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She Has Blonde Hair and a Beauty Mark, But is it Really Marilyn? All Trademark Licenses are Not Franchises

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There are significant consequences for a relationship being characterized as a franchise. One of the biggest consequences is the right of the “franchisee” to rescind the contract for 2 years if it was not given proper disclosure. Franchisors are aware of the obligations and act accordingly. Accidental franchisors, on the other hand, may not even be aware that franchise disclosure legislation applies to them. A person granting others the right to distribute the person’s goods or services could find itself as an accidental franchisor.

The intention of the disclosure legislation is to have a broad definition of franchising; as a result, manufacturers or trademark owners may discover that their business dealings, unbeknownst to them, fall within the definition of a franchise. A franchise will exist if all of the following 3 elements are present:

1. a payment is made by the franchisee to the franchisor;
2. the franchisor grants the franchisee the rights to the franchisor’s goods or services; and
3. where the distribution right:
    a. is accompanied by a right to use the franchisor’s trademarks, the franchisor exercises significant control over, or offers significant assistance in, the franchisee’s method of operation, including building design and furnishings, locations, business organization, marketing techniques or training; or
    b. the franchisor provides location assistance (which includes securing retail outlets or accounts for the goods or services to be sold).

A manufacturer who provides sales leads to its customers might be seen as providing location assistance, and therefore meeting the criteria for being a franchisor. More troublesome may be a trademark holder who licenses others the rights to use its trademarks. In order to protect the image of the trademark, it is common that rules be imposed on how those trademarks are used. If those rules are viewed as the exercise of control over method of operation, then the trademark holder will be a franchisor.

A recent case may give comfort to trademark holders that they will not be franchisors. In *MGDC Management Group v. Marilyn Monroe Estate*, the Estate granted MGDC a license to use the Marilyn Monroe trademark to create and operate Marilyn Monroe-themed restaurants. The license agreement gave the Estate the right to veto designs and business methods that MGDC might employ in its use of the trademark, and MGDC were the ones responsible for developing and operating their restaurant business.

Although the case was determined on the basis of an exemption from the application of franchise disclosure legislation (i.e. an arrangement arising from an agreement between a licensor and a single licensee to license a specific trade-mark, **where such licence is the <u>only one</u> of its general nature and type** to be granted by the licensor with respect to that trade-mark) it was observed that trademark licenses are not franchise agreements.

The veto rights could have been interpreted as significant control over building design, but the judge did not see the veto rights given to the Estate as significant control or significant assistance by the Estate over MGDC's method of operating its business. The judge distinguished between control and protection of the trademark.

Reference was made to *Di Stefano v Energy Automated Systems Inc.* That case made it clear that "training" will not be the provision of significant assistance, if the training is about the product and does not relate to "method of operation."

In summary, not all veto rights on image and not all training is considered sufficient "assistance in, the franchisee's method of operation" to create a franchise relationship.

Grantors of trademark licenses or granters of distribution rights should consider how extensive their rights need to be to protect their intellectual property. Protecting their intellectual property and ensuring that their products are used properly will not create a franchise unless the rights reserved stray away from product knowledge, or restraints on how their image is portrayed. The bottom line is grantors of trademark licenses and distribution rights who do not want to be franchisors should not interfere with how the rights recipients carry on their businesses.