The GPMemorandum

TO: OUR FRANCHISE AND DISTRIBUTION CLIENTS AND FRIENDS

FROM: GRAY PLANT MOOTY'S FRANCHISE AND DISTRIBUTION PRACTICE GROUP

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This issue of *The GPMemorandum* focuses on topics primarily of interest to companies that use distributors and dealers rather than manage a business format franchise system. The distribution-related topics this quarter include arbitration, terminations, and trademark issues.

ARBITRATION

NORTH CAROLINA FEDERAL COURT COMPELS DEALER TO ARBITRATE CLAIMS IN MINNESOTA

The United States District Court for the Western District of North Carolina granted a motion to compel arbitration in a dispute arising out of a voluntarily terminated dealer agreement. *High Country Dealerships, Inc. v. Polaris Sales, Inc.*, 2018 WL 3620494 (W.D.N.D. July 30, 2018). (Gray Plant Mooty represents defendant-supplier Polaris Sales in this case.) The agreement contained a broadly worded arbitration clause requiring the plaintiff (the terminated dealer) to submit all disputes with Polaris to binding arbitration in Minneapolis, Minnesota. Instead of pursuing arbitration, however, the plaintiff had commenced state-court litigation in its home state of North Carolina, claiming that Polaris was required statutorily to repurchase its inventory and other items. Polaris responded to the lawsuit by removing it to federal court and then filing the motion to compel arbitration.

Finding that the dispute fell within the broad scope of the arbitration clause, the district court granted the supplier's motion. In doing so, the court summarily rejected the dealer's argument that its agreement was an unenforceable contract of adhesion. The court also rejected the terminated dealer's request for a finding that the dealer agreement's choice of Minnesota law was unenforceable. Because the broad language of the arbitration clause required any issue (including choice of law) to be resolved in arbitration, the court would not decide the enforceability of the choice of law provision.

PROCEDURE

FRANCHISEE MUST EXHAUST ADMINISTRATIVE REMEDIES BEFORE FILING ACTION IN STATE COURT

The United States Court of Appeals for the Fifth Circuit has held that a franchisee seeking relief for violations of the Texas Motor Vehicle Commission Code (the "Code") had to exhaust all available administrative remedies before proceeding in state court. *Autobahn Imports, L.P. v. Jaguar Land Rover N. Am., LLC*, 2018 WL 3406933 (5th Cir. July 13, 2018). A dispute arose between franchisor Jaguar Land Rover North America and franchisee Autobahn Imports when Jaguar requested roughly $300,000 of chargebacks in incentive payments from Autobahn. Autobahn filed a complaint with the Texas Department of Motor Vehicles (the "Board") claiming that the chargebacks violated the Code. The Board issued a final order holding that the chargebacks were invalid, and Jaguar appealed the decision to the Texas Court of Appeals. While that appeal was pending, Autobahn filed suit against Jaguar in state court based on the Board's findings and moved for summary judgment on claims for breach of contract and violation of the Texas Deceptive Trade Practices Act (DTPA). Jaguar removed the action to federal court and argued, among other things, that Autobahn had not exhausted all available administrative remedies. The court disagreed and granted summary judgment for the dealer.

On appeal, the Fifth Circuit agreed with Jaguar that Autobahn filed suit too soon. The court noted that a party must first exhaust all administrative remedies to obtain a final Board decision in order to support DTPA claims based on Code violations in state or federal court. Given that Jaguar appealed the Board's decision, the decision could become final only after a substantial-evidence review. Because Autobahn did not wait for the Texas Court of Appeals to process Jaguar's appeal before seeking summary judgment, the federal district court did not have jurisdiction to hear Autobahn's claims. As a result, the district court's summary judgment ruling was vacated and remanded.

DISTRIBUTOR CANNOT PROCEED WITH DUPLICATIVE LAWSUIT

A federal court in California granted a supplier's motion to dismiss a distributor's lawsuit pursuant to the first-to-file rule. *W. Pac. Signal, LLC v. Trafficware Grp., Inc.*, 2018 WL 3109809

(N.D. Cal. June 25, 2018). Trafficware, a supplier of traffic control devices, terminated its distributor agreement with WPS due to WPS's failure to pay invoices, and filed suit in the Southern District of Texas. WPS responded and asserted counterclaims in Texas. WPS also filed a second lawsuit in California, asserting claims similar to the counterclaims. In response to the California complaint, Trafficware filed a motion to dismiss based on the first-to-file rule.

The California court granted the motion. Chronologically, there was no question that the Texas action was filed first, and it had in fact proceeded much further than the California case. In particular, the Texas court had already considered and denied WPS's motion to transfer the case to California. WPS argued that the California court should use its equitable discretion to disregard the first-to-file rule, but the court refused to do so, finding no compelling reason to deviate from the well-established standard. Because WPS's counterclaims in the Texas case pleaded the same factual allegations and claims as its California complaint, the California court found the second case was "wholly duplicative" and dismissed it.

ANTITRUST

NINTH CIRCUIT AFFIRMS DISMISSAL OF ANTITRUST CLAIMS FOR FAILURE TO PLEAD THAT EXCLUSIVE DEALING AGREEMENTS FORECLOSED COMPETITION

The Ninth Circuit affirmed dismissal of Hip Hop Beverage Corporation's claim that its competitor, Monster Energy, unlawfully restricted competition through exclusive dealing agreements. *Hip Hop Beverage Corp. v. Monster Energy Co.*, 2018 WL 2093508 (9th Cir. May 7, 2018). The suit stemmed from Hip Hop Beverage's attempt to sell to the U.S. Defense Commissary Agency. In compliance with DECA's vending requirements, Hip Hop Beverage hired a broker, Mid Valley Products, but Mid Valley terminated the contract "due to conflicts at the broker level with regards to competing energy drink companies." Hip Hop Beverage then sued Monster, alleging that it controlled certain defined military and retail markets through exclusive dealing arrangements with the only available brokers necessary to reach those consumers.

The district court dismissed Hip Hop Beverage's antitrust claims, and the Ninth Circuit affirmed. The appellate court noted, among other problems, that Hip Hop Beverage did not adequately plead how the exclusive dealing agreements substantially foreclosed competition in the relevant market. Instead, Hip Hop Beverage's allegations only showed that it was damaged as a competitor, which is insufficient under antitrust law. Although Hip Hop Beverage alleged that Monster had caused at least four brokers to refuse to do business with it, Hip Hop Beverage did not identify in its complaint how many total brokers were in the market in order to show the scope of foreclosed competition. Indeed, Hip Hop Beverage conceded that it remained in the market without the assistance of brokers, and the court noted that the ability to reach consumers through alternative channels of distribution tended to show that the restrictions complained of did not foreclose competition from any part of the relevant market.

FALSE ADVERTISING

TEXAS COURT PARTIALLY GRANTS MATTRESS RETAILER'S MOTION FOR SUMMARY JUDGMENT ON CLAIMS BROUGHT BY MANUFACTURERS

The U.S. District Court for the Southern District of Texas granted in part and denied in part a defendant retailer's motion for partial summary judgment on several Lanham Act and false advertising claims brought by its former manufacturers. *Tempur-Pedic N. Am., LLC v. Mattress Firm, Inc.*, 2018 WL 3483082 (S.D. Tex. July 19, 2018). After nearly twenty years of working together, the plaintiffs (collectively, "Tempur-Sealy") and Mattress Firm entered into a letter agreement in which the parties agreed to continue their relationship through a specified date. When Mattress Firm used Tempur-Sealy's intellectual property beyond the specified date and began selling mattresses purchased from competing manufacturers, Tempur-Sealy filed suit alleging breach of contract, trademark infringement, and false advertising. Mattress Firm moved for partial summary judgment on all of Tempur-Sealy's extra-contractual claims.

The court denied summary judgment on the trademark infringement claims, finding that Mattress Firm had failed to demonstrate the absence of genuine issues of material fact as to whether the alleged trademark misuses continued to occur, or would occur in the future. The court granted summary judgment on a false advertising claim concerning a YouTube video comparing mattress prices, because Tempur-Sealy did not produce any evidence showing that the statements in the video were literally false, rather than ambiguous or true but misleading. Because Tempur-Sealy also failed to present any evidence of actual consumer deception, the claim for false advertising based on the video was deficient as a matter of law. However, with respect to an in-store ad campaign, the court found the evidence sufficient to create a genuine issue of material fact as to literal falsity, as there was some evidence that the ad misstated prices of the competing mattresses. Accordingly, the court denied the motion for summary judgment insofar as the claim concerned the in-store displays.

STATE FRANCHISE LAWS

NEW JERSEY FEDERAL COURT DISMISSES CHALLENGE TO IMMEDIATE TERMINATION

A federal court in New Jersey has granted a motion to dismiss a challenge to the "immediate" termination of a distribution agreement because the distributor failed to plead adequately that the agreement contemplated its maintenance of a New Jersey place of business, as required for the New Jersey Franchise Practices Act (NJFPA) to apply. *Lawmen Supply Co. of N.J., Inc. v. Glock, Inc.*, 2018 WL 3201790 (D.N.J. June 29, 2018). The parties had entered into a distribution agreement for Lawmen Supply to distribute "Glock Only" pistols to the law enforcement market. Glock terminated the distribution agreement "effective immediately" when Lawmen

Supply sold Glock products to the commercial market rather than the law enforcement market. Among other claims, Lawmen Supply challenged the notice period as too short under the NJFPA.

In granting in part Glock's motion to dismiss, the court held that Lawmen Supply had failed to plead that it was entitled to the protections of the NJFPA. An agreement is subject to the NJPFA if it requires the franchisee to maintain a place of business in New Jersey (and other factors). When it applies, the NJFPA requires sixty days' notice prior to termination or nonrenewal. While Lawmen adequately pleaded the existence of a community of interest and a licensing agreement, it did not adequately plead that it was required to maintain a place of business in New Jersey. Its complaint merely stated that it was a New Jersey business and operated a franchise in New Jersey. Noting Lawmen's assertion in its opposition to Glock's motion that Lawmen's New Jersey facility was the hub of its marketing and sales-related activities for the New Jersey law enforcement market, the court permitted Lawmen thirty days to replead.

WHOLESALER LIABLE FOR VIOLATION OF ARKANSAS FARM EQUIPMENT RETAILER LAW

An Arkansas state appellate court upheld a motion for default judgment against a wholesale distributor for failing to adhere to the Arkansas Farm Equipment Retailer Franchise Protection Act. *R.W. Distributors, Inc. v. Texarkana Tractor Co.*, 2018 Ark. App. 345 (June 6, 2018). R.W. supplied riding lawnmowers that Texarkana Tractor sold in stores. Texarkana was unable to sell the tractors and demanded that R.W. take them back and repay Texarkana in accordance with the statute. After originally defaulting, R.W. unsuccessfully opposed the claim and then appealed.

The appellate court agreed with the lower court that Texarkana had stated a claim. First, the court held that R.W. was incorrect in stating Texarkana was required to return the inventory before it could request repayment. Texarkana had relied on a different statute that required the wholesaler to repurchase the inventory on the date it terminated the contract. The court further found that Texarkana's statement that it obtained the mowers from the wholesaler and requested that R.W. "take the items back" constituted a sufficient pleading showing the establishment and termination of the contract. Therefore, since the county court had not erred granting default judgment—because R.W. had failed to answer and Texarkana had, indeed, stated a claim—the appellate court did not overturn the decision.

PRELIMINARY INJUNCTIONS

COURT PARTIALLY GRANTS INJUNCTION TO BLOCK DISTRIBUTOR TERMINATION

The U.S. District Court for the Middle District of Pennsylvania granted in part a motion filed by an independent distributor to stop the termination of its distribution agreements. *Pella*

Products, Inc. v. Pella Corp., 2018 WL 2734820 (M.D. Pa. June 7, 2018). The distributor was a party to several agreements granting it the right to distribute Pella windows and doors to general contractors and businesses (*i.e.,* the trade/commercial business), and to homeowners (*i.e.,* the retail business). Based upon evidence of sexual misconduct by the distributor's president, the manufacturer terminated the distribution agreements, alleging the president's behavior violated a policy that required the preservation of Pella's brand and reputation. The manufacturer argued that the distribution agreements incorporated the policy by reference.

The court partially granted the distributor's motion and enjoined the manufacturer from terminating the distribution agreement that pertained to the distributor's trade/commercial business. The court determined that the policy was not incorporated by reference into that agreement because by its own terms the policy was limited to the retail distribution business. Additionally, since the agreement contained a one-year notice provision, the court determined that the distributor would suffer irreparable harm if the agreement was terminated without the bargained-for advanced notice. The court denied the preliminary injunction as to the retail distribution agreement, finding that the policy was applicable to that agreement, that the policy clearly required preservation of Pella's brand and reputation, and that the actions of the distributor's president violated that policy.

COURT GRANTS PRELIMINARY INJUNCTION BASED ON FRANCHISEE'S USE OF FRANCHISOR'S TRADEMARKS AT UNAUTHORIZED LOCATION

A federal court in the Eastern District of New York has granted a franchisor's request for a preliminary injunction against a franchisee who continued to use the franchisor's trademarks after moving to an unauthorized location. *Mitsubishi Motors N. Am. Inc. v. Grand Automotive, Inc.*, 2018 WL 2012875 (E.D.N.Y. Apr. 30, 2018). The parties entered into a dealer sales and service agreement in which Mitsubishi granted Grand Automotive the right to use the Mitsubishi trademarks to sell new cars at an authorized location. The dispute arose when Grand failed to renew its lease and subsequently relocated, continuing to use the Mitsubishi marks.

The court ultimately granted the injunction, finding that Mitsubishi met all of the required elements. Mitsubishi first argued that, absent an injunction, it would suffer irreparable harm in the form of loss of control over its trademarks and goodwill. The court agreed, observing that there was a real danger of consumers being confused into thinking that Grand was an authorized Mitsubishi dealer. Because a loss of control over reputation and goodwill would not be quantifiable in terms of monetary damages, the court determined that no adequate remedy at law existed. The court also found that the balance of the equities tipped in Mitsubishi's favor because any harm Grand would face under an injunction would be economic in nature and therefore compensable by Mitsubishi. Moreover, the court noted that Grand "has only itself to blame for its present predicament" since it failed to timely renew its lease, further tipping the balance of equities in Mitsubishi's favor. Mitsubishi also successfully demonstrated that an injunction was in the public interest. Finally, the court found that Mitsubishi demonstrated a likelihood of success on its unfair competition and contract claims.

CONTRACTS

NEBRASKA SUPREME COURT UPHOLDS CONTRACTUAL PROVISION ALLOWING FRANCHISEE TO REBRAND

The Supreme Court of Nebraska affirmed the decision of a state district court that a contract permitted a fuel retailer to rebrand several of its gas stations and sell competitor-branded fuel. *Ray Anderson, Inc. v. Buck's, Inc.*, 300 Neb. 434 (July 6, 2018). Ray Anderson, Inc., the operator of retail gas stations in Omaha, Nebraska, and Buck's, Inc., a distributor and "jobber" of BP-branded fuel, entered into a fuel supply contract, through which Anderson sold BP-branded fuel at its stations. A rider entitled the Electronic Dealer Delivery Plan (EDDP) was incorporated into the agreement. Several years later, Anderson negotiated with a BP competitor to sell Shell Oil-branded fuel at four of Anderson's gas stations. Buck's immediately directed Anderson to cease and desist from selling the Shell Oil-branded fuel, claiming it would constitute a breach of their agreement. Anderson filed a declaratory judgment action for a ruling that it was not prohibited from rebranding under the agreement. Buck's counterclaimed and also sought damages for anticipatory repudiation. Both parties moved for summary judgment. The district court denied Buck's summary judgment motion, concluding that nothing within either the agreement or the EDDP prohibited Anderson from selling the Shell-Oil branded fuel.

In affirming the lower court's decision, the Supreme Court of Nebraska rejected Buck's argument that the agreement required Anderson to sell BP-branded fuel purchased from Buck's and therefore indirectly prohibited rebranding of the four stations. The court observed that the EDDP clearly stated that Anderson was not precluded from selling competitive brand products. The EDDP also stated that to the extent any conflict arose between the terms of the agreement and the EDDP, the terms of the EDDP controlled. Noting that contracts made in reference to and as part of the same transaction must be construed together, the court concluded that the terms of the EDDP were controlling, and that Anderson could rebrand the four gas stations and sell the Shell-Oil branded fuel.

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