Hospitalitas

2010 Issue 2

News and Views for Your Hospitality and Franchise Business

BAKER DONELSON
BEARMAN, CALDWELL & BERKOWITZ, PC
EXPAND YOUR EXPECTATIONS™

Congress Passes Menu Labeling in Health Care Reform

Joel Buckberg, 615.726.5639
jbuckberg@bakerdonelson.com
Alisa Chestler, 202.508.3475
achestler@bakerdonelson.com

Embedded deep in the mammoth health care reform legislation, H.R. 3590, is the menu labeling legislation for chain restaurants discussed in Hospitalitas 2009, Issue 2. Found at Section 4205 of the bill, it amends the Federal Food, Drug and Cosmetic Act (21 U.S. C. § 343

continued on page 2

No More Drive-Bys — 15 Ways to Get and Stay ADA Compliant

Ursula Holmes, 901.577.8166, uholmes@bakerdonelson.com
Jay Ebelhar, 901.577.8204, jebelhar@bakerdonelson.com

Several years ago, jurisdictions in Nebraska, Oklahoma, California and Florida were plagued with what has now been termed Americans with Disabilities Act (ADA) "drive-by" law suits. Members of law firms in various cities were essentially driving by various restaurants, hotels and retail establishments to determine whether these facilities were in compliance with the ADA. If they were not in compliance, the firm would

continued on page 4

Greening Your Existing Hotel

Trevor Jones, 205.244.3864, tjones@bakerdonelson.com

The term "green hotel" has been an oxymoron for many years. With hundreds of televisions, refrigerators, bathrooms and heating and air conditioning units, thousands of plastic lotion and shampoo mini-bottles and tons of daily laundry, the carbon footprint of a traditional hotel is nothing short of beastly. However, as hoteliers across the world are realizing, the environmental "greening" of their hotels not only enhances the environment and the well-being of their staff and guests, it also provides a significant "greening" boost to their bottom lines.

While the construction of new green hotels has recently stalled due to the weak lending environment for new construction hotels, there has been a dramatic

continued on page 6

Greetings from *Hospitalitas*

Hospitalitas is the Baker Donelson newsletter for our clients and friends in the hospitality industry – hotels, restaurants and their suppliers. It is published several times a year when we believe we can deliver first class, useful information for your business. Please send us your feedback and ideas for topics you would like to know more about. True to our Southern heritage of hospitality, we'll work hard to make each visit with us something special and worth repeating.

In this issue:

Congress Passes Menu Labeling in Health Care Reform 1

No More Drive-Bys — 15 Ways to Get and Stay ADA Compliant 1

Greening Your Existing Hotel 1

Quiznos Settlement Sparks Franchisee Focus on Supply Chain Issues 2

High Court Solidifies Rights of Franchisors under the Petroleum Marketing Practices Act 7

Purchasing Internet Keywords — Buyer Beware 9

Obama's HIRE Act — Explaining the Tax Provisions 10

Attending the IFA Legal Symposium? If you are attending the IFA Legal Symposium in Washington, D.C., May 16-18, please email Joel Buckberg at jbuckberg@bakerdonelson.com to let us know so we can visit with you.

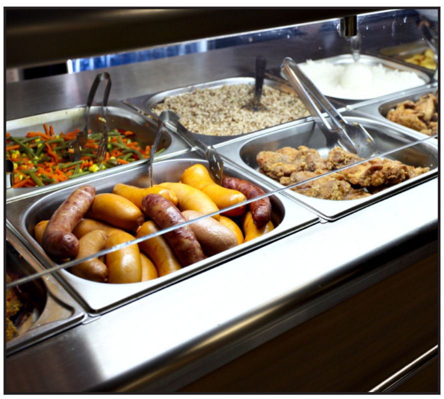
Attending this event for the first time? We'll help you get the most out of this jam-packed schedule.

Congress Passes Menu Labeling in Health Care Reform,

continued

(q) (5) by adding new subdivision (H) to require restaurants that are part of a chain of 20 or more locations doing business under the same name, regardless of the type of ownership, and offering for sale substantially the same menu items, to disclose certain nutritional information. The legislation appears to take effect whenever the Secretary of Health and Human Services (the Secretary) promulgates regulations to fill in certain gaps left for administrative guidance, but the Secretary is given one year from enactment (on or about March 23, 2010) to complete the task. The following information outlines the foundation of the changes and provides some clues as to the direction the Secretary will be asked to undertake. The legislation delegates broad discretion to the Secretary on the technical aspects of the bill.

Menu Item Coverage. Chain restaurants will be required to provide specific information on standard menu items, a generally undefined term. We presume these menu items are readily identified by what is not covered: condiments not listed on a menu board, daily specials, temporary items on the menu for less than 60 days per year, custom orders and market test items are exempt from the labeling requirement. Standard menu items would then likely be any other menu item that is substantially the same, whether or not prescribed by the home office or in the operations manual. For self-service operations like cafeterias, buffets and salad bars, disclosures must be made for each discrete item or on a per-serving basis.



Information To Be Disclosed. The restaurant must disclose on the printed menu or the menu board if posted, in a clear and conspicuous manner, (a) the number of calories as usually prepared and offered for sale, and (b) a statement about suggested daily caloric intake designed to enable the public to understand the significance of the menu item's calories compared with total daily diet. Such disclosure must be provided in a clear manner and clearly associated with each standard menu item. The restaurant must also provide the information in written form separate from the menu, and notify patrons on the menu and menu board that the separate written disclosure is available.

Basis for Disclosure. Nutrient content disclosures as described above must have a reasonable basis anchored in nutrient databases, cookbooks, laboratory analyses and other reasonable means. This requirement tracks back to Federal Food Labeling regulations under 21 CFR Part 101, particularly Part 101.10 for restaurant foods that are sold on the basis of a nutrient content claim, and by reference, Part 101.9, which governs nutrition labeling of packaged foods. The existing regulations provide guidance on variable menu items and flavors that are listed singly but may have variable nutrition data for each variety or flavor. The legislation encourages the Secretary to examine alternate means of disclosure such as ranges, averages or other meth-

continued on page 3

Quiznos Settlement Sparks Franchisee Focus on Supply Chain Issues

Jillian Suwanski, 615.726.5558
jsuwanski@bakerdonelson.com

Last November, when an Illinois federal court preliminarily approved a $100 million settlement resolving four class action lawsuits filed by certain Quiznos franchisees against the Quiznos organization, the franchisees involved, as well as all existing and potential Quiznos franchisees, reaped the financial benefits of the settlement and the benefits of an agreement by Quiznos to be more transparent with respect to its supply chain. Specifically, Quiznos agreed to submit to an annual review of its supply and food prices by a third-party auditor and to revise its Franchise Disclosure Document (FDD) to clarify the supply chain disclosure and the involvement of Quiznos-owned entities.

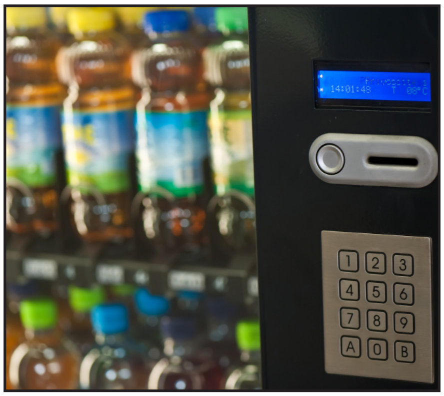
The Quiznos class actions included claims of fraud, antitrust, racketeering and violations of applicable state franchise, business opportunity and consumer protection laws. The plaintiffs alleged that Quiznos required franchisees to purchase food and supplies from Quiznos or its affiliates and then improperly inflated prices on food and supplies to amounts much higher than franchisees would pay comparable suppliers, with Quiznos receiving significant rebates from these affiliates on franchisee food and supply purchases. The plaintiffs also alleged that the rebates and Quiznos' supplier relationships were not properly disclosed in Item 8 of the Quiznos FDD.

Supply chain issues and allegations of inflated food prices by franchisees had plagued Quiznos for years, and such issues are frequently the focus of franchisee ire in other franchise systems, particularly in the restaurant industry. With the Quiznos settlement, however, the franchisees finally saw results, which likely will prompt and, in at least one case, already has prompted fran-

continued next page

Congress Passes Menu Labeling in Health Care Reform, *continued*

ods, but offers little guidance, thereby affording the Secretary a broad mandate to establish rules. The Secretary is also empowered to mandate disclosure of additional information to assist consumers in maintaining healthy dietary practices, in the written disclosure that the chain restaurant will make available to its customers.



Vending Machine Operators. Operators of 20 or more vending machines must post a sign disclosing the calorie content of each food item in close proximity to the item if the prospective purchaser cannot examine the item's Nutrition Facts Panel before buying the particular food item.

Voluntary Compliance. A restaurant or similar food establishment not otherwise subject to the requirements of the clause can volunteer for the nutrient disclosure program by registering with the agency under a voluntary election program to be established within 120 days after enactment of the legislation. This voluntary compliance opportunity is important to restaurants otherwise exempt from the disclosure requirement because it will allow the restaurant to be governed by the federal standards of disclosure and nutrient testing, and not a different local regime, under the preemption language in 21 U.S.C. § 343-1(a)(4).

Preemption. Although the language of the bill is not clear, the federal menu labeling regime appears to pre-empt inconsistent state and local laws to the extent they apply to chain restaurants, but not to food or component safety warning labels, and not to nutrition labeling for non-chain restaurants. The franchise industry is familiar with the concurrent federal-state regulatory philosophy – the tougher standard prevails – and the Secretary may take a similar approach on menu labeling. Watch for the Secretary to give some flexibility to local regulators on additional disclosures like salt, trans-fats (if not banned), gluten or other nutrient related concerns, particularly if local cuisines and tastes produce certain adverse nutrition consequences.

Hospitalitas will track and report on development of the regulations as the Federal regulators propose and promulgate them. Please contact Joel Buckberg (jbuckberg@bakerdonelson.com), Alisa Chestler (achestler@bakerdonelson.com) or Judy Meritz (jmeritz@bakerdonelson.com) for further information about the recent menu labeling legislation.

Mr. Buckberg is an attorney in our Nashville office, and Ms. Chestler is an attorney in our Washington, D.C. office.

Quiznos Settlement Sparks Franchisee Focus on Supply Chain Issues, *continued*

chisees in other systems to bring similar claims against their franchisors.

As the Quiznos settlement was wrapping up last year, an area developer of Incredible Pizza family entertainment centers, FEC Holdings, LP, and its related franchisee entities sued Incredible Pizza Company Franchise Group, LLC for fraud, negligent misrepresentation, violation of the Robinson-Patman Act regarding price discrimination, violation of relevant state consumer protection and business opportunity laws, and breach of contract and the implied covenant of good faith and fair dealing. See *FEC Holdings, LP v. Incredible Pizza Franchise Group, LLC*, 2009-cv-03289, S.D. Tex. (October 9, 2009), transferred to 2010-cv-03042, W.D. Mo. (February 4, 2010).

Incredible Pizza requires its franchisees to purchase food and supplies from particular vendors and has entered into national and regional contracts with vendors for food, supplies and merchandise. The plaintiffs allege that Incredible Pizza "solicited and accepted payments by third-party vendors" which were "in fact, kickbacks which have not been paid for services rendered in connection with the sale or purchase of goods, wares, and/or merchandise." As a result of the "kickbacks," the plaintiffs argue that they were "restricted in their choice of and access to independent vendors and consequently have paid prices for goods, wares, and/or merchandise, and other products that were higher than they would have paid in the absence of [Incredible Pizza]'s kickback scheme."

The plaintiffs also allege that Incredible Pizza had agreed in the Area Development Agreement and disclosed in its Item 8 that "it would not accept any vendor rebates, commissions, and kickbacks as a result of franchisee purchases from required suppliers,

continued next page

No More Drive-Bys — 15 Ways to Get and Stay ADA Compliant, *continued*

"recruit a customer" with a disability to patronize the business and subsequently file a lawsuit on behalf of the "customer" based on the facility's noncompliance.

In August 1995, Barrier Free Environments and Adaptive Environments Center, Inc. developed a checklist to assist businesses in assessing their facilities' accessibility. Businesses must first understand they are not required to meet all of the requirements of the ADA if the changes needed to achieve compliance are not "readily achievable." The Department of Justice, which enforces the ADA, defines "readily achievable" as "easily accomplished without much difficulty or expense." The checklist notes that businesses should focus on the four priorities recommended by the Title III regulations for planning readily achievable barrier removal projects:

1. Accessible approach and entrance;
2. Access to goods and services;
3. Access to rest rooms and
4. Any other measures necessary.

Businesses should be mindful of their obligations to provide access to all potential customers and make sure that the facilities are in line with the local, state and federal laws and regulations governing accessibility. The following are a few initial considerations businesses can make with minimal effort:

- Is at least one out of every 25 parking spaces in the business's parking lot designated and marked for the disabled?
  - o Are those parking spaces at least eight feet wide with a level access aisle next to it that is at least five feet wide?
  - o Are the spaces located near the business's accessible entrance?
  - o Are at least one in every eight parking spaces designated for the disabled large enough to accommodate a lift-equipped van?
- Do the curbs leading toward the business's accessible entrance have curb cuts or ramps to facilitate accessibility?
- Is the entrance to the business at least 32 inches wide? Are the door handles no higher than 48 inches?
- Does the hardware on the business's doors consist of doorknobs, a handle with a thumb latch or some other apparatus that requires manipulation such as tight grasping, pinching or twisting of the wrist?
- If certain entrances are not accessible, is there a sign that directs the individual to the accessible entrance?
- Are the pathways to the service areas free of stairs? If not, is there an alternate

continued on page 5

Quiznos Settlement Sparks Franchisee Focus on Supply Chain Issues, *continued*

other than a 10% markup on proprietary items and [a] Coca-Cola rebate." The rebates were more extensive than the 10% markup and the Coca-Cola rebate, according to the FEC plaintiffs, resulting in a breach of the Area Development Agreement and rendering the Item 8 disclosures false.

The Incredible Pizza case was recently transferred from the Southern District of Texas to the Western District of Missouri, and Incredible Pizza filed an amended Answer in mid-March. It will be worth watching how the case progresses. Because of the settlement, the Quiznos cases did not set any formal legal precedent on which franchisees can rely. However, the franchisee-friendly results of the Quiznos settlement should make franchisors cognizant of the risks of inflated prices and rebates and any perception that improper "kickbacks" are being received.

During this FDD renewal season, as franchisors update their supply chain disclosures in Item 8, the recent experience of some franchisors argues for close attention to their Item 8 disclosures, both in their current FDD and historically. Management will then be well informed about the history, the promises made and issues that were addressed, or not, in the brand's earlier generations of franchise agreement and franchise disclosure document. The review of these materials against the franchisor's current practices should assure that disclosures are historically consistent, complete and accurate and that the brand's supply chains and rebate arrangements comply with all laws and agreements with franchisees.

Ms. Suwanski is an attorney in our Nashville office.

No More Drive-Bys — 15 Ways to Get and Stay ADA Compliant, *continued*

route a disabled customer may use?

- Are the aisles and pathways a minimum of 36 inches wide?

- If customers are required to make transactions at a counter, is there a portion of the counter that is no more than 36 inches high?

- Are shelves designed for self-service within reach of a person in a wheelchair?

- Do inaccessible bathrooms have appropriate signage indicating that they are not accessible?

- Is the restroom doorway at least 32 inches wide?

- Is there one accessible toilet stall in the bathroom?

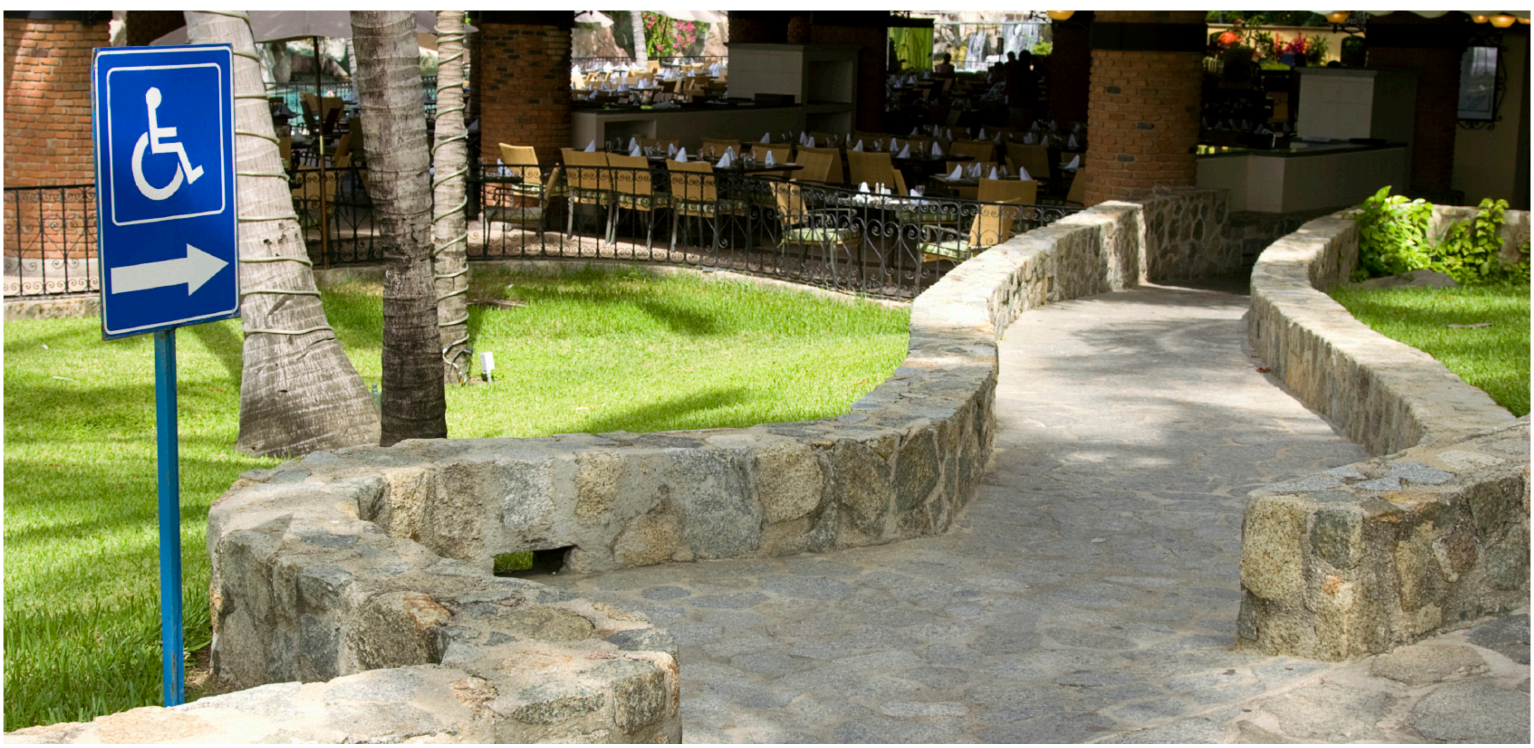
- In the context of hotels and motels:
  - o Are accessible guest rooms/suites dispersed among the various classes of guest rooms/suites available at the facility, taking into account room size, cost, amenities provided and the number of beds provided?
  - o Are the guest rooms equipped with visual alarms that will alert those who are deaf or hard of hearing of danger?
  - o If there are 50 or more guest rooms, is there an adequate number of rooms containing a roll-in shower with a permanently attached fold-down seat?
  - o Do the hardware of faucets, fixed lamps, drapery controls, and heating and air conditioning controls in spaces required to be accessible require manipulation such as tight grasping, pinching or twisting of the wrist?

- For permanent rooms and spaces, is identification signage mounted 60 inches from the floor and adjacent to the latch-side of the door? Can the signage be read by persons who are blind or have low vision?

- If there are drinking fountains or public telephones in the establishment, is the path of travel at least 36 inches wide?

This list does not address each and every requirement imposed by the ADA and should not serve as a substitute for a full audit performed by a qualified engineer. Nevertheless, it can serve as a starting point that may help a business forestall "drive by" law suits.

Ms. Holmes and Mr. Ebelhar are attorneys in our Memphis office.



Greening Your Existing Hotel, *continued*

increase in green renovations to existing hotels. Hoteliers cite an increasing public demand for sustainability, a decrease in operating costs, competition between hotels, the health and happiness of hotel staff and guests and a new sense of corporate responsibility as the chief motivating forces behind the proliferation of green upgrades.

Whether the ultimate goal for the hotel is to achieve a green certification, such as Leadership in Energy and Environmental Design (LEED), or to simply refresh its corporate image while decreasing operating costs, there are many renovation techniques available including the following:

• The installation of low-flow toilets, sinks and/or showerheads in bathrooms. The historic Hotel Andaluz in Albuquerque, New Mexico recently reopened after a $30 million renovation that included the retrofitting of guest rooms with high-efficiency toilets. The Hotel Andaluz anticipates this renovation will save over 100,000 gallons of water per year, and that is assuming only a 50% occupancy rate.

• The replacement of antiquated laundry systems with energy efficient models. The Hilton Garden Inn® in Gatlinburg, Tennessee (the first LEED certified hotel in Tennessee) recently replaced its laundry system with ozone system soft-mount washers and high-efficiency dryers. It is estimated the new systems will save 205,860 gallons of water and 3,866 therms of natural gas annually, for an annual savings of $12,021.

• The installation of smarter thermostats in guest rooms. More than 8,600 Motel 6® locations in over a dozen states have been retrofitted with occupancy sensors that cause the thermostat to adjust when guests leave, resulting in significant energy savings, as industry statistics indicate that 50-70% of a hotel's energy bill is attributed to heating and cooling.

There are also dozens of greening techniques available to hoteliers not yet ready to make drastic changes to their energy or utility systems, including the following:

• The introduction of a towel re-use program in all guest rooms that encourages guests to re-use towels after their original use.

• The replacement of light bulbs with LED and compact fluorescent bulbs throughout the hotel, together with sensors in rooms that extinguish lights when rooms are unoccupied.

• Providing recycling bins throughout the common areas of the hotel, as well as recycle baskets in each guest room.

• Educating hotel staff to turn off lights and turn down heating and air conditioning when rooms are unoccupied. Incentive programs for the staff that encourage them to participate in sustainable practices will increase the staff's desire to take part.

• Replacing plastic, paper or Styrofoam cups in guest rooms with re-usable glass cups and ceramic mugs.

• Using non-toxic or low volatile organic compound cleaners, sanitizers and paints throughout the hotel.

• Replacing plastic shampoo, soap and lotion bottles with refillable dispensers located on the walls in guest bathrooms.

The foregoing examples represent only a few of the techniques and methods that hoteliers can implement—even in a faltering economy— to green their hotels through renovations.

Mr. Jones is an attorney in our Birmingham office. Mr. Jones is among the few attorneys in Alabama confirmed by the U.S. Green Building Council as a LEED Accredited Professional.

High Court Solidifies Rights of Franchisors under the Petroleum Marketing Practices Act

Ellen Taylor, 404.221.6507, etaylor@bakerdonelson.com; Ursula Holmes, 901.577.8166, uholmes@bakerdonelson.com

The Petroleum Marketing Practices Act (PMPA) governs the circumstances under which a franchisor can terminate or fail to renew a service station franchise. In the recent U.S. Supreme Court case of *Mac's Shell Service, Inc. v. Shell Oil Products*, decided March 2, 2010, the court limited the application of the PMPA to claims for actual franchise termination or nonrenewal. Through this decision, the court gave clear direction that state law governs the everyday affairs between franchisors and franchisees, and not every dispute will give rise to a claim under the PMPA. The court held that a franchisee who is offered and signs a renewal franchise agreement cannot maintain a claim for unlawful nonrenewal under the PMPA.

In *Mac's Shell Service*, several service station franchisees filed suit against Shell Oil Products alleging that Shell constructively "terminated" and constructively "failed to renew" their franchise relationships by making substantial changes to certain economic elements of the agreements under which the franchises operated for several years, to the detriment of the franchisees. Even though these franchisees remained in operation, were not forced to abandon their franchises and accepted new agreements with Shell, they argued that material changes to their agreements constituted a "termination" of the franchise relationship. The court reasoned that the PMPA had a very limited scope, and by enacting the statute, Congress did not intend to regulate all aspects of the franchise relationship. Instead, it sought to federalize only the circumstances in which a franchisor could terminate or decline to renew a franchise relationship. All other disputes between franchisors and franchisees remain a matter of state law.

The court found that in order to maintain a claim for constructive termination under the PMPA, a franchisee must show that "the complained-of conduct forced an end to the franchisee's use of the franchisor's trademark, purchase of the franchisor's fuel, or occupation of the franchisor's service station. Because none of the dealers in this litigation abandoned any element of their franchise operations in response to [the franchisor's] elimination of a rent subsidy, they cannot maintain a claim for constructive termination on the basis of that conduct."

Had the court not applied this narrow interpretation of the PMPA, it would have effectively required the court to "articulate a standard for identifying those breaches of contract that should be treated as effectively ending a franchise, even though the franchisee in fact continues to use the franchisor's trademark, purchase the franchisor's fuel, and occupy the service station premises." The court further explained, "How is a court to determine whether a breach is serious enough to effectively end a franchise when the franchisee is still willing and able to continue its operations? And how is a franchisor to know in advance which breaches a court will later determine to have been so serious?... Any standard for identifying when a simple breach of contract amounts to a PMPA termination, when all three statutory elements remain operational, simply evades coherent formulation."

The franchisees argued that a narrow interpretation of the PMPA fails to provide them with much needed protection from unfair and coercive franchisor conduct that does not force an end to the franchise. However, the court found that this argument ignores the state law remedies available to the affected franchisee. The franchisee can still rely on state law remedies to address wrongful franchisor conduct that does not have the effect of ending the franchise.

While the Supreme Court's decision in Mac's Shell Service is limited in its application to the PMPA, does it offer any guidance on similar questions under state franchise/dealer relationship laws? The ruling is arguably at odds with liberal judicial interpretations of several states' franchise relationship laws. Several

continued on page 8

High Court Solidifies Rights of Franchisors under the Petroleum Marketing Practices Act, *continued*

states, including New Jersey, Rhode Island, Wisconsin and Iowa, have passed franchise relationship legislation that prohibits a franchisor from either terminating or refusing to renew franchise agreements without "good cause." The Wisconsin Fair Dealership Law (WFDL) imposes a good cause standard on any actions that constitute a "substantial change in competitive circumstances." Courts have noted that the language of the WFDL specifically requires that the statute is to be construed liberally in order to protect dealers against the unfair treatment of grantors "who inherently have superior economic power and superior bargaining power in the negotiation of dealerships." Wisconsin courts have ruled that the protections found within the WFDL extend to constructive or "de facto" terminations and that the substantial changes in competitive circumstances include economic duress and threats, whether the franchisor or grantor acted on those threats or not.

In *JPM, Inc. v. John Deere Industrial Equipment Co.*, the grantor, John Deere Industrial Equipment, threatened to terminate JPM's franchise if it did not sell the franchise to a particular entity. JPM sold as instructed by John Deere and subsequently instituted an action against John Deere, alleging that the franchise was constructively terminated in violation of WFDL as a result of its threats to terminate. John Deere argued that the franchise was terminated as a result of JPM's actions in selling the franchise and that the franchise was not constructively terminated. The court disagreed and ruled that the franchisor's threats amounted to constructive termination of the dealership agreement. The court further ruled that allowing grantors to threaten dealers with termination in order to achieve their goals would "inhibit the law's purpose of ensuring dealers fair treatment." It did not matter, the court concluded, that the grantors had not yet carried out their threats. The very existence of the threats and their adverse effect on the dealers were enough to make the threats sufficiently completed actions.

New Jersey also considers the bargaining positions of franchisors and franchisees as unequal and affords similar protections to franchisees under the New Jersey Franchise Practices Act. In *Maintainco, Inc. v. Mitsubishi Caterpillar Forklift America, Inc.*, decided July 30, 2009, the New Jersey Superior Court decided that a manufacturer violated the New Jersey Franchise Practices Act by constructively terminating a dealer protected by the NJFPA without good cause, even though the franchise was never terminated. The NJFPA provides that it is unlawful "for a franchisor directly or indirectly through any officer, agent, or employee to terminate, cancel or fail to renew a franchise without good cause." It further defines "good cause" as a "failure by the franchisee to substantially comply with those requirements imposed on him by the franchise", and requires that the franchisor not impose "unreasonable standards of performance" on the franchisee.

In *Maintainco*, the dealer and franchisor signed a contract wherein the dealer became Mitsubishi's exclusive dealer in Connecticut. Mitsubishi later entered into a joint venture with Caterpillar, and the dealer believed the franchisor gave the Caterpillar brand certain marketing advantages. As a result, the dealer also began selling Toyota forklifts, and the franchisor responded by giving the dealer incentives to focus on sales of the Mitsubishi line. The franchisor's representative later sent a letter to the dealer indicating that he perceived a "lack of long term commitment" to Mitsubishi and that he intended to ask the franchisor to begin searching for another dealer to represent Mitsubishi products in Northern New Jersey. The dealer responded that it would not accept termination or any other action to undermine its market share and profits. The franchisor later appointed a second dealer in the dealer's area of primary responsibility, and invited customers to use the second dealer for all of their needs.

In response to the dealer's lawsuit, the franchisor argued that the NJFPA prohibits only actual terminations of a franchise. Therefore, because the dealer was never terminated, there was no violation of the Act. The court disagreed, and found that "termination" under the NJFPA includes constructive termination in accordance with traditional contract law principles. The court reasoned that "[t]o conclude otherwise would undercut the remedial purposes of the Act by allowing a franchisor to engage in such blatant attempts to "ditch", or constructively terminate, a franchisee, but escape liability under the Act because it did not entirely succeed." In this case, considering whether the loss of exclusivity, in and of itself, qualifies as a constructive termination, the court held that for a franchisee that actually enjoys a contractual right of exclusivity, the franchisor's offer to renew only if the franchisee agrees to become a non-exclusive dealer is tantamount to termination or failure to renew the agreement.

continued on page 9

High Court Solidifies Rights of Franchisors under the Petroleum Marketing Practices Act, *continued*

While the leading constructive termination cases under state franchise relationship laws offer limited guidance as to what franchisor conduct amounts to constructive termination as a matter of law, *Mac's Shell Service* arguably stands for an outer limit on this rubric, at least in the context of renewal franchise agreements. A franchisee cannot expect much sympathy regarding its inability to bargain at arms' length from a court if it elects to continue its affiliation under the terms of a renewal franchise agreement. Assuming such terms are the same as those offered to all other prospective franchisees and the expiring franchisee is not singled out for less favorable terms, there is no distinction between the franchise relationship and the space lease with a limited term and no renewal options. If the franchisee wants to continue operating the same business in the same location, it must accept the new economic realities and weigh moving the business and changing the business' name against renewal under a new contract and lease terms. In either case, the franchisee did not bargain for or receive a right to renew under its existing contract. To argue otherwise is contrary to long-standing public policy that disfavors agreements in perpetuity that do not allow either party to terminate or opt not to renew in its discretion absent one party's express and unequivocal decision to forego those rights.

Ms. Taylor is an attorney in our Atlanta office, and Ms. Holmes is an attorney in our Memphis office.

Purchasing Internet Keywords – Buyer Beware

Sam Miller, 615.726.5594
smiller@bakerdonelson.com

A consumer's first introduction to your business will often be through your website after an on-line search. Accordingly, improving the quantity and quality of traffic to a website through search engine results – known as search engine optimization – is an important part of any effective advertising strategy. A competitor, however, can subvert even the best search engine optimization by purchasing internet key words from search engine providers – such as Google and Yahoo!.

Perhaps the best known internet keyword program is Google Adwords. The Google Adwords program generates ads that are displayed along with search results when searches on www.google.com are conducted using the designated keywords – hence the term "Adword." The Adwords ads appear alongside or above the search results. A purchaser of a particular Google Adword pays an activation fee, per click fee and per impression fee for use of the Adword.

For example, if you owned the trademark "Ziggy's Pizza" for your pizza parlor, your closest competitor, Joe's Pizza, might purchase the Adwords "Ziggy's Pizza." After Joe's Pizza paid the necessary fees to Google to ensure that each time a consumer conducts a search for "Ziggy's" and "pizza" on www.google.com, an ad for Joe's Pizza appears at the top of the results page – above the actual link to the Ziggy's Pizza website. If Joe's Pizza desired, the ad even could mention that there is a coupon on its website and draw away Ziggy's Pizza customers.

Although this may appear to be a clever way to compete in the market, it is not without significant risk. There are a growing number of cases indicating that use of a third party's trademark in this manner may result in exposure to claims for trademark infringement and unfair competition under a United States law known as the Lanham Act.

The Lanham Act provides protection against trademark infringement and a wide range of activities generally called "unfair competition." Generally, trademark infringement occurs when an unauthorized person or entity uses a registered trademark in interstate commerce (i.e. crossing state lines) in way that is likely to cause confusion, mistake or deception.

The Lanham Act's protection, however, is not limited to registered marks. It also provides protection against unfair competition – including the unauthorized use of unregistered trademarks. Generally, unfair competition is established under the Lanham Act if a party uses in interstate commerce any word term, name, or symbol, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which is likely to cause confusion, or to cause mistake, or to deceive. One such cause of action that falls within the rubric of unfair competition is infringement of a common law (i.e. non-registered) trademark, which occurs when one represents that one's goods are those of another, usually a competitor, or substitutes their goods for those of another.

To find that a competitor's use of an internet keyword subjects it to Lanham Act liability for either trademark infringement or unfair competition, a court must find (1) a use of a trademark or other designation

Purchasing Internet Keywords – Buyer Beware, *continued*

of origin in commerce and (2) a likelihood of confusion resulting from such use. The use of internet keywords may meet these requirements. An increasing number of courts have found that the use of internet keywords is a use in commerce sufficient to support a claim. The likelihood of confusion analysis requires the consideration of the following factors: (1) the similarity between the plaintiff's mark and the alleged infringing mark; (2) the relatedness of the goods; (3) the likelihood of expansion of the product lines; (4) strength of the plaintiff's mark; (5) the marketing channels used; (6) the likely degree of care exercised by the purchaser; (7) the infringer's intent in selecting the mark; and (8) evidence of actual confusion. Therefore, if an analysis of these factors leads to the conclusion that consumers are likely to be confused, a court will find a purchaser of a competitor's trademark as an internet keyword liable for trademark infringement and/or unfair competition. The penalty could be an award of actual damages, the defendant's profits, increased damages up to three times actual damages, and, in exceptional cases, attorney's fees.

Given the potential exposure to liability, if your business is considering the purchase of internet keywords, choose carefully.

Choose generic terms that describe your business's goods or services and/or your general location and avoid a competitor's trademark, even if the competitor has not registered its mark. For example, Joe's Pizza might select the internet keywords "best pizza Nashville" or "top pizza Nashville." These types of generic terms avoid claims for trademark infringement and unfair competition and will still give you that prime placement at the top of search results.

Conversely, if you find that a competitor is using your trademark as an internet keyword, you should consult with your intellectual property attorney promptly to discuss your options. There are a variety of remedies available including contacting Google directly, sending a cease and desist letter, or filing a lawsuit to enjoin your competitor from using your trademarks. The longer that you wait to take action, the fewer remedies you will have. Courts often only grant requests for temporary injunctions when a movant requests such relief promptly after learning of the wrongful use of a trademark. The availability of a temporary injunction often is your best leverage to bring a swift resolution. Your intellectual property attorney will be in the best position to advise you of your options with your business objectives in mind.

Mr. Miller is an attorney in our Nashville office.

Obama's HIRE Act — Explaining the Tax Provisions

President Obama signed the Hiring Incentives to Restore Employment Act (the HIRE Act) on March 18, 2010. The HIRE Act provides $18.6 billion in tax provisions including $13 billion in tax breaks for hiring and retaining qualified workers. Additionally, the HIRE Act increases the expensing limitations under Section 179 of the Code for 2010 and expands the Build America Bonds program. Congress offset the costs of these tax benefits by increasing the disclosure and withholding requirements for certain foreign accounts and assets, increasing certain estimated tax payments for large corporations, and delaying the implementation of a law intended to help multinational taxpayers avoid double taxation on interest income. Please visit our website at www.bakerdonelson.com to read the summary of many of the tax provisions in the HIRE Act.