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RULES ON THE REGULATION OF FRANCHISE

Article 1. Definitions

1. A franchise agreement, whatever its form or description, is an agreement between two legally and financially independent parties, whereby one party grants the other party, in exchange for consideration, the right to use a set of industrial or intellectual property rights, related to trademarks, trade names, shop signs, utility models, industrial designs, copyright, know how, patents, technical and commercial support and assistance, in the view of having the Franchisee joining a system characterized by a group of franchisees operating in the territory for the purpose of distributing specific goods and services.

2. The franchise agreement can be adopted in any market sector.

3. In the franchise agreement:

a) "know-how" means a body of non patented practical information, resulting from the experience and testing by the Franchisor, which is secret, substantial and identified; "secret" means that the know-how, as a body or in the precise configuration and assembly of its components, is not generally known or easily accessible; "substantial" means that the know-how includes information which is indispensable to the Franchisee for the use, sale or distribution, management or

administration of goods and services identified under the agreement; “identified” means that the know-how must be described in a sufficiently comprehensive manner so as to make it possible to verify that it fulfils the criteria of secrecy and substantiality;

b) “entry fee” means a fixed sum also related to the financial value and to the potential scope for development of the system, which is paid by the Franchisee upon execution of the franchise agreement;

c) “royalties” means a percentage required by the Franchisor to the Franchisee and related to the business turnover of the Franchisee or consisting of a fixed rate also payable at regular intervals by instalments;

d) “Franchisor’s goods” means goods manufactured by the Franchisor or according to his instructions and marked with the Franchisor’s name.

Article 2. Scope of the law

1. The provisions related to the franchise agreement, as defined in article 1, apply to the master franchise agreement, whereby in exchange for direct or indirect consideration an undertaking grants to another legally and financially independent undertaking the right to operate a franchise for the purpose of stipulating franchise agreements with third parties; the provisions related to the franchise agreement apply to the corner franchising, whereby the Franchisee sets up a space exclusively dedicated to the commercial activity mentioned in article 1 paragraph 1 in an area at his disposal.

Article 3. Form and content of the agreement

1. The franchise agreement must be in writing, otherwise it will be null and void.

2. The Franchisor must have tested his business concept on the market before starting its franchise network.

3. If the agreement is for a limited term, the Franchisor shall guarantee the Franchisee a minimum term related to the period of amortisation of the Franchisee’s investments; this term shall not be less than three years, except for cases of earlier termination for breach of contract by one of the parties;

4. The agreement shall also expressly indicate:

a) the sums related to the initial investments and other entry fees payable by the Franchisee in order to start the franchise business;

b) the terms of calculation and payment of the royalties, as well as the indication, if any, of minimum takings to be reached by the Franchisee;

- c) the rights to territorial exclusivity, if any, granted to other franchisees or related to the sale network and any outlet directly run by the Franchisor;
- d) the details of the know how provided by the Franchisor to the Franchisee;
- e) the criteria, if any, in place for the acknowledgement of the Franchisee's contribution to the know-how of the franchise;
- f) the details of the services provided by the Franchisor in terms of technical and commercial assistance, outlet set-up and training;
- g) the terms for the renewal, termination or assignment of the agreement.

Article 4. Obligations of the Franchisor

1. At least 30 days before the execution of a franchise agreement as defined under art. 1, paragraph 1, the Franchisor must provide the prospective Franchisee with a full copy of the agreement to be signed, including the following annexes; exception is made for those annexes requiring objective and specific confidentiality requirements; such annexes shall however be referred to in the body of the agreement:

- a) relevant information concerning the Franchisor, including company name and registered capital; upon request by the Franchisee, a copy of the Franchisor's balance sheets for the last three years or from the start-up of the business, should it be less than three years;
- b) details of the trademarks used in the system, including essential information related to their registration or deposit, or to the license granted to the Franchisor by a third party who owns such trademarks, or any documentation proving the actual use of the trademark of the franchise;
- c) a summary of the activities and operations characterizing the subject matter of the franchise agreement;
- d) a list of the franchisees currently operating in the network as well as a list of outlets directly run by the Franchisor;
- e) details of the variation, year by year, in the number of franchisees, including their location in the last three years or from the date of start-up of the Franchisor's business, should it be less than three years;
- f) in compliance with the law of currently in force, a summary of any court or arbitration proceeding related to the franchise system commenced by any franchisee, third party or public authority against the Franchisor and terminated in the course of the last three years.

2. As for the information contained in the Annexes referred to in paragraph 1, letters d), e) and f), the Franchisor can supply information related to the franchise

business carried out on the Italian market only. The information to be supplied to the under paragraph 1, letters d), e) and f) by a Franchisor who has carried out his business only abroad, will be regulated by a decree of *Ministero delle attività produttive* (Ministry for production activities). Such decree shall be issued within 90 (ninety) days from the day in which this law comes into force.

Article 5. Obligations of the Franchisee

1. The Franchisee shall not change its registered office from the one stated in the agreement without prior consent of the Franchisor, unless in case of force majeure.
2. The Franchisee commits himself to respect and have respected by his own employees and collaborators, even after the agreement termination, the strict confidentiality on the content of the activity operated in the franchise.

Article 6. Pre-contractual Behavior Obligations

1. The Franchisor shall exercise goodwill, fairness and good faith at all times in dealing with the prospective Franchisee and shall provide the prospective Franchisee with any information the Franchisee should consider necessary or useful for the purposes of the franchise agreement in a timely manner. The Franchisor can withhold such information which is reasonably deemed to be confidential information or if such a disclosure could infringe third party rights.
2. The Franchisor shall explain to the prospective Franchisee the reasons for not disclosing the information requested by the Franchisee.
3. The prospective Franchisee shall exercise goodwill, fairness and good faith at all times in dealing with the Franchisor and shall provide the Franchisor with any information that is necessary or appropriate for the purposes of the franchise agreement, in a timely, correct and comprehensive way, even if such disclosure is not expressly requested by the Franchisor.

Article 7. Conciliation

1. In case of dispute over the franchise agreement, the parties can agree that before addressing the case to the courts or to arbitration, they must carry out an attempt of conciliation through the Chamber of Commerce operating in the area in which the Franchisee's registered office is located. Articles 38, 39 and 40 of the Law Decree N° 5 of January 12, 2003 will apply to the conciliation proceeding insofar as compatible.

Article 8. Annulment of the agreement

1. If one party has supplied false information, the other party may ask for the annulment of the agreement under art. 1439 of the Italian civil code, and can sue the party for damages, if this is appropriate.

Article 9. Provisional and final regulations

1. The provisions of the present law shall apply to any franchise agreement in force in the Italian territory at the date of entering into force of this law.
2. Franchise agreements entered into before this law comes into force , and not compatible with article 3, paragraph 1, shall be put in writing within one year of the aforesaid date in order to comply with the provisions of this law. Within the same period of time also those written agreements entered into before this law comes into force will have to be made compliant with the provisions of this law.
3. The present law enters into force on the day following its publication on the *Gazzetta Ufficiale* (Italian Official Bulletin).

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