



PROTECTING YOUR CREATIVITY

PLANNING FOR THE GROWTH OF YOUR BUSINESS

Welcome to another edition of Protecting Your Creativity by The Livingston Firm. Each edition of Protecting Your Creativity will discuss various aspects of intellectual property law and related business matters. This edition discusses planning for the growth of a business and common problems encountered by business owners who are considering expanding their business through trademark licensing and franchising.

In the last edition of Protecting Your Creativity, we discussed protecting a business' name. Once trademark/servicemark protection for the business name and/or product name has been obtained and the business is successful, expansion of the business into other counties and even into other states may be contemplated. This is usually accomplished through entering into license agreements with other individuals or businesses.

A trademark/servicemark license is defined as a grant of rights to another to associate with the mark in the offering, selling, and/or distributing goods and/or services. This is usually accomplished through an express agreement whereby the licensee pays a fee to the trademark/servicemark owner for such a license. Federal trademark/servicemark law imposes an affirmative duty on the trademark/servicemark licensor to control the quality and uniformity of goods and services associated with the federal trademark/servicemark. However, if an agreement is entered into wherein 1) a trademark/servicemark license is granted to another; 2) in exchange for a fee; and 3) the right to control or offer significant assistance to the business is reserved, a franchise may have unintentionally been offered.

On the federal level, franchises are governed by the Federal Trade Commission ("FTC"). In addition to federal regulations, many states have their own franchise laws, violations of which may result in administrative proceedings and/or private actions by franchisees for rescission, damages, injunctive or declaratory relief, attorneys' fees and costs. Moreover, punitive liability and criminal liability may also be imposed if the violation is found to be willful. Ignorance or lack of intent to create a franchise will not excuse a violation of franchise laws as strict liability is imposed.

One should not rely on express contract language or disclaimers asserting that the license agreement is not intended to create a franchise. If the elements of the license agreement meet the definition of a franchise then the relationship created by the agreement will be deemed a franchise regardless of any language or disclaimers to the

contrary. Finally, although many states have adopted their own franchise laws, even the states that do not have franchise laws, many, including the State of Florida, have other laws regarding offering business opportunities which must be complied with.

Due to the costs involved with complying with franchise law and the highly regulated nature of the franchising industry, some businesses try to avoid franchising altogether. Depending upon the particular business and its objectives for growth, it may be possible to structure business plans and agreements to avoid having to comply with franchise laws. However, franchising can be crucial to the long-term growth and economic success of your business. Furthermore, the risks and costs associated with trying to avoid franchising may be more costly in the long run than offering a planned franchise. Therefore, careful consideration and legal consultation should be undertaken prior to formulating a business plan for expansion.

Determining whether your planned business model falls under franchise laws or whether compliance with franchise laws may be avoided through careful structuring of your agreements and business plans is a service that should be performed by attorneys who specialize in franchise law.

The Livingston Firm specializes in all areas of intellectual property law including patents, trademarks, copyrights, trade secrets, franchising, litigation and business law. As the largest full-service intellectual property law firm in Southwest Florida with over forty years of combined experience, The Livingston Firm can be there to assist you from beginning to end with protecting your ideas and inventions and getting those ideas and inventions to market.

Thank you for taking the time to read this edition of Protecting Your Creativity. If you are in need of our services then please contact us to schedule an appointment.

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