisors, franchisees, franchise counsel, and consumers.

In this Q&A, Kelly discusses the launch of his first blog, www.franchisepick.com, the growth of his www.franbest.com network, and the impact that his latest blog site, www.unhappyfranchisee.com, is having on the industry.

FBLA: How did you get started in franchising, and how did you end up as the franchise blogging guru?

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statutory or case law outlining any specific policing steps that must be undertaken to protect a brand, the fact that the trademark owner cannot stop all infringement does not mean it is not obligated to do what it reasonably can.

In addition to the Internet, globalization in general has produced an increased importance attached to brand protection. Due perhaps to customers' recognition that the Internet has produced an increase in infringement, the value of branding has increased as customers seek assurance of the origin of a product or service. Furthermore, the Internet is still largely a visual medium (although becoming less so). Trademarks, also more visual than aural, acquire an even greater importance on the Internet than in other media.

New Infringements

The Internet does not, of course, change trademark law. Trademark law treats the Internet similarly to other media. But new issues do arise because of the Internet.

Businesses use their trademarks on the Internet, as in other media, to promote and sell their products and services. For businesses that have a trademark in their trade name, it is often desirable to register that name as a domain name. One problem that arises is that many words and symbols that are capable of being trademarked are associated with a wide variety of products and services. Under trademark law, it is perfectly acceptable for one brand name to be attached to a product or service, and a similar name to be attached to a different product or service of another business, if that similar brand name does not result in a likelihood of confusion (which it will not if the products/services are sufficiently different from each other). This is the case regardless of whether either or both of the trademarks is registered.

Naturally, trademark owners want domain names comprised of their marks and as little else as possible. With the limited number of domain name combinations and the prized value of ".com," it is impossible for all to obtain their desired domain names. Businesses with similar brands will go for similar domain names. This crowded arena naturally results in infringement, both intentional and unintentional.

A simple, but surprisingly common, infringement is the actual use of a competitor's mark (or one confusingly similar) in an advertiser's Web site. Oftentimes, this is accidental. In other instances, advertisers are apparently relying on the general rule that mere use in a domain name does not by itself constitute "use." However, courts have typically held that using another's mark in a domain name will constitute an infringement. *See, e.g., Audi AG v. D'Amato*, 341 F. Supp. 2d 734 (E.D. Mich. 2004); *Petmeds Express, Inc. v. MedPets.com, Inc.*, 336 F. Supp. 2d 1213 (S.D. Fla. 2004).

Perhaps the most insidious problem raised by the Internet is the hidden use of another's mark on an advertiser's Web site (meta tagging). At first impression, one could think that if a mark is hidden, it cannot be an infringement. But where another's mark is used, without being seen, to divert customers to a different site than they intended to reach (in the hope that, once there, the customer will stay), courts have generally found infringements. *See, e.g., Brookfield Communications, Inc. v. West Coast Entertainment Corp.*, 174 F.3d 1036 (9th Cir. 1999). There have, however, been exceptions. *See, Bihari v. Gross*, 119 F. Supp. 2d 309 (S.D.N.Y. 2000). The courts which have not find infringement have noted that the diversion could be corrected quickly by the customer (in seconds) who was, in any case, unlikely to be confused. Meta tagging is dangerous for

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franchises (and all businesses), as it undermines the actual business, not just the brand.

Linking (using a hyperlink that, when clicked, takes the user to another page) and framing (bringing someone else's Web site into the present site) are infringement problems related to meta tagging. Linking may not be a problem if the site to which the user is taken does not result in any confusion. However, at least one court has found infringement where one Web site was seen as causing users to believe it was related to another company. *Nissan Motor Co. v. Nissan Computer Corp.*, 125 S. Ct. 1825 (2005). While a trademark holder might wish to declare framing to be akin to false advertising, it has not yet been directly dealt with by the courts.

BRAND POLICING

Before the Internet, policing a brand name could be accomplished relatively easily by either the brand owner or a monitoring-service company. Policing efforts included reviews of content and ads on television and in newspapers and magazines. A small amount of infringement may have gone unnoticed, but not enough to endanger the mark. The costs associated with clearing new trademarks and bringing them to market made larger companies acutely aware of the potential costs of infringement that they therefore sought to avoid. As noted, smaller companies typically did regional, not national, business and were consequently less of a threat to a national brand and less aggressive about their own brands. Local infringement was generally more difficult to hide and, therefore, was much less common.

The new global and Internet economy changed this situation dramatically. Monitoring the Internet has now become as important as monitoring other media.

The Internet has dramatically lowered the financial barriers for starting new businesses (the world really is flat). Many new businesses now create the illusion of success and sophistication without committing the resources, as was necessary in the past, to build a brand name. They have "nothing to lose" by infringing on well-established brands. These infringers initially created problems for only the larger, well-established brands, but they have now begun to prey upon smaller brands. In part, infringers realize that smaller brand owners do not have the resources to enforce their rights as aggressively, particularly in distant jurisdictions.

The policing efforts that any particular trademark owner will choose to pursue obviously depend on the business, the available budget, and the value of the brand. Nevertheless, as with many business issues, a small outlay on prevention often produces a large savings in cure. To put it another way, an infringer caught early in the act is more likely to concede quickly and easily. At the least, the most basic act of prevention — trademark registration — is more necessary than ever.

Another issue in brand policing is whether to use in-house staff, outsiders, or a combination of both. Though there is usually a cost savings in staying in-house, owners should remember that specialists often produce the best results.

After infringements are discovered (and they usually are), the next set of decisions will involve which infringers to pursue. It is easy to say that every infringer must be pursued to the fullest extent, but less easy, and affordable, to actually do.

INTERNATIONAL PROTECTION

Internationally, the Madrid Protocol has greatly simplified and reduced the costs of the trademark registration process. Nevertheless, franchisors seeking international brand registration should be aware that it is still a very expensive and time-consuming process (just less so), which, in many cases, requires foreign counsel.

Franchisors and their counsel should be aware that, though the registration process has been simplified, the substantive trademark law of the constituent countries has not changed. Many, if not most, countries have more stringent standards on trademark distinctiveness than the United States. U.S. brand owners can find they have marks, which are easily registered in the U.S., but are not registerable in other countries. This is an unpleasant realization after a considerable expenditure. Of course, even if registration is available, the brand owner fighting foreign infringement is confronting a competitor on unfamiliar ground.

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Q&A with Sean Kelly

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Kelly: Twenty years ago, I took a job writing franchise brochures at a booming franchise consulting firm. After my first day, I asked myself: "Is this franchise industry a total scam?" Twenty years and some hundreds [of] franchise companies later, I am still asking the same question.

FBLA: You're no closer to an answer?

Kelly: Actually, the answer is the same as it was 20 years ago: yes and no. On the one hand, there are many, many franchise organizations that are truly dedicated to creating win-win-win relationships between franchisor, franchisees, and vendors. Therein lies the real power of franchising … the *Yes*. However, there are many, many other bogus, flawed and/or high-risk concepts being promoted to an unsuspecting public by cloud merchants and serial scammers. They would be the *No*.

The problem has been that the franchise industry has done a superb job of stifling negative publicity, both individually and collectively, both justified or not. Your talented readers have effectively protected their franchisor clients with gag orders and non-disclosure clauses. Entrepreneurial publications have protected their franchisor advertisers by creating a wondrous franchise world where everyone is

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in business *for themselves*, not *by themselves*, and virtually no franchise ever fails. But it's a fictional world.

Collectively, this is stifling the growth of the franchise industry because franchise prospects do not have the means to distinguish between the solid companies and "concepts and cloud merchants."

FBLA: Do you think the Internet — and, specifically, blogging — is changing that dynamic?

Kelly: I started my first real blog, FranchisePick.com, in November 2006 primarily as a promotional vehicle for my franchise clients. The tagline was "Picking the Perfect Franchise." My approach is always straightforward and no B.S. — but I didn't set out to be the "60 Minutes" or Ralph Nader of franchising. I owe that style to the franchise attorneys who scrutinized every word of my brochure copy when I started. They forced me to develop the unlikely marketing habit of telling the truth. I never resort to promises, veiled earnings claims, or hyperbole in my copy.

My reputation as blogging troublemaker began in January 2007. I wrote a post about tech blogger Robert Scoble's claim that his brother was getting cheated by an outfit called Java Jo'z. I immediately received an email from Java Jo'z legal department, threatening to sue me for libel and slander if I didn't take down the post immediately. Wrong approach to take with a stubborn Irishman with a popular blog. I immediately responded by digging in to the story and blogging on their growing improprieties … and continued to do so for the next year and a half.

Dozens of Java Jo'z "depositers" left messages on FranchisePick.com telling how the company had taken their refundable deposits and basically told them "tough luck" when they asked for it back. The outcry on my and other blogs ranked high in search engines and impaired the "new" owners' ability to sell franchises. CEO "Morg" Morgan claimed that my little blog was costing him $3 million per month in lost franchise sales. It forced him to dip into the payments due to the former owner (who was in jail) to repay the franchisees their money. From my perspective, it forced him to do the right thing.

When the "new" company, Cuppy's Coffee, continued the same practices of their predecessor, the comments returned to FranchisePick.com to warn Cuppy's prospects. Some of those prospects are out $30K to $40K each.

FBLA: In the ongoing Cuppy's controversy, you're also taking on a group that is trying to be a "white hat" in the industry, the American Association of Franchisees and Dealers.

Kelly: In trying to offset the negative press, Cuppy's Coffee schmoozed the American Association of Franchisees and Dealers ("AAFD") and eared AAFD's "contract accreditation," which Cuppy's then used it to show what good guys they were. It enabled the company's construction arm to take more deposits (which they didn't escrow) — in some cases without disclosing the prospects or furnishing the celebrated contract.

Yes, I have been harshly critical of the AAFD and its CEO Bob Purvin on this issue. I truly respect Bob and all he's done, but I think the AAFD got played like a violin. And that's the beauty of the Internet: I'm able to challenge Bob's point-of-view, he's able to challenge mine, and the readers can decide for themselves that I'm right.

FBLA: Any other interesting skirmishes in your short existence?

Kelly: In 2007, iSold It was being touted as *Entrepreneur* magazine's No. 1 Top New Franchise and was being heavily hyped in the press. At the same time, my readers were reporting that more than 60 franchisees had failed, homes were being lost, and the company was on the verge of bankruptcy. After I posted proof of this on FranchisePick.com, iSold It ceased franchise sales. Shortly thereafter, *Entrepreneur* removed them from their listings. To this day, if you look online for *Entrepreneur*'s 2007 Top New Franchises list, it starts with No. 2.

Entrepreneur is in the business of selling ads. It's not a non-profit organization. I don't blame them for hyping their advertisers. But there needs to be some balance. Who's providing it? The Small Business Administration now distributes a franchise guide written by a franchise brokerage. There's a shortage of truth — so I'm meeting the demand.

FBLA: Is that where UnhappyFranchisee.com fits in?

Kelly: Exactly. I want to provide both sides of the story. I have positive sites that only allow positive comments, such as FranBest.com, and a parody site called Franworst.com. I have HappyFranchisee.com that posts positive franchise profiles, and UnhappyFranchisee.com where struggling franchisees can share their stories. The point is not to tear down franchise companies, but to reward best practices and get the worst out in the open so they can be discussed, understood and addressed.

FBLA: That's quite a franchise media collection. How large is your empire?

Kelly: I have about 20 active Web sites and more than 50,000 unique visitors per month. My goal is to reach more than 500,000 unique page views per month by the end of the year. While *Entrepreneur*'s got nothing to worry about, my readership is as high or higher than many well-known trade magazines.

FBLA: While UnhappyFranchisee.com seems to be mostly for

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COURT WATCH

Franchisees Sue Franchisors Seeking To Terminate Franchise Programs

By Alexander G. Tuneski

In two recent cases, franchisors were accused of improperly undermining or terminating franchises that continued to operate under franchise systems that the franchisors intended to phase out for financial reasons. While in one case the franchisor allegedly intended to coerce its existing franchisees to convert to a new franchise program that would be more profitable for the franchisor, in the other case, the franchisor was accused of terminating a franchisee after concluding that its fledgling franchising system was not as profitable as expected.

In *McDougal, Inc. v. Mail Boxes Etc.*, 2 Bus. Franch. Guide (CCH) 13,908 (Cal. Ct. App. 2008), three franchisees of Mail Boxes Etc. ("MBE") sued their franchisor and its acquirer, United Parcel Service ("UPS"), for breach of contract, tortious interference with prospective economic advantage, and tortious interference with contract, amongst 33 total causes of action. The California Court of Appeals reversed a lower court decision granting summary judgment to the defendants, finding triable issues of fact on three of the asserted causes of action.

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When UPS acquired MBE in 2001, UPS presented existing MBE franchisees with the option to join the Gold Shield Program and to convert their Mail Boxes Etc. businesses to "The UPS Store." Eighty-seven percent of MBE's franchisees accepted the offer and signed amendments to their franchise agreements. The remaining 350 franchisees continued to operate their stores under the Mail Boxes Etc. banner.

The plaintiffs alleged that rather than continuing to support MBE franchisees, MBE and UPS began to abandon and undermine MBE stores and franchisees. The plaintiffs asserted that UPS and MBE attempted to coerce franchisees to convert to "The UPS Store" format and discriminated against franchisees that did not convert.

The MBE franchisees alleged that MBE and UPS interfered with their economic relationships by engaging in deceptive advertising that all MBE stores were becoming The UPS Stores; causing MBE's Web site to direct customer to The UPS Stores, even if a MBE store was closer; diverting national advertising funds for uses that solely benefitted The UPS Stores; and abolishing the national media fund for MBE franchisees while maintaining a national advertising program for The UPS Stores. Because the plaintiffs provided testimony of customers who had been confused by the lack of advertising for MBE stores and advertising for The UPS Stores, lists of customers who stopped using MBE stores, and declarations of customers who switched to The UPS Stores after hearing ads for lower costs for the same services, the court concluded that triable issues of fact remained as to whether MBE and UPS tortiously interfered with the remaining MBE franchisees.

The plaintiffs also claimed that MBE had breached several provisions of the franchise agreement. While the court deemed several of the claims to be meritless, the court found a triable issue of fact as to whether MBE had breached its obligation to develop and provide creative materials for local and regional marketing. The plaintiffs demonstrated that since the inception of the Gold Shield Program,

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individuals who are franchisees, is the franchise legal community participating?

Kelly: Definitely. A number of attorneys contribute to our sites. There are franchisees who are using the sites to educate themselves and, in some cases, organize. It's a valuable interface between franchisor attorneys, franchisee attorneys, and their prospective clients. We will be offering sponsorship and advertising opportunities shortly.

Smarter franchisors and smarter franchisees are good for franchising. No attorney will ever go hungry in franchising — but, hopefully, by getting better information we can reward the best and expose the worst. The Internet will definitely chase some of the worst away.

FBLA: Apparently, you're not going away, either.

Kelly: No, I'm like the crazy kid on the playground. I'm not the biggest kid, but when I start slugging, I won't stop. And people on my site won't stop griping if they have been wronged, and they will share everything they know. I don't think we've even scratched the surface of what we can do.

Remember, I'm a marketing guy. I want to spend my time promoting the good opportunities, not just bashing the bad. But when it comes to allowing franchisees to voice their complaints, I'm one of the only games in town. The truth is currently in high demand, and right now I'm one of the only ones with it in stock.

Editor's note: *All the FranBest Network blogs can be found at www.franbest.com. Sean Kelly can be reached at seankelly@ideafarm.net or (717) 656-2107 x24.*

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MBE had ceased producing television and radio commercials, eliminated national advertising programs, reduced the number of local print advertising materials that were available, lowered the quality of available in-store signage, reduced the quality of marketing materials so that they were no longer effective, and eliminated in-store promotions. Secondly, the court deemed there to be a triable issue of fact as to whether MBE had used funds collected from the MBE franchisees to purchase advertising for The UPS Stores rather than MBE centers. The plaintiffs were required to contribute to the National Media Fee, a marketing fund that was designed to promote awareness of MBE products and services through national advertising. The plaintiffs alleged that MBE disbanded the National Media Fee and reallocated some funds that had been committed to a national advertising program for the MBE brand to advertise The UPS Store.

The court also held that there was a triable issue of fact as to whether UPS, an affiliate of MBE, violated the franchise agreement by establishing or licensing drop boxes, authorized shipping outlets, and customer counters at locations within the franchisees' exclusive territories. The franchise agreements provided that MBE or its affiliates would "not franchise others or establish company-owned outlets, selling or leasing similar products or services under a different trade name or trademark, within the individual franchise area." The plaintiffs provided evidence that the drop boxes and authorized shipping outlets directly competed with and took business away from the franchisees and that UPS had established new locations within their territories since its acquisition of MBE.

Finally, the plaintiffs alleged that UPS had tortiously interfered with their franchise agreements by purchasing MBE for the sole purpose of turning MBE businesses into UPS-controlled stores under the UPS brand and "destroying the MBE franchise system, good will, and reputation for UPS's own business gain without compensation to plaintiffs." The plaintiffs claimed UPS intentionally induced MBE to breach its franchise agreements with the plaintiffs by requiring MBE franchises seeking to renew their franchise agreements to convert their stores to The UPS Store and by eliminating advertising support for MBE franchisees and diverting funds to advertisements for The UPS Store. The plaintiffs also claimed that UPS conducted unlawful price discrimination to attempt to coerce the plaintiffs to modify their franchise agreements with MBE to enable them to compete with lower wholesale prices UPS offered to competitor shipping outlets. The defendants claimed that their conduct was privileged and preempted by the Federal Aviation Administration Authorization Act of 1994. The court decided otherwise, holding that triable issues of fact remained because the defendants failed to meet their burden or production to show that their conduct was privileged and the act did not preempt the cause of action.

Wrongful Termination Battle over Underperforming Franchise

While in *MBE,* the franchisor was accused of trying to eliminate one franchise system in favor of a new franchise system, in *In Re: Magna Cum Latte, Inc.*, Chapter 11, *Debtor v. Diedrich Coffee, Inc.*, Bus. Franch. Guide (CCH) 13894 (Bankr. S.D. Tex. 2007), a franchisor was accused of wrongfully terminating a franchise that was one of the last holdouts of a failed franchising plan that the franchisor was abandoning. In that case, the franchisor's sole remaining franchisee, Magna Cum Latte, filed suit against the franchisor, Diedrich Coffee, alleging that Diedrich breached the implied covenant of good faith and fair dealing by declining to exercise a lease renewal option for the franchisee's store and violated the California Franchise Relations Act ("CFRA") by terminating its franchise without good cause.

In 2001, Magna purchased three company-owned stores from Diedrich and entered into franchise, sublease, and purchase agreements with respect to each of the stores. The franchise agreements included a term equal to 10 years, unless the franchisee executed its own lease for the premises for a period of less than 10 years, in which event the franchise would be for a term identical to the term of the franchisee's lease.

Under Diedrich's Master Leases, the stores' initial lease terms expired in 2001, 2002, and 2004. Diedrich, however, held one or two five-year options on each store. The sublease agreements did not explicitly require Diedrich to exercise the options, nor did it specify under what circumstances Diedrich could decline to exercise the options.

In the sublease agreements, the parties agreed that Magna's rent obligation would be based, in part, on a percentage of gross sales. However, sales at Magna's stores failed to meet expectations. As a result, Magna's rent payment to Diedrich failed to cover Diedrich's rent obligations under the master leases. Diedrich repeatedly attempted to renegotiate the sublease, threatening to let the store's renewal options expire if Magna did not agree to more favorable rent terms. Magna refused, contending that the parties' agreements obligated Diedrich to exercise the options.

In May 2006, Diedrich followed through on its threat and declined to exercise a renewal option for Magna's best-performing store. Magna was unsuccessful in its attempts to negotiate a new lease directly with the landlord, causing Magna to close the store, default on its obligations to Diedrich, and file a Chapter 11 bankruptcy petition. Magna then filed suit against Diedrich, seeking over $12 million in damages and lost profits related to its terminated franchise agreement.

Because the franchise and sublease agreements did not explicitly require Diedrich to exercise the

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NEWS BRIEFS

New CAN-Spam Rules Clarify Proper E-Mail Practices

The Federal Trade Commission's ("FTC") new rule provisions under the CAN-SPAM Act for e-mail marketing are being implemented by most companies without a hitch, according to Linda Goodman, principal, The Goodman Law Firm (San Diego). The new rules were published on May 12, and they went into effect on July 7.

Franchisors must be alert to their increased obligations under the new rule when they are designated as the "sender" of a commercial e-mail advertisement, even when multiple advertisers are on the e-mail. "A franchisor sending an e-mail on behalf of its franchisees nationally or in a region might be the designated sender," said Goodman. "This can be good news for a franchisor because it can exercise control over all the compliance issues. But the flip side is that the FTC has made it clear that if you are doing commercial e-mail, you as the advertiser will be on the front line of responsibility for the accuracy of the message and compliance."

Good marketing practices have dictated that companies take responsibility for commercial e-mail sent out on their behalf by third parties, but Goodman said the new rules put more legal force behind it. "The FTC wants to know who the sender is, which entity is the advertiser of the product or service … so you need to make sure that a third-party marketer is scrupulous and you pre-approve the messages that are being sent," she said. "Franchisors should remember that they are probably easier to locate than the marketer and probably have deeper pockets."

The new CAN-SPAM rules also make e-mail opt-outs easier than before. They prohibit charging an e-mail recipient a fee or requiring information besides the recipient's e-mail address. However, Goodman noted that

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Court Watch

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lease options, the court determined that Diedrich had not breached its agreements with Magna. However, under California law (the law chosen in the franchise agreements), the covenant of good faith and fair dealing is implied within all contracts. The court considered whether Diedrich had exercised its discretion to not renew the lease option in good faith. The court noted that a "party may exercise discretionary power only in a manner that would have been within the parties' reasonable contemplation at the time of contract formation."

The court concluded that, at the time of formation, the parties contemplated that Diedrich would exercise its lease options if Magna had not obtained its own lease directly with the landlord, because the parties intended to have a long-term relationship. By its terms, the franchise agreement was intended to have a term of 10 years or the length of the store's lease, which included the options. The court noted that Diedrich had exercised the option for another one of the stores in 2004, indicating that the parties had intended for the options to be renewed. In addition, the court reasoned that Magna would not have paid $1,025,000 for the franchise and development rights to the stores if it was contemplated that the terms could expire within three years after signing the agreements. The court asserted that Diedrich could not have reasonably believed that it was receiving such sums for such a short term. Because the parties initially intended for the relationship to continue past the initial terms of the leases, Diedrich's decision to decline the option breached the implied covenant of good faith and fair dealing.

After reaching this conclusion, the court dismissed Diedrich's assertions that it had acted in good faith by giving Magna advance notice of its intent not to renew the agreement and by offering to exercise the option if Magna agreed to renegotiate the terms of the sublease and pay 100% of Diedrich's rent obligation to the landlord. The court asserted that Diedrich's offer to renegotiate was made in bad faith, as it would have required Magna to pay higher rent in exchange for Diedrich following through on an obligation required by the implied covenant. The court, however, rejected additional claims asserted by Magna that Diedrich breached the implied covenant with respect to other agreements between the parties and alleged omissions and misrepresentations made during the parties' relationship.

Having concluded that Diedrich was obligated to exercise the lease option when it was apparent that Magna would not be able to enter into a lease directly with the landlord, the court went on to conclude that the termination of Magna's franchise agreement violated the CFRA, which prohibits franchisors from terminating franchises without good cause. Because the agreement was terminated due to the expiration of the store lease, the court ruled that the termination was the result of Diedrich's wrongful decision to not renew the lease. The franchisor's decision to not renew the lease did not constitute good cause to terminate the franchise relationship.

In both of these cases, the franchisors were accused of acting in bad faith to undermine franchised businesses for the franchisor's own pecuniary interest. While the *MBE* case has not yet been resolved, the two cases highlight the need for franchisors seeking to eliminate or substantially modify franchise programs to use caution when taking actions that may interfere with or undermine existing franchisee's businesses.

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Movers & Shakers

Purvin Authors Book

Robert Purvin, president of the American Association of Franchisees and Dealers (AAFD), has published a book for consumers interested in purchasing a franchise opportunity. The book is titled *The Franchise Fraud: How to Protect Yourself Before and After You Invest*. "I am a true believer in the franchise model for the distribution of goods and services, which is why I am so passionate about addressing serious problems and rallying the franchising community to deliver the enormous promise of franchising," said Purvin.

Ebe Joins Nixon Peabody

Robert L. Ebe has joined Nixon Peabody LLP as a partner in the firm's Franchising and Distribution and Business Litigation practice groups in San Francisco. In addition to extensive litigation experience, Ebe is a member of the American Arbitration Association Large Complex Commercial Dispute Panel and California and Western U.S. franchise specialty arbitration panels.

Cheng Cohen Adds Michael Daigle as Partner

Michael Daigle has joined Cheng Cohen LLC as a partner. Daigle has nearly 30 years' experience as a practicing attorney, 20 of which were spent as in-house counsel and as a senior business executive with global brands. Most recently, he was Quizno's executive vice president of International Development and Legal, which played a key role in growing Quizno's overseas, and he had served as the company's general counsel and as executive vice president of Domestic Development. Prior to Quizno's, Daigle worked in both legal and executive level business positions with brands such as Popeye's Fried Chicken, Church's Chicken, Blockbuster, Boston Market, Einstein Bagels, and Barnies Coffee and Tea.

New England Franchise Association Elects Steve Dubin As New President

Steve Dubin has been elected as the new president of the New England Franchise Association ("NEFA"), and Jim Coen has been named the group's new executive director. The new president and chairman are planning to review the group's operational structure during Dubin's term, said NEFA in a press release. Dubin is president of PR WorkZone, which supports many franchisors with public relations campaigns. Coen's consulting firm, Franchise Perfection, works with individuals who are interested in purchasing a franchise.

Other new Board members are **Barbara Arena**, **Julian Angelone**, **Nancy Connelly**, **Suzanne Cummings**, and **Andrew Palmer**.

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"simplicity in opt-outs has been standard for a couple of years now."

Rhode Island Legislature Amends Fair Dealership Act

Amendments to the Rhode Island Fair Dealership Act ("RIFDA") became law in early July. The amendments resolved some concerns expressed by franchisors when the Act was passed in July 2007, yet satisfied franchisees that the key protections in the RIFDA will remain in force.

When the Act was passed last year, attorneys called it the first new franchise relationship law in the U.S. since 1992 and wondered whether it would signal an interest in similar legislation in other states. They also suggested that franchisees would use the RIFDA to more vigorously fight terminations. Neither trend has come to pass yet.

"The International Franchise Association ("IFA") is pleased with recent steps taken by the Rhode Island legislature to restore the state's friendly business climate to franchised small businesses by removing unnecessary regulation from the franchisor/franchisee relationship. The changes to the Fair Dealership Act included in SB2592/HB8150 put trust back into the franchisor/franchisee relationship by removing the assumption of ill will under current law," said Troy Flanagan, IFA's director of government relations.

"The legislation removes the litigiously vague term 'good cause' and allows the agreed-upon contract between the two parties to remain as the guiding document," Flanagan continued. "The unsubstantiated claim of 'franchisor superiority' was removed from current law, recognizing that many franchisors are in fact small, but growing, businesses themselves."

Franchisees were relieved that the RIFDA remained basically intact. "This law attempts to level the playing field, as it were, giving franchisees rights to cure certain defaults, thus avoiding contract termination," said Mark A. Dubinsky, president of the Dunkin' Donuts Independent Franchisees Association, in a press statement. "We hope other states and even the federal government will look at the Rhode Island law and realize that passing similar legislation would serve the best interests of all small business owners."

The amended RIFDA now requires a franchisor to give a franchisee 60 days' notice of violations of the franchise agreement and 30 days to cure the problem before termination (with a 24-hour cure period for health violations). These deadlines are shorter than in the original legislation that passed last year.

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