



FRANCAST™

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FROM THE
FRANCHISE & DISTRIBUTION LAW GROUP

**PIPER
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And related entities including an Illinois General Partnership.

FRANCHISOR DOMAIN NAMES PROTECTED UNDER NEW LAW

On November 29, 1999, President Clinton signed into law a bill that will combat what is commonly referred to as "cyber-squatting". The new law, known as the "Anticybersquatting Consumer Protection Act," is intended to expand the reach of U.S. trademark law to cover the practice of cyber-squatting.

Cyber-squatting occurs when a person registers an internet address - known as a "domain name" - that contains the name or trademark of another party. Many franchisors have encountered this problem and have been frustrated in their attempts to recover their own domain name. The new law gives franchisors and other trademark owners a powerful weapon to use against cyber-squatters.

In general terms, the new law allows a trademark owner to bring a claim under the federal trademark law (the Lanham Act) if another party has: (1) registered or uses the trademark owner's name or mark; and (2) done so with a "bad faith intent to profit." The law applies to registered and unregistered trademarks, as well as personal names, and covers domain names that are identical or confusingly similar to a trademark.

Under the law, the definition of "bad faith" includes most of the practices that have frustrated franchisors and other trademark owners. While courts may look at many factors to see if there is such "bad faith," the new law specifies nine possibilities, including: (a) whether the domain name registrant has tried to divert customers away from the trademark owner's website; (b) whether the domain name registrant has shown any intent other than to sell the domain name; (c) whether the domain name registrant gave false or misleading information to the registry; and (d) whether the domain name registrant has made it a practice of acquiring domain names that are the same as, or that resemble, the trademarks of other parties.

Franchisors and other trademark owners are entitled to special relief in a lawsuit, including monetary damages (ranging from \$500 to \$100,000), an injunction against further use of the infringing domain name, and order requiring the domain name registrant to forfeit the domain name, and an award of the trademark owner's legal fees.

We anticipate that franchisors and other trademark owners will find this new law to be a useful tool in successfully resolving domain name disputes be-

fore they blossom, and in deterring parties from aggregating trademark owners' domain names for the purpose of auctioning them off to the highest bidder.

NEW TAX LAW AFFECTS SALES OF FRANCHISED AND COMPANY OWNED UNITS

A new tax law which will affect the sale of many franchises when the buyer and seller agree to payment over time was signed by President Clinton on December 17, 1999. Franchisors that sell company stores, and franchisees that sell their existing stores, in transactions where payment will be made in installments over time will be affected if they use the accrual method of accounting, as many do. In the past, such franchisors and franchisees were allowed to pay tax on the gain from the sale of a store over the length of the buyer's repayment term; the seller would simply pay the tax at the time each installment was received and only on the portion of each installment that represented gain from the corresponding portion of the total sale price. This was viewed as a fair way for franchisor sellers and franchisee sellers to pay tax on the gain without having to pay all the tax up front at the time the sale was made.

Under the new law, franchisors and franchisees who want to accept payment over time will be required to pay the entire tax on any gain from the sale at the time the sale is made. As a result, franchisors and franchisees may now have to pay an earlier tax bill - potentially, even larger than the amount of the first payment. Quite simply, the proposed law would no longer allow the Seller to pay tax on the sale over time when the Seller receives an installment payment. Franchisors and franchisees must re-assess their ability to accept payments over time when selling a store, in order to counter-balance the large tax bill at the time of sale - which is sometimes even more than the initial payment.

The increase of the initial tax burden on sellers of existing franchises could result in fewer financing options being offered by franchisors selling company-owned units and stifle many franchisee-to-franchisee sales. Although certain individuals may still be able to sell stock in an accrual basis corporation and have installment treatment, many franchisors and franchisees will have to use creative planning in the buyer-seller equation to minimize the impact of this initial tax burden. Such creativity might include, for franchisors, higher royalty fees to off-set lower initial payments and, for franchisees, the payment of consulting fees to Seller over time. In any event, careful analysis of extended payment arrangements for the sale of an operating units will be required in the future.

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