

Advisory Opinion 1988-3

Facts:

A franchiser is establishing a franchise to provide marketing services and personal injury materials to lawyers. The marketing services include advertising and the use of trademarks in the broadcast and print media. The trademarks will be used with the franchisee's name. According to the attorney who requested the advisory opinion, "PERSONAL INJURY NETWORK" and "1-800-INJURY" are examples of the trademarks which will accompany each franchisee's ad.

The franchisee will be required to pay an initial franchise fee and continuing royalties to the franchisor based on franchisee's gross revenues. In addition, there will be a continuing obligation to pay a percentage of the gross revenues to support advertising. Both the continuing royalties to the franchisor and the payments for advertising will be based on the franchisee's gross revenues and not on individual cases obtained as a result of the advertising. According to the request for an advisory opinion, the payments for advertising will not involve any payments for referrals.

Issues:

1. Whether an attorney may pay the franchisor a royalty for the use of the franchises trademarks and marketing assistance?
2. Whether an attorney may use the franchisor's trademarks in connection with the attorney's advertising?

Analysis:

1. Whether an attorney may pay the franchiser a royalty for the use of the franchises trademarks and marketing assistance?

In Section 16-702(C) of the New Mexico Rules of Professional Conduct, a lawyer may pay the reasonable cost of advertising or the reasonable cost of preparing a permitted communication. It follows that as long as the royalty payments reflect the reasonable cost of the advertising or the reasonable cost of preparing the communication, a royalty arrangement does not necessarily violate any ethical requirements.

As to the question of fee splitting under Section 16-504, most jurisdictions allow for payment of a percentage of the fees collected in particular cases to approved lawyer referral services despite the fee splitting rules. *ABA/BNA Lawyers' Manual on Professional Conduct*, 41:804. It would appear that the fee splitting rules are implicated even less in the present case in that royalties are not based on fees collected in particular cases, but rather on gross revenues generally. Such an arrangement would not seem to compromise the professional independence of the lawyer. This conclusion, however, assumes that there are no referrals as a part of the franchise arrangement, since referrals by a for-profit organization may violate the Rules of Professional Conduct, particularly the solicitation rules. See, e.g., *ABA/BNA Lawyers' Manual on Professional Conduct*, 801:6615, Opinion 359.

2. Whether an attorney may use the franchisor's trademarks in connection with the attorney's advertising.

Section 16-704 of the New Mexico Rules of Professional Conduct does not specifically mention trademarks, although it does discuss the circumstances under which trade names may be used and otherwise limits lawyers from stating or implying that they practice in a particular organization unless they do. In 16-704(A), it states that a trade name may be used by a lawyer in private practice if it does not imply connection with a government agency or with a public or charitable legal services organization and is not otherwise in violation of Rule 16-701 involving false or misleading communications about the lawyer or the lawyer's services. Section 16-704(D) states that lawyers may not state or imply that they practice in a partnership or other organization unless they do. Because the use of the trademark "PERSONAL INJURY NETWORK" might be understood by the general public as being an organization of specialists in personal injury law, the limitations set forth in Section 16-704 would appear to be applicable to the franchise arrangement contemplated, unless explanatory language is used as part of the advertising. If an explanation is included with the advertising, so that it is clear that participants in the franchise arrangement are not part of an organization of personal injury lawyers, use of the franchiser's trademarks along with the attorney/franchisee's own name in connection with the advertising would not violate the New Mexico Rules of Professional Conduct. This conclusion, of course, assumes that the advertising does not violate Section 16-701 involving false or misleading communications and otherwise complies with Section 16-702 relating to advertising. Finally, the conclusion assumes that the advertising complies with the rules relating to specialization set forth in 16-701(D) and 16-703.