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Franchise Law

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FRANCHISE LAW

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I. INTRODUCTION[1]

THIS Article provides an update of certain significant developments in franchise law in Texas and in the Fifth Circuit during the Survey period. This article also highlights cases involving dealerships and distributorships that, in the authors' judgment, provide a relevant backdrop for franchising. Of particular interest to the franchise practitioner will be a wide range of court pronouncements on statutes, from the Texas Anti-Dilution Statute and the Anti-Cybersquatting Consumer Protection Act, to the Texas Motor Vehicle Commission Code and the Texas Business and Commerce Code on covenants not to compete. In addressing each of the specific areas that affect franchises and franchise systems, however, the update does not attempt to explain the entire body of franchise law but, instead, focuses on those cases which are instructive on several topics involving multiple issues.

II. PROCEDURE

A. JURISDICTION

In *Brown v. General Brick Sales Co.*,[2] a Texas Court of Appeals was asked, on an accelerated interlocutory appeal, whether the trial court correctly refused to apply the fiduciary shield doctrine. In *Brown*, two employees of Boral Bricks ("Boral") visited Texas on several occasions to negotiate an exclusive distributorship with General Brick Sales Co., Inc. ("General Brick Sales"). Eventually, Boral and General Brick Sales ver-

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1. The authors wish to express their thanks to their colleague Nyanza Davis Thomas for her help and contributions.

2. Brown v. Gen. Brick Sales Co., 39 S.W.3d 291 (Tex. App.—Fort Worth 2001, no pet.)

bally agreed to an exclusive distributorship agreement where General Brick Sales would maintain Boral as its major product line in exchange for Boral's promise not to sell directly in the "exclusive territory."[3] When Boral came to Texas to talk to General Brick Sales about Boral buying them out entirely, the negotiations broke down and General Brick Sales sued the employees personally for breach of contract, fraud, negligent misrepresentation, unfair competition and misappropriation of proprietary information.[4]

The defendants contested personal jurisdiction, claiming the fiduciary shield doctrine protected them from personal jurisdiction in Texas unless they were advancing their own interests or were alto egos of their employer.[5] They argued that the fiduciary shield doctrine should apply in Texas to defeat specific jurisdiction based on tortious conduct unless a plaintiff could show that the individual defendant acted in furtherance of his or her own benefit.[6] On the contrary, General Brick Sales argued that the fiduciary shield doctrine did not and should not apply in Texas, and even if it did, the employees' tortious conduct could personally benefit them.[7]

The trial court denied the defendants' special appearance, because Texas had not adopted the fiduciary shield doctrine.[8] The court of appeals conducted a *de novo* review of the trial court's order denying the special appearance.[9] It began its review with a discussion of federal jurisdiction. The court noted that "under the federal constitutional test of due process, a plaintiff must overcome two hurdles to justify the exercise of jurisdiction over a nonresident defendant. The plaintiff must show that the defendant established minimum contacts with the forum state and show that the assertion of jurisdiction comports with fair play and substantial justice."[10] Moreover, "in Texas, when specific jurisdiction is asserted, the cause of action must arise out of or relate to the nonresident defendant's contact with the forum state in order to satisfy the minimum contacts requirement."[11] "Those activities must have been 'purposefully directed' to the forum and the litigation must result from alleged injuries that 'arise out of or relate to' those activities."[12] The court noted that General Brick Sales asserted that its claims against the employees arose "from purposeful acts committed by them in Texas and directed toward

3. *Id.* at 293.
4. *Id.*
5. *Id.* at 294. The employees argued that the trial court did not have personal jurisdiction over them because they were non-residents of Texas and any contacts that occurred in Texas were on behalf of their employer, as opposed to any individual capacity, and thus, protected under the fiduciary shield doctrine.
6. *Id.*
7. *Brown*, 39 S.W.3d at 294.
8. *Id.*
9. *Id.*
10. *Id.* at 294 (citing Int'l Shoe Co. v. Washington, 326 U.S. 310, 316 (1945)).
11. *Id.* (citing Guardian Royal Exch. Assurance, Ltd. v. English China Clays, P.L.C., 815 S.W.2d 223, 226 (Tex. 1991)).
12. *Brown*, 39 S.W.3d at 294 (citing *Guardian*, 815 S.W.2d at 228).

persons and entities in Texas," thus affording Texas specific jurisdiction over them.[13]

Next, the court of appeals discussed specific jurisdiction in Texas. The court stated that "a Texas court may exercise specific jurisdiction over a nonresident if two conditions are met. First, the Texas long-arm statute must authorize the exercise of jurisdiction; second, the exercise of jurisdiction must be consistent with federal and state constitutional guarantees of due process."[14] Texas has designed its own formula for specific jurisdiction which requires showing: (1) minimum contacts; (2) substantial connection between defendant and Texas arising from the actions or conduct of the defendant; (3) the cause of action arises out of or relates to the contacts with the state; and (4) the assumption of jurisdiction does not offend traditional notions of fair play and substantial justice.[15]

The court's analysis of the fiduciary shield doctrine revealed that the doctrine "provides that corporate officers are not subject to jurisdiction in a foreign forum where their actions are taken in a representative capacity."[16] Moreover, "in the jurisdictions where it applies, a plaintiff can defeat its protection by showing that the individual defendant was advancing his own interest or that he was an alter ego of his employer."[17] The court noted that in Texas jurisdictions where the fiduciary shield doctrine has been applied, the courts "limited its application to jurisdictional claims based on the theory of general jurisdiction as opposed to specific jurisdiction."[18] The court decided that since Texas courts are to exercise jurisdiction to the limits of federal due process, they must look to the United States Supreme Court when deciding whether to apply the fiduciary shield doctrine to claims based on the theory of specific jurisdiction.[19] Therefore, the court held that the trial court correctly refused to apply the fiduciary shield doctrine and decided that each defendant's contacts should be separately alleged and tested.[20] Because the only claim on appeal was whether the trial court correctly refused application of the fiduciary shield doctrine, the denial of the special appearance was affirmed.[21]

13. *Id.* at 295.
14. *Id.* (citing Schlobohm v. Schapiro, 784 S.W.2d 355, 356 (Tex. 1990)).
15. *Id.*
16. *Id.* at 297-98 (citing Amoco Chem. Co. v. Tex. Tin. Corp., 925 F. Supp. 1192, 1201 (S.D. Tex. 1996).
17. *Brown*, 39 S.W.3d at 298 (citing Saktides v. Cooper, 742 F. Supp. 382, 385 (W.D. Tex. 1990)).
18. *Id.* at 300.
19. *Id.* The court analyzed the United States Supreme Court's decision in *Calder v. Jones*, 456 U.S. 783 (1984). In *Calder*, the Supreme Court refused to create a blanket exception to jurisdiction that fails to test each defendant's actions and contacts with the forum state separately.
20. *Brown*, 39 S.W.3d at 300.
21. *Id.*

B. Choice Of Law

There are two cases decided during the survey period that consider the importance and applicability of choice of law provisions in franchise and dealership agreements. In *Covert Chevrolet-Oldsmobile v. General Motors Corp.*,[22] Covert sold a new Grand Prix to Judy Riley. In 1996, General Motors (GM) issued a product recall relating to certain component parts and radio wires located in the steering wheel.[23] Riley brought the car to Covert's dealership for the necessary repairs. After Covert made the repairs, Riley's daughter was involved in an accident in the car that resulted in her death.[24] Riley filed suit against Covert and GM alleging the airbags on both the driver's and passenger's side improperly deployed causing her daughter to lose control.[25] Riley's petition made general allegations against GM that were incorporated by reference into the claims against Covert.[26]

The Dealer Sales and Service Agreement between Covert and GM included an indemnification provision stating that GM would assume the defense of the Dealer and indemnify the Dealer against any judgment in monetary damages in any suit naming the Dealer as a defendant relating to any product that caused bodily injury or property damage because of its design, manufacture or assembly, provided that the Dealer has not altered the product.[27] When Covert sent a request to GM for indemnification, GM denied the request stating that the claims were independent of those made against GM, and therefore, Covert was independently liable.[28] Covert then filed cross claims against GM for indemnification.

In its cross claim, Covert argued that it was entitled to indemnification pursuant to the Texas Product Liability Act, the Texas Motor vehicle Commission Code, the Dealer Sales and Service Agreement, and the common law.[29] GM defended that Michigan law controlled and, under Michigan law, Covert was not entitled to indemnification. Based on the arguments, the trial court granted GM's motion for summary judgment, and Covert appealed. The issue before the court of appeals was which state's law controlled the indemnification provision in the agreement. The court looked at *Meritor Automotive v. Ruan Leasing Co.*[30] to make its determination. In *Meritor*, the Texas Supreme Court held that a manufacturer's duty to indemnify a seller for losses was invoked by the plaintiff's pleadings and joinder of the seller as a defendant in the products

22. Covert Chevrolet-Oldsmobile, Inc. v. Gen. Motors Corp., No. 05-00-01170-CV, 2001 WL 950274, at *1 (Tex. App.—Dallas August 21, 2001, no pet. h.) (not designated for publication).
23. *Id.* at *1.
24. *Id.*
25. *Id.* at *2.
26. *Id.*
27. *Covert*, 2001 WL 950274, at *2.
28. *Id.*
29. *Id.*
30. 44 S.W.3d 86 (Tex. 2001).

liability action.[31] Further, the manufacturer can negate its duty to indemnify the seller only by obtaining a finding that the seller's independent conduct was a cause of the plaintiff's injury.[32] Because the seller's liability for the plaintiff's injuries was never established in *Meritor*, the court held the manufacturer was obligated to indemnify the seller for the costs of its defense.[33] The court of appeals noted that as in *Meritor*, Covert's independent liability was never established. Therefore, GM's obligation to indemnify Covert was properly invoked and never negated. Ultimately, the court concluded that as a matter of law, Covert was entitled to indemnification from GM pursuant to the Texas Products Liability Act, applying Texas law.[34]

The second noteworthy case considering the applicability of choice of law provisions is *Miller v. KFC Corp.* (Miller II).[35] In *Miller II*, a Texas federal court concluded that a choice-of-law clause providing that the franchise agreement "shall be interpreted in accordance with and governed by" Kentucky law was too narrow to embrace tort claims.[36] The court, therefore, decided to apply the most significant relationship test to the plaintiff's claim rather than to "defer to a choice of law provision that merely governs the interpretation of the franchise agreement."[37] Because Texas was the state with the most significant relationship to the controversy over the tort claim, the court applied Texas substantive law.[38] The court noted that, if the clause had provided for application of Kentucky law to "govern, construe and enforce all rights and duties" of the parties, that would have been sufficient to cover tort claims.[39]

C. Forum Selection

In *Arctic Equipment of Texas, Inc. v. IMI Cornelius, Inc.*,[40] the Northern District of Texas was asked to decide whether to grant the defendant's motion to dismiss based on the forum selection clause contained in a distributorship agreement between the parties. In *Arctic Equipment*, plaintiff, Arctic Equipment of Texas, Inc. ("Arctic"), sued defendant, IMI Cornelius, Inc. ("IMI"), for breach of a distributorship agreement. Arctic was a Texas corporation with its principal place of business in Wichita Falls, Texas. IMI was a foreign corporation with its principal place of business in Minnesota. When Arctic filed suit in the Northern District of Texas for breach of the agreement, IMI filed a motion to dismiss based on

31. *Id.* at 91.
32. *Id.*
33. *Id.*
34. *Covert*, 2001 WL 950274, at *3.
35. James Miller, Jr. v. KFC Corp., No. 3:99-CV-1566D, 2001 WL 585763 (N.D. Tex. May 24, 2001) [hereinafter *Miller II*]. A detailed discussion of *Miller II* follows in Section V Common Law Claims: Contract Issues.
36. *Id.* at *7.
37. *Id.*
38. *Id.*
39. *Id.*
40. No. 7:00-CV-208-R, 2001 U.S. Dist. LEXIS 2674 (N.D. Tex. Mar. 13, 2001).

the forum selection clause designating Minnesota as the venue for disputes under the agreement.[41] The court carefully reviewed the argument set forth by IMI, but decided that the proper determination to be made was not whether to dismiss, but whether to transfer venue pursuant to 28 U.S.C. § 1404(a). The court noted that the existence of a forum selection clause "designating Minnesota as the venue for disputes under the Agreement does not make the Northern District of Texas an improper venue requiring dismissal under 12(b)(3)."[42]

In its analysis, the court considered the Section 1404(a) factors including: (1) the convenience of the witnesses; (2) the convenience of the parties; (3) the interests of justice; and (4) the fairness of transfer in light of the forum-selection clause and the parties' relative bargaining power.[43] The court noted that transfer was preferable to dismissal in this case because an alternative forum was available.[44]

The court looked to *Bremen v. Zapata Off-Shore Co.*,[45] where the Supreme Court held that forum selection clauses were "prima facie valid and should be enforced unless enforcement is shown by the resisting party to be 'unreasonable' under the circumstances."[46] The court also noted that in *Bremen*, the Supreme Court explained that "the existence of a forum selection clause places a 'heavy burden' on the party seeking to avoid its application."[47] Additionally, under § 1404(a) courts have the discretion to accept jurisdiction over a case despite the fact that a forum selection clause calls for jurisdiction in a different forum.[48]

The Northern District followed the Supreme Court in noting that a plaintiff bears the burden of demonstrating why his case should not be transferred to the forum in which he contractually agreed to litigate. Arctic admitted that the forum selection clause was valid, but argued that the court should accept jurisdiction any way. Arctic argued that the court should confer jurisdiction, because the events that gave rise to the suit took place in the Northern District of Texas.[49] In support of its argument, Arctic pointed out that the all of the necessary witnesses resided in the Northern District. The court was not persuaded by Arctic's arguments, because Arctic failed to provide any evidence to support the enforcement of the agreement in the Northern District. Instead, it determined that, from the court's review of the amended complaint, the alleged wrongful acts of IMI probably took place at the defendant's headquarters in Minnesota, and most of the witnesses would likely be corpo-

41. *Id.* at *3.
42. *Id.*
43. *Id.* at *7 (citing Shaw Group, Inc. v. Natkin & Co., 907 F. Supp. 201, 203 (M.D. La. 1995)).
44. *Id.* at *4.
45. 407 U.S. 1 (1972).
46. *Arctic Equip. of Tex., Inc.*, 2001 WL 2674, at *6 (citing *Bremen*, 407 U.S. at 10).
47. *Id.*
48. Section 1404(a) permits the transfer of a case "for the convenience of parties and witnesses, in the interest of justice." 28 U.S.C.A. § 1404(a) (West 1994 & Supp. 2001).
49. *Arctic Equip. of Tex., Inc.*, 2001 WL 2674, at *5.

rations and businesses; therefore, the burden of their participation in litigation in Minnesota did not outweigh the need to enforce an agreement "that was freely and fairly negotiated between two experienced corporations."[50] When transferring the case to Minnesota, the court concluded that the forum selection clause in the agreement was controlling and that it would exercise the discretion vested in it by §1404(a) and not exercise its jurisdiction.[51]

D. ARBITRATION

While it is neither a franchise nor a dealership case, because the Fifth Circuit decides the issue of whether the Federal Arbitration Act ("FAA") preempts a Louisiana state statute, *OPE International L.P. v. Chet Morrison Contractors, Inc.* ("CMC"),[52] is an important case for franchisors and franchisees. In *OPE Int'l*, disagreements between OPE and CMC, the parties to an off-shore drilling contract, led OPE to file a demand for arbitration with the Houston office of the American Arbitration Association. The contract contained a provision mandating that "all matters relating to the validity, performance or interpretation of this subcontract shall be governed by the relevant provisions of the main contract or, in the absence of any provisions in the main contract, by the law of the state of Texas without regard to the principles of conflict of laws."[53] Further, the contract provided that "the parties stipulate and agree that the portions of the subcontract work shall be performed outside of Louisiana and that Subcontract Work is in interstate commerce and, therefore, SUBCONTRACTOR specifically waives all redress to and rights and remedies under Louisiana Revised Statutes Section 9:2779."[54] After an unsuccessful mediation attempt, OPE notified CMC that it wanted to resume arbitration proceedings, but CMC refused. CMC filed suit in Louisiana "seeking damages and a declaration that the subcontract's arbitration clause and choice-of-law provision violated public policy and were void."[55] In response, OPE filed a petition in Texas to compel arbitration. The Southern District of Texas granted OPE's motion and ordered CMC to submit to arbitration in Houston and stayed the pending Louisiana suit. The district court determined that the FAA 9 U.S.C. § 4 preempts section 9:2779 of the Louisiana Revised Statutes "to the extent that the Louisiana statute prohibits the parties from enforcing out-of-state choice-of-venue provisions."[56]

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50. *Id.* at *10.
51. *Id.*
52. 258 F.3d 443 (5th Cir. 2001).
53. *Id.* at 445.
54. *Id.*
55. *Id.*
56. *Id.* Section 9:2779 declares "null and void and unenforceable as against public policy any provision in [certain construction subcontracts] . . . which requires a suit or arbitration proceeding to be brought in a forum or jurisdiction outside of [Louisiana]." *Id.* at 447.

The Fifth Circuit had never previously determined whether the FAA preempted section 9:2779; however, it had held that the FAA preempted other state laws precluding parties from enforcing arbitration agreements.[57] In *OPE Int'l*, the court reviewed the lower court's decision using a two-step inquiry in deciding whether the parties must submit to arbitration. The first step was deciding whether the parties agreed to arbitrate their dispute. The second step was deciding "whether legal constraints external to the parties' agreement foreclosed the arbitration of those claims."[58]

In *OPE Int'l*, it was clear that both parties agreed to arbitrate their dispute. According to CMC, the second step was not met because the arbitration agreement was foreclosed by Louisiana statute. The relevant statute provides that when one of the parties to the construction contract is domiciled in Louisiana, and the work to be done and the equipment and materials to be supplied involve construction projects in Louisiana, provisions in the contract requiring disputes arising from the relationship to be resolved in a forum outside of Louisiana or requiring their interpretation to be governed by the laws of another state are inequitable and against the public policy of Louisiana.[59] The Fifth Circuit turned to the language of the United States Supreme Court to determine the enforceability of the Louisiana statute. In *Southland Corp. v. Keating*,[60] the court held that "In enacting § 2 of the [FAA], Congress declared a national policy favoring arbitration and withdrew the power of the states to require a judicial forum for the resolution of claims which the contracting parties agreed to resolve by arbitration."[61] Upon review of the decision in *Southland Corp.*, the Fifth Circuit held that the Louisiana statute directly conflicted with the FAA because it "conditions the enforceability of arbitration agreements on selection of a Louisiana forum."[62] Therefore, the Louisiana statute which prohibited such arbitration agreement between CMC and OPE was void, and the Fifth Circuit held that the district court properly compelled arbitration.[63]

A second case worth noting is *Glazer's Wholesale Distributors, Inc. v. Heineken USA, Inc.*[64] In this case, Glazer's, the distributor, brought a claim against Heineken for breach of contract and violation of state Beer Industry Fair Dealing Law (the "Act"), among other claims.[65] The distributorship agreement at issue contained a provision that the contract

57. *OPE Int'l L.P.*, 258 F.3d at 447. *See also* Miller v. Pub. Storage Mgmt., Inc., 121 F.3d 215, 217, 219 (5th Cir. 1997); Ommani v. Doctor's Assocs., Inc., 789 F.2d 298, 299-300 (5th Cir. 1986); Commerce Park at DFW Freeport v. Mardian Constr. Co., 729 F.2d 334, 337 (5th Cir. 1984).

58. *OPE Int'l L.P.*, 258 F.3d at 446 (citing Webb v. Investacorp, Inc., 89 F.3d 252, 258 (5th Cir. 1996)).

59. *Id.*

60. 465 U.S. 1 (1984).

61. *OPE Int'l L.P.*, 258 F.3d at 446 (citing *Southland Corp.*, 465 U.S. at 10).

62. *Id.* at 447.

63. *Id.* at 447-48.

64. No. 05-99-01685-CV, 2001 WL 727351 (Tex. App.—Dallas June 29, 2001, no pet.).

65. *Id.* at *1.

was terminable only "for good cause."[66] In January 1999, Heineken terminated the agreement, because it was dissatisfied with Glazer's performance.[67] Glazer's filed an action against Heineken for violating section 102.74 of the Act, because "it lacked good cause to terminate" the agreement.[68] Heineken responded and moved the trial court to compel arbitration based on the language of section 102.77(b) of the Act, which provides that "if the manufacturer and distributor cannot agree on whether 'good cause' for termination exists . . . the matter may, at the option of either the distributor or manufacturer, be submitted to" arbitration.[69] Glazer's filed for an interlocutory appeal to avoid arbitration arguing that the Texas General Arbitration Act allows a party to appeal from an interlocutory order granting or denying a request to compel arbitration.[70] The court disagreed and denied the appeal for want of jurisdiction. Another issue the court was asked to decide was whether the parties entered into a contractual agreement to arbitrate. Heineken argued that the agreement addressed termination for cause, incorporated by reference the Texas Alcoholic Beverage Code, and therefore showed Glazer's agreement to arbitrate. Glazer's responded that the language in the letter agreement referring to the regulations and laws of Texas was a "choice of law" provision.[71] The court rejected Heineken's argument noting that there was no express writing in the letter agreement that indicated that the parties were to submit an action to arbitration.[72] Further, the paragraph describing reasons for termination did not clearly show an intent to arbitrate.[73] The court then addressed Glazer's argument that the arbitration provision in the Act was unconstitutional under the Texas constitution's open court's guaranty. Glazer's argued that the arbitration provision in the Act delegated non-judicial entities the court's non-delegable authority and duty to determine the judicial issues in the case in violation of Article 5, Section 1 of the Texas Constitution.[74] The court agreed and granted the writ of mandamus ordering the trial court to vacate its order compelling arbitration.[75]

66. *Id.*
67. *Id.* at *2.
68. *Id.*
69. *Glazer's Wholesale*, 2001 WL 727351, at *2. Further, "the award of the arbitrators shall be binding on the parties unless appealed within 10 days from the date of the award. All proceedings on appeal shall be in accordance with and governed by the Texas General Arbitration Act, as amended." *Id.*
70. *Id.*
71. *Id.* at *5.
72. *Id.*
73. *Id.*
74. *Glazer's Wholesale*, 2001 WL 727351, at *15.
75. *Id.*

III. THE FRANCHISE RELATIONSHIP, TERMINATION AND NON-RENEWAL

A. THE FRANCHISE RELATIONSHIP

Texas does not have a general franchise-specific relationship law that regulates the relationship between franchisor and franchisee. Therefore, creative franchisee attorneys are constantly looking for new causes of action through which to raise franchise relationship-type issues. This past year, two interesting antitrust cases arose in which franchisees sought to find liability for relationship-type issues through alleged conspiracies among parties to the franchise relationship. In *Lake Hill Motors, Inc. v. Jim Bennet Yacht Sales, Inc.*,[76] a dealer of Yamaha personal watercraft sued its manufacturer and several other dealers alleging federal antitrust violations.[77] The dealer had a non-exclusive dealership and competed against certain dealers named in the suit.[78] The manufacturer did not require the dealer to sell its products to consumers at or above any particular price, but the dealer sued, alleging, among other things, that the manufacturer and certain other dealers of Yamaha personal watercraft conspired to fix the minimum resale price of Yamaha personal watercraft and to terminate a Yamaha dealer for charging less than that fixed price, in violation of § 1 of the Sherman Act, 15 U.S.C. § 1.[79]

The manufacturer and the other dealers were granted summary judgment on the three antitrust claims after the conclusion of discovery. The district court held that the dealer had failed to name more than one dealer who took part in the alleged horizontal conspiracy to fix prices and that, in the alternative, the dealer had failed to show any injury resulting from the alleged conspiracy.[80]

On appeal, the Fifth Circuit first focused on the dealer's claim that the manufacturer and certain other dealers conspired to fix the minimum resale price of Yamaha personal watercraft.[81] The court, however, set aside the determination of whether a conspiracy was proven at trial and focused on whether the dealer could show any injury from the alleged conspiracy.[82] The Fifth Circuit held that the dealer had "produced no evidence that would allow a reasonable trier of fact to conclude that it

76. 246 F.3d 752 (5th Cir. 2001).

77. *Id.* at 754.

78. *Id.*

79. *Id.* The dealer also alleged that Yamaha's cooperative advertising program, which reimbursed dealers for advertising only when that advertising stated either Yamaha's suggested retail price or no price, violated § 1 of the Sherman Act and that the manufacturer monopolized the market for personal watercraft in Mississippi, Tennessee, and Alabama in violation of § 2 of the Sherman Act, 15 U.S.C. § 2. *Id.*

80. *Id.* at 754-55.

81. *Lake Hill Motors, Inc.*, 246 F.3d at 755.

82. *Id.* (noting that "a private plaintiff must show some injury to his business or property which results from some violation of the antitrust laws to recover damages under § 4 of the Clayton Act. United Indus., Inc. v. Eimco Process Equip. Co., 61 F.3d 445, 448 (5th Cir. 1995); McCormack v. NCAA, 845 F.2d 1338, 1341 (5th Cir. 1988)").

was injured as a result of this alleged conspiracy."[83] The fact that the appellant could show that one of the other dealers "disliked and complained about other Yamaha dealers who sold personal watercraft below Yamaha's suggested retail price" and that an executive for the manufacturer chastised the appellant several years earlier for cutting prices below the manufacturer's suggested retail price and threatened termination if prices did not increase, was insufficient to show injury as a result of any conspiracy since the appellant was never terminated, even though it did not raise its prices after the alleged threats were made.[84] Accordingly, the Fifth Circuit held that the dealer had no cause of action under §4 of the Clayton Act and was not entitled to injunctive relief under §16 of the Clayton Act since there was no proof of any genuine threat sufficient to justify injunctive relief under section 16.[85]

In *Search International, Inc. v. Snelling and Snelling, Inc.*,[86] a Texas federal district court addressed the question of whether alleged anti-competitive acts between a franchisor and its franchisees constituted concerted action for proving a conspiracy under Section 1 of the Sherman Act.[87] The Snelling franchisee claimed that Snelling restrained its competitive abilities by requiring it to enter into an "unconscionable" franchise agreement which permitted Snelling to establish or operate a company store at any location, prohibited its franchisees from opening stores at locations not approved by Snelling, and prohibited franchisees from competing with Snelling under any other personnel services business unless approved by Snelling.[88]

The Snelling franchisee claimed that, since Snelling operated a company store in Richardson and was unable to meet the needs of the city, Snelling's refusal to allow Search International to expand into Richardson, Texas injured the public by depriving Richardson of a "needed permanent professional placement and contract office."[89] The Snelling franchisee further alleged that Snelling restrained the competitive abilities of other franchisees by using information acquired pursuant to the franchise agreement to benefit company stores and by refusing to allow other franchisees to operate in areas in which Snelling wishes to expand its territories in the future.[90]

To succeed in proving a conspiracy, the Snelling franchisee was required to prove "(1) the existence of an agreement (2) which unreasonably restrains trade (3) to the damage of the plaintiff."[91] The court focused on the first element, finding that "the Amended Complaint

83. *Id.* at 756.
84. *Id.*
85. *Id.* at 757.
86. 168 F. Supp. 2d 621 (N.D. Tex. 2001).
87. *Id.* at 625.
88. *Id.* at 624.
89. *Id.*
90. *Id.*
91. *Search Int'l, Inc.*, 168 F. Supp. 2d at 624.

reveals a unity of interests between Snelling and its franchisees such that these two entities are incapable of conspiring within the meaning of Section 1."[92] Focusing on the Supreme Court's principle that the coordinated activity of a parent corporation and its wholly owned subsidiary must be viewed as that of a single enterprise,[93] the court confirmed that this principle has been imputed to the franchise relationship through three different districts that have held that "a franchisor is incapable of conspiring with its franchisee under the Copperweld rationale."[94] The court focused on the interdependency of the franchise relationship in finding that the economic interests of Snelling and its franchisees are inextricably linked and that Snelling maintains almost complete control of the franchisees.[95] Therefore, the court found no liability under Section 1 of the Sherman Act because there was no evidence that Snelling and its franchised stores were in competition or that Snelling was capable of, or had actually conspired against, its franchisees.[96] The Snelling case is an example of a case where a franchisor's control over its system enabled it to avoid liability.

B. TERMINATION AND NON-RENEWAL

Although, as noted above, Texas does not have a franchise-specific statute governing the relationship between franchisor and franchisee, it does have certain industry-specific laws that govern the relationship between franchisors and franchisees. The Texas Motor Vehicle Commission Code (the Code)[97] governs the distribution, sale and leasing of motor vehicles in Texas and, among other things, restricts a motor vehicle manufacturer's ability to terminate or fail to renew any franchise with a dealer.[98] Specifically, the Code requires a manufacturer to provide a dealer with at least sixty days prior written notice of the effective date of termination or nonrenewal and notify the dealer that it may file a timely protest with the Texas Motor Vehicle Board (the Board).[99] Several Texas cases this past year have considered the scope of authority and jurisdiction of the Board to hear disputes between manufacturers and dealers.

In *Lone Star R.V. Sales, Inc. v. Motor Vehicle Board of the Texas Department of Transportation*,[100] the Court of Appeals for the Third District of Texas upheld a determination by the Board finding good cause for the termination of a dealer's franchise agreement and, in doing so, confirmed

92. *Id.* at 626.
93. *See* Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752 (1984) (addressing the "unity of interests" concept).
94. *Search Int'l, Inc.*, 168 F. Supp. 2d at 625. *See* Williams v. I.B. Fischer Nev., 999 F.2d 445 (9th Cir. 1993).
95. *Search Int'l, Inc.*, 168 F. Supp. 2d at 626.
96. *Id.* at 626-27.
97. TEX. REV. CIV. STAT. ANN. art. 4413(36) (Vernon 1976 & Supp. 2000).
98. *Id.* at §5.02(b)(3)(A).
99. *Id.*
100. 49 S.W.3d 492 (Tex. App.—Austin 2001, no pet. h.)

the Board's discretionary powers.[101] The dealer filed a notice of protest with the Board after receiving a notice of termination from the manufacturer on grounds that the dealer had failed to honor its warranty obligations, had a poor sales history, had disparaged the manufacturer's products, had a lack of commitment to the manufacturer's products, and had a history of verbal abuse and threats made by the dealer's employees to the manufacturer's employees.[102] Despite evidence that the relationship had deteriorated, an administrative law judge appointed by the Board made a recommendation that since the manufacturer had not established good cause for termination,[103] the notice of protest should be granted However, the Board disagreed and found good cause for termination, in part by relying on the fact that the exceptions were not filed on time.[104] On appeal, the court confirmed the Board's actions on grounds that it had properly exercised its discretion by accepting and considering the untimely exceptions and affirmed the finding of substantial evidence supporting franchisor's claim of verbal abuse and hostility on the part of the dealer's employees.[105]

The extent of the Board's authority was also considered in *Sportscoach Corp. of America Inc. v. Eastex Camper Sales, Inc.*,[106] in which the Third Court of Appeals for the Third District of Texas held that the Board does not have the authority to order a manufacturer to pay a dealer amounts owed for violations of the Code.[107] The dealer's Sportcoach recreational vehicle franchise was terminated in 1991.[108] At the time of termination, the dealer had four 1990 model-year Sportcoach vehicles in stock for which the dealer demanded repurchase pursuant to the Code.[109] Sportscoach refused repurchase on grounds that the 1992 model-year had begun before the termination date, and therefore, it had no repurchase obligation as to the 1990 model-year stock. The terminated dealer sold the vehicles through other means and filed a complaint with the Board seeking damages.[110] The Board ordered Sportscoach to pay the dealer $7,847.60 in dealer costs, $12,192.11 in attorney's fees and $200 in filing fees, plus interest.[111] The district court affirmed the finding of the Board and Sportcoach appealed on grounds that the Code does not grant the

101. *Id.* at 494.
102. *Id.*
103. *Id.*
104. *Id.* at 495.
105. *Lone Star R.V. Sales, Inc.*, 49 S.W.3d at 501-02.
106. 31 S.W.3d 730 (Tex. App.—Austin 2000, no pet. h.)
107. *Id.* at 736.
108. *Id.* at 731.
109. *Id.* at 731-32. TEX. REV. CIV. STAT. ANN. art. 4413(36), § 5.02(b)(16)(A) (Vernon Supp. 2000). The Code provides that it is unlawful for a manufacturer to fail to pay a dealer upon termination of the dealer's franchise, for unsold new motor vehicles of the current model year or of the immediately prior model year in the dealer's inventory. *Id.* at § 5.02(b)(16)(F). A manufacturer that fails to make such payments within 60 days of termination is liable for the greatest of dealer costs, fair market value, or current price of the inventory, interest, attorney's fees, and costs. *Id.*
110. *Sportscoach Corp. of Am., Inc.*, 31 S.W.3d at 732.
111. *Id.*

Board authority to order payment to the dealer.[112]

The court reversed after finding that the legislature had not given the Board the power to adjudicate private claims, and had not granted the Board authority to order a manufacturer to pay a dealer amounts owed for violations of the Code.[113] The court first acknowledged its prior decision in *Kawasaki Motors Corp., U.S.A. v. Texas Motor Vehicle Commission.*,[114] which involved the Board's predecessor, the Motor Vehicle Commission,[115] and held that payments to a private party were not permitted under the then applicable Code.[116] Although the Code was amended in 1989,[117] the court rejected the dealer's claim that amendments to Section 3.03 of the Code to grant the Board authority to "assess and collect fees and costs including attorney's fees" constituted specific statutory authority to adjudicate section 5.02(b)(16) claims.[118] Instead, the court noted that, while the Board was provided specific powers, including the power to assess a civil penalty, issue a cease and desist order, and issue an injunction, the Board does not have authority to order that damages be paid to a private party. Still, the court found that there was substantial evidence to support the Board's conclusion that Sportscoach violated the Code and remanded for judgment consistent with that at the district court.[119]

Subaru of America, Inc. v. David McDavid Nissan, Inc.,[120] addressed the interrelation between a district court's original jurisdiction and the Board's original jurisdiction under the Code.[121] A Subaru franchisee terminated his franchise after its franchisor refused to honor a previous verbal consent to the relocation of the franchisee's dealership. The franchisee then sued the franchisor in a Texas state district court.[122] The franchisor moved for summary judgment on grounds that the franchisee had failed to bring his claims before the Board before bringing suit in the district court.[123] The state district court granted summary judgment, and the court of appeals affirmed.[124]

The Texas Supreme Court reversed the court of appeals after finding that the Texas Legislature did not grant the Board exclusive jurisdiction

112. *Id.* at 732-33.
113. *Id.* at 735-36.
114. 855 S.W.2d 792 (Tex. App.—Austin 1993, no writ).
115. Act of August 26, 1991, 72d Leg., 1st C.S., ch. 7, § 1A.03, 1991 Tex. Gen. Laws 226, 238 (TEX. REV. CIV. STAT. ANN. art. 4413(36), since amended).
116. *Sportscoach Corp. of Am., Inc.*, 31 S.W.3d at 734; *Kawasaki Motors*, 855 S.W.2d at 797.
117. Act of June 16, 1989, 71st Leg., R.S., ch. 1130, §§9, 11, 24, 1989 Tex. Gen. Laws 4653, 4657, 4658, 4665 (TEX. REV. CIV. STAT. ANN. art. 4413(36), since amended).
118. *Sportscoach Corp. of Am. Inc.*, 31 S.W.3d at 735.
119. *Id.* at 736.
120. No. 00-0292, 2001 Tex. LEXIS 49 (May 31, 2001).
121. *Id.* at *1.
122. *Id.* at *3-4.
123. *Id.* at *4.
124. *Id.* at *5. *See* David McDavid Nissan, Inc. v. Subaru of Am., Inc., 10 S.W.3d 56 (Tex. App.—Dallas 1999), *rev'd*, No. 00-0292, 2001 Tex. LEXIS 49 (May 31, 2001).

over all claims related to motor vehicle dealerships.[125] The court found that, although the Code states that "the board has general and original power and jurisdiction to regulate all aspects of the distribution, sale, and leasing of motor vehicles," the Texas Legislature did not confer exclusive jurisdiction on the Board to address all issues or disputes related to motor vehicle sale and distribution.[126] Instead, the court held that the Board's exclusive jurisdiction extends only to those issues expressly identified in the Code as exclusively within the Board's purview.[127] Since the franchisee's claims included claims both within and outside of the Board's exclusive jurisdiction, the court held that the state district court and the Board could each concurrently exercise jurisdiction as to those claims over which the Board did not have exclusive jurisdiction.[128]

IV. INTELLECTUAL PROPERTY/TRADEMARKS

A. INTERNET

In *Ford Motor Co. v. Texas Department of Transportation,*[129] the Fifth Circuit ruled that a provision of the Code that specifically prohibits vehicle manufacturers from owning, operating, or acting in the capacity of a dealer within the state was not unconstitutional when applied to prohibit a vehicle manufacturer from selling pre-owned vehicles to consumers over the Internet.[130] Ford challenged the Code under the Commerce Clause and the First Amendment guarantee of free speech and argued that the law was vague, denied it equal protection of the laws and denied it due process in the state's enforcement of the statute.[131] After the federal district court for the Western District of Texas upheld the Code, the Fifth Circuit affirmed, finding first that the Code did not violate the Commerce Clause, because Ford failed to demonstrate that the statute discriminated based on a contacts analysis and also failed to demonstrate that the Code burdened interstate commerce by inhibiting the flow of interstate goods.[132] The Fifth Circuit held that the state's asserted purpose for passing the Code—to prevent vertically integrated companies from taking advantage of their market position and to prevent frauds, unfair practices, discrimination, impositions, and other abuses of its citizens—were legitimate state interests that the Code could reasonably be believed to protect.[133]

The Fifth Circuit also held that the Code did not constitute an unconstitutional restriction of the First Amendment right to free speech because Ford's advertising and sale of vehicles over the Internet was part and par-

125. *Subaru of Am., Inc.*, 2001 Tex. LEXIS 49, at *26.
126. *Id.* at *20-26.
127. *Id.* at *26.
128. *Id.* at *27.
129. 264 F.3d 493 (5th Cir. 2001).
130. *Id.* at 498.
131. *Id.*
132. *Id.* at 499-505.
133. *Id.* at 502-03.

cel of the proscribed conduct—retailing motor vehicles without a license.[134] Since Ford's speech did not concern a lawful activity, any restriction on that speech was only incidental to the state's regulation of that activity.[135] The court rejected the vagueness claim, because the Texas statute sufficiently defined the proscribed conduct of acting in the capacity of a dealer as the buying, selling, or exchanging of motor vehicles.[136] The Fifth Circuit also rejected Ford's equal protection argument that there was no rational basis for classifying manufacturers differently than dealers and that no rational basis existed to justify differential treatment for its website on grounds that the Code bore a reasonable relationship to the state's legitimate purpose of controlling the automobile market and that any differential treatment provided to the General Motors Internet site was justified, because General Motors had licensed the operation of its site to an independent company that had applied for and received a dealer license in Texas.[137]

Finally, the court found that the manufacturer was not denied due process, because of a letter sent by the Texas Department of Transportation advising dealerships that their participation in the manufacturer's Internet sales was illegal.[138] The Fifth Circuit concluded that the letter carried no weight in subsequent administrative proceedings and that Ford offered no proof overcoming the presumption of fairness of the proceedings.[139]

B. INFRINGEMENT/ENFORCEMENT

In *Dial One of the Mid-South, Inc. v. Bellsouth Telecommunications, Inc.*,[140] the franchisor of the Dial One plumbing and heating service business and two of its existing franchisees brought suit under the Lanham Act[141] against the publishers of a local telephone directory on the basis that the publishers' failure to remove an incorrect telephone listing for a former Dial One franchisee constituted infringement of the Dial One trademark. The franchisor had terminated franchisee U.A. Durr in January 1998 and notified the publishers of the Yellow Pages and White Pages for southeastern Louisiana.[142] The defendant publishers nonetheless listed Durr as a franchisee of Dial One in the May 1998 edition of the Yellow pages and the October 1998 edition of the White pages.[143]

The trial court entered judgment for the franchisor and its franchisees and awarded damages, but the defendant publishers appealed on grounds

134. *Ford Motor Co.*, 264 F.3d at 504-07.
135. *Id.* at 505-07.
136. *Id.* at 508-10.
137. *Id.* at 510-11.
138. *Id.* at 511-12.
139. *Ford Motor Co.*, 264 F.3d at 493.
140. 269 F.3d 523 (5th Cir. 2001).
141. 15 U.S.C. § 1125.
142. *Id.*
143. *Id.*

that the trial court erred in not applying an actual-malice standard to the innocent infringer defense under §1114(2) of the Lanham Act.[144] The innocent infringer defense limits persons bringing actions under §§1114(1) and 1125(a) to injunctive relief if the defendant is an "innocent infringer."[145] The defendant publishers contended that the trial court erred in using a standard of objective reasonableness to review their conduct and determine their status as innocent infringers.[146] Under the standard of objective reasonableness, a defendant is an innocent infringer only if its conduct is reasonable, regardless of state of mind.[147] The United States district court for the Eastern District of Louisiana held that the publishers' actions in failing to remove the incorrect listings were not objectively reasonable.[148]

The Fifth Circuit looked to the language of the statute[149] and noted that:

> [o]n its face, "innocent infringer" suggests a party who is without blame, but also may connote one who is without knowledge of a wrong or who has no improper motive. The latter interpretation suggests an unremarkable legal scheme whereunder any "infringer" will be held accountable, but an "innocent infringer" will not be subject to as stiff a penalty. Our task is to determine the legal significance of the term "innocent."[150]

Noting that the issue was one of first impression in the Fifth Circuit, the court held that the objective reasonableness standard was the proper standard for evaluating whether an infringer was innocent.[151] The Fifth Circuit rejected the publishers' attempt to link their speech to the protection of the Constitution and found there was no constitutional mandate to protect the publishers' type of speech under the heightened actual malice standard, that certain inconsistencies in the legislative history were not probative and most importantly, "the logic of the actual malice standard is not appropriate in this context."[152]

The Fifth Circuit focused on the United States Supreme Court holding that matters not of public concern are not judged under the actual-malice standard[153] in finding that, "[a]lthough the trademark at issue in this case was certainly a matter of public consumption, the improper listing of a service repair business is hardly a matter of public concern such that the improper listing should be protected."[154] The Fifth Circuit went even further to state that the pubic interest is best served by the lesser objective

144. *Id.*
145. 15 U.S.C. § 1114(2)
146. *Dial One of the Mid-South Inc.*, 268 F.3d at 525-26.
147. *Id.* at 525.
148. *Id.*
149. Negonsott v. Samuels, 507 U.S. 99, 104 (1993) (holding the best evidence of this intent is the language of the statute).
150. *Dial One of the Mid-South Inc.*, 268 F.3d at 527.
151. *Id.* at 526-27.
152. *Id.*
153. Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc., 472 U.S. 749, 760 (1989).
154. *Dial One of the Mid-South Inc.*, 268 F.3d at 527.

reasonableness test "to promote accuracy in this type of speech."[155]

C. CYBERSQUATTING

In Texas, the victims of cybersquatters have in the past had to rely solely on the injunctive relief options under the Texas Anti-Dilution Statute.[156] The Texas Anti-Dilution Statute permits a party to enjoin an act that is likely to dilute the distinctive quality of a registered or otherwise protectable mark.[157] The party must prove ownership of the mark and a likelihood of dilution.[158] In November of 1999, Congress passed the Anti-Cybersquatting Consumer Protection Act (ACPA),[159] which offers additional protections and enforcement tools for traditional trademark infringement claims under the Lanham Act,[160] federal[161] or state trademark dilution statutes[162] and common law unfair competition.

The ACPA provides for civil liability to the owner of a mark in circumstances of where it is determined the registrant: (1) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and (2) registers, traffics in, or uses a domain name that in the case of a mark that is distinctive at the time of registration of the domain name is identical or confusingly similar to that mark; in the case of a famous mark that is famous at the time of registration of the domain name is identical to or dilutive of that mark. .[163]

Three recent Texas cases addressed claims under the Texas Anti-Dilution Statute and the ACPA. Each of these cases could affect franchisors who desire to combat cybersquatters in Texas courts. In *Lockheed Martin Corp. v. Network Solutions, Inc.*,[164] Lockheed Martin sued domain name registrar Network Solutions, Inc. (NSI),[165] claiming that it was liable under both the Texas Anti-Dilution Statute and the ACPA for holding the registrations of several domain names that had been registered by cybersquatters.[166] Lockheed Martin alleged that NSI's registration of the domain names diluted the marks under the Texas Anti-Dilution Statute and that NSI had a "bad faith intent" to profit from the registration of domain names by accepting registrations from cybersquatters, in violation

155. *Id.*
156. TEX. BUS. & COM. CODE ANN. § 16.29 (West 2001).
157. *Id.*
158. Pebble Beach Co. v. Tour 18 1 Ltd., 942 F. Supp. 1513, 1564 (S.D. Tex. 1996).
159. 15 U.S.C. § 1125(d).
160. 15 U.S.C. § 1114(1).
161. 15 U.S.C. § 1125(c)
162. *See, e.g.*, TEX. BUS. & COM. CODE ANN. § 16.29.
163. 15 U.S.C. § 1125(d)(1)(A); 15 U.S.C. § 1129.
164. 141 F. Supp. 2d 648 (N.D. Tex 2001).
165. *Id.* at 651. NSI screens domain name applications against a registry database of existing registrations and maintains a directory link which linked domain names with the Internet Protocol (IP) numbers of domain name services. *Id.*
166. *Id.* at 655. Interestingly, Lockheed Martin had previously sued NSI for trademark infringement, contributory trademark infringement and trademark dilution before the ACPA was enacted, but lost the case. *See* Lockheed Martin Corp. v. Network Solutions, Inc., 985 F. Supp. 949 (C.D. Cal. 1997), *aff'd*, 194 F.3d 980 (9th Cir. 1999).

of the ACPA.[167]

The district court for the Northern District of Texas granted NSI's motion for summary judgment under both the Texas Anti-Dilution Statute and the ACPA, holding that there was "no evidence that Defendant is a person that registers, traffics in, or uses a domain name."[168] With respect to the ACPA, the Court focused on NSI's obligations under its agreement with ICANN in determining that NSI did not make independent judgments to determine the domain name registrant's rights in the domain name, did not consult with third parties prior to accepting a registration and did not monitor the use of the domain name after it is registered.[169] Further, the court noted that Congress did not intend to make domain name registries such as NSI the gatekeepers of the registry to protect trademark owners.[170] The court noted that the sheer volume of domain name registrations would prevent the proper administration of any registry if it had to check every domain name against the trademark rights of others prior to accepting the registration.[171] Finally, the court noted that a "safe harbor" provision was written into Section 32 of the Lanham Act[172] that specifically addresses the imposition of damages against domain name registries based on underlying trademark rights[173] such that there is no independent cause of action under the ACPA against domain name registries.[174]

In addressing the Texas Anti-Dilution Statute claim, the court focused on whether NSI's registration of the mark constituted "use" for purposes of satisfying the requirements of the Texas Anti-Dilution Statute and determined that the third party registrant was the true owner and user of the mark and that NSI's mere act of registering the mark did not satisfy the use requirements of the Texas Anti Dilution Statute.[175] The Lockheed Martin case stands for the proposition that a victim of a cybersquatter will not be able to hold a domain name registrar liable for the acts of a registrant.

In *E&J Gallo Winery v. Spider Webs Ltd.*,[176] the district court for the Southern District of Texas found dilution under the Texas Anti-Dilution Statute and bad faith under the ACPA on the part of an Internet domain name broker that had registered nearly 2,000 domain names, including "ERNESTANDJULIOGALLO.COM."[177] Defendant Spider Webs also

167. Lockheed Martin Corp. v. Network Solutions, Inc., 141 F. Supp. 2d at 651.
168. *Id.* at 655.
169. *Id.* at 650. NSI must comply with consensus policies adopted by the Internet Corporation for Assigned Names and Numbers (ICANN) which includes abiding by the Uniform Dispute Resolution Policy (UDRP). *Id.*
170. *Id.*
171. *Id.*
172. 15 U.S.C. § 1114(d)(ii).
173. *Lockheed Martin Corp.*, 141 F. Supp. 2d at 655.
174. *Id.*
175. *Id.* at 656.
176. 129 F. Supp. 2d 1033 (S.D. Tex. 2001).
177. *Id.* at 1047.

used the domain name to create a web site devoted to the ills of alcohol consumption and news concerning the lawsuit between the parties.[178] The court found wrongful use of the web site and dilution under the Texas Anti-Dilution Statute and ordered an injunction.[179]

With respect to the ACPA, Spider Webs argued that damages were not available under the ACPA, because it had registered the domain name before the enactment of the ACPA.[180] The court, however, looked to the use of the domain name and noted that because Spider Webs *actually used* the domain name after the effective date of the ACPA, it was subject to the damage provisions.[181] Further, the court reviewed the evidence that Spider Webs initially held the domain name and only developed the website after the lawsuit was brought.[182] The court followed the Second Circuit's decision in *Sporty's Farm v. Sportsmen's Market*,[183] and held that Spider Webs had registered the domain name with a bad faith intent to profit.[184] The court ordered a transfer of the domain name and also awarded damages in the amount of $25,000.[185]

Registral.com, LLC v. Fisher Controls International, Inc.[186] is another Texas case that reflects the use of the Texas Anti-Dilution Statute and the ACPA in dealing with sophisticated and opportunistic cybersquatters.[187] This case is of interest to franchisors whose names are based on the surnames of the franchisor's founders. Although Fisher Controls had registered multiple FISHER-related trademarks, had operated under the FISHER name since the 1880's and even had a previous registration of the FISHER.COM domain name, Fisher Controls had allowed the domain name to lapse by accident and NSI put the domain name on a list of expired domains which were to be released to the public as available for registration.[188] Registral.com's affiliate, The Commbine.com, used a computer software program to search the list of soon to be expired domain names, and Registral.com subsequently registered the FISHER.COM domain name two minutes after it was released to the public for registration.[189]

Registral.com sought protection on grounds that "Fisher" was a relatively common surname and that it intended to create a genealogy website, but the district court for the Southern District of Texas rejected this claim and held for Fisher Controls on both the Texas Anti-Dilution Statute claim and the ACPA claim after finding that Fisher Controls had "ac-

178. *Id.* at 1039-40.
179. *Id.* at 1042.
180. *Id.* at 1035.
181. *E&J Gallo Winery*, 129 F. Supp. 2d at 1047.
182. *Id.*
183. 203 F.3d 489 (2d Cir. 2000).
184. *E&J Gallo Winery*, 129 F. Supp. 2d at 1047.
185. *Id.* at 1048.
186. No. H-01-1423, 2001 U.S. Dist. LEXIS 10002 (S.D. Tex. 2001).
187. *Id.* at *15-25.
188. *Id.* at *4.
189. *Id.*

quired distinctiveness" in the name through very long use of the mark in commerce and its extensive advertising and promotional activities and that Registral.com and Commbine.com were notorious cybersquatters and had done little to actually move forward with stated plans to open a Fisher genealogy website.[190]

V. COMMON LAW CLAIMS

A. CONTRACT ISSUES

In *Miller v. KFC Corp. (Miller II)*,[191] a current and former franchisee (collectively "Miller") sued KFC when Miller failed to obtain a proposed location containing a three-in-one restaurant. Under the parties' franchise agreement, KFC was required to inform Miller of proposed new KFC locations and allow Miller to bid on them.[192] KFC notified Miller of a proposed new location and noted that it may be developed as a three-in-one (KFC/Taco Bell/Pizza Hut).[193] Miller was interested, bid on the location as a three-in-one, and KFC rejected the bid.[194] After several rounds of negotiations, KFC agreed to allow Miller to open a KFC at the location.[195] Miller was unable to secure the Taco Bell franchise and opened a two-in-one location (KFC/Pizza Hut).[196] Apparently disappointed by KFC's and Taco Bell's actions concerning the three-in-one, Miller filed suit for (1) breach of the franchise agreement, (2) breach of the duty of good faith under the agreement, (3) tortious interference with prospective business relationships, (4) promissory/equitable estoppel, and (5) breach of implied duty of good faith and fair dealing.[197] KFC moved for summary judgment on all of the claims.[198]

First, Miller argued that KFC breached the franchise agreement and failed to negotiate in good faith with Miller regarding the application for a three-in-one restaurant.[199] Miller based the obligation on the franchise agreement and the fact that all three restaurant entities were subsidiaries of one corporation.[200] KFC countered that under the plain terms of the franchise agreement it was obligated only to negotiate for a KFC location, not a three-in-one, and KFC had no control over the other entities despite any corporate relationship. The court agreed with KFC and held KFC did not have an obligation to offer a three-in-one under the terms of

190. *Id.* at *22.
191. James Miller, Jr. v. KFC Corporation, No. 3:99-CV-1566-D, 2001 U.S. Dist. LEXIS. 8537 (N.D. Tex. May 24, 2001) [hereinafter *Miller II*].
192. *Id.* at *3.
193. *Id.* at *5.
194. *Id.*
195. *Id.*
196. *Miller II*, 2001 U.S. Dist. LEXIS 8537.
197. *Id.* at *8
198. *Id.*; in James Miller, Jr. v. KFC Corp., Civ. A.3:99-CV-1566-D, No. 1999 WL 820389 (N.D. Tex. Oct. 13, 1999) the court dismissed Miller's claims against Taco Bell and denied KFC's motion to dismiss.
199. *Miller II*, at *9.
200. *Id.*

the franchise agreement and thus there was no duty to breach, good faith or otherwise.[201] The court did, however, find sufficient facts that would support Miller's claims for breach of contract and the duty of good faith as it relates to the negotiation of the KFC location and denied KFC's summary judgment on that claim.

Second, Miller claimed that as a result of not being awarded the three-in-one, Miller was precluded from entering into contractual relationships with potential customers and KFC tortiously interfered with these relationships.[202] The court granted KFC's Summary Judgment due to Miller's failure to introduce any evidence that he would have obtained the rights from the other entities to open a three-in-one that would have resulted in contractual relationships with customers.[203] Without these rights, Miller did not have the ability to open the locations which Miller alleged would result in a contractual relationship.[204]

Third, Miller argued that the location notification letter was a promise/offer to open the three-in-one location subject to Taco Bell and Pizza Hut's approval.[205] The court rejected this argument and held that the letter merely invited plaintiffs to apply to operate a new KFC outlet that *may* be operated as a three-in-one location pending the approval of Taco Bell and Pizza Hut.[206] Since there was no promise to operate a three-in-one, there could be no justifiable reliance on this promise, which is a basic element of a promissory estoppel claim.[207]

Finally, the court addressed the implied covenant of good faith and fair dealing. Relying on prior Texas precedent,[208] the court held that, in the absence of a special relationship, KFC was entitled to judgment as a matter of law dismissing plaintiffs' tort claim for breach of the implied duty of good faith and fair dealing, as there was no duty outside of the parties' written agreement.[209]

In *Haase v. Glazner*, the Texas Supreme Court held that a contract to sell a franchise was unenforceable under the Statute of Frauds and could not support a fraud or fraudulent inducement claim.[210] Glazner worked for Haase at a Whataburger and Haase had promised to sell his franchise to Glazner. The negotiations were set forth in three letters that were sent to Whataburger, but Whataburger never granted a franchise to Glazner. Glazner sued Haase alleging breach of contract, fraud, fraudulent inducement and unjust enrichment.[211] Haase moved for summary judgment,

201. *Id.* at *9-13.
202. *Id.* at *14-16.
203. *Id.* at *15-16.
204. *Miller II*, 2001 U.S. Dist. LEXIS 8537.
205. *Id.* at *17.
206. *Id.* at *18.
207. *Id.*
208. *See* Crim. Truck & Tractor Co. v. Navistar Int'l Transp. Corp., 823 S.W.2d 591, 594 (Tex. 1992).
209. *Miller II*, at *19-20.
210. R.E. Haase v. Joseph Glazner, 45 Tex. Sup. Ct. J. 141 (Tex. Nov. 30, 2001).
211. *Id.*

and it was granted. On appeal, the court affirmed the summary judgment on all claims except those for fraud and fraudulent inducement.[212] The Texas Supreme Court reversed on the fraudulent inducement claim and held that, without a contract, there could be no claim that a party was fraudulently induced to enter into a contract.[213] On the fraud claim, the court held that to the extent Glazer sought to recover the benefit of the bargain of a contract that was unenforceable under the Statute of Frauds, the Statute barred the claim.[214] The court, however, did find that any claim for out of pocket damages was extra-contractual and would survive the Statute of Frauds.[215]

In *Southwest Materials Handling Co. v. Nissan Motor Co., Ltd.*,[216] plaintiff alleged several breach of contract and breach of implied covenant of good faith and fair dealings claims premised on the allegation that Nissan breached the non-exclusive dealership agreement between the parties by appointing another dealer within plaintiff's area of primary responsibility. Plaintiff plead over thirty separate counts against Nissan which, in the court's words, "are thrown against the wall, in the apparent hope that some will stick. None do."[217] Plaintiff alleged several breach of contract claims based on the premise that Nissan breached the dealership agreement by appointing another dealer within the plaintiff's primary area of responsibility.[218] The court analyzed the plain language of the dealership agreement and ruled that the agreement granted a non-exclusive territory and summary judgment was proper as a matter of law.[219]

B. Fraud and Misrepresentation

In *Patel v. Holiday Hospitality Franchising, Inc.*,[220] plaintiffs plead that the franchisor defendant engaged in a fraudulent scheme surrounding the parties' franchise agreement and certain property and improvements under the agreement.[221] Defendants moved for dismissal due to plaintiffs' failure to plead fraud with particularity as required by Rule 9(b) of the Federal Rules of Civil Procedure, and plaintiffs' failure to state a claim with respect to the claims of breach of contract, promissory estoppel, breach of the duty of good faith and fair dealing and violation of the Texas Deceptive Trade Practices-Consumer Protection Act (DTPA). While the court denied defendant's motion, the court found that plaintiffs failed to comply with the particularity pleading requirement of Rule 9(b)

212. *Id.* at 141-42.
213. *Id.* at 142-43.
214. *Id.* at 143.
215. Haase v. Glazner, 45 Tex. Sup. Ct. J. at 144.
216. No. 3:98-CV-2367-X, 2000 U.S. Dist. LEXIS 16275 (N.D. Tex. Nov. 2, 2000).
217. *Id.*
218. *Id.* at *2.
219. *Id.*
220. Jagdish Patel v. Holiday Hospitality Franchising, Inc., 172 F. Supp. 2d 821 (N.D. Tex. April 25, 2001).
221. *Id.*

with respect to claims for fraud and negligent misrepresentation, and granted the plaintiffs leave to file an amended complaint to cure this defect.[222] The court found that all the fraud and state of mind allegations made by the plaintiffs were impermissibly general, and that plaintiffs' failure to sort out the wrongdoing of each defendant was improper.[223] The court also found that plaintiffs failed to provide defendants proper notice as required under the DTPA (60 days) prior to filing suit, and plaintiffs' claims would be held in abeyance until plaintiffs complied with this requirement.[224]

C. Vicarious Liability

In *Cole v. Century 21 Real Estate Corp.*, a Century 21 franchisee (Larry Jolley) purchased a competing reality business (ReMax), including the business' phone numbers.[225] Appellants Lynda Cole and ReMax Heritage Real Estate (together "Cole") owned the only remaining ReMax location in the area. ReMax contacted Jolley and Century 21 and asked that Jolley inform anyone calling the former ReMax numbers that he was not affiliated with ReMax. Century 21 informed ReMax and Cole that it would not allow its franchisee to utilize the ReMax name or intellectual property. Jolley however, allegedly continued to use the numbers and to deceive ReMax customers. Cole sued Jolley and Century 21 for intentional interference with prospective contracts, defamation, common-law fraud, and violations of the statutory-fraud provisions of the Texas Business and Commerce Code. Century 21 filed a motion for summary judgment. The court held that in order for Cole to prevail on *any* causes of action against Century 21, Century 21 must be held vicariously liable for the acts of its franchisee Jolley and have the right to control, and exert control over, the actions made the basis of Cole's claims.[226] The court analyzed the Jolley's franchise agreement with Century 21 and found that the agreement specifically stated that Jolley was an independent contractor and that Jolley could only operate the franchise as a Century 21.[227] In the face of that record, the court affirmed the trial court order granting Century 21's motion for summary judgment.[228]

D. Tortious Interference

In *Fun Motors of Longview, Inc. v. Gratty, Inc.*,[229] a dealer and a dealership were found liable for tortious interference with a contract, and on

222. *Id.* at 825.
223. *Id.*
224. *Id.* at 826.
225. Cole v. Century 21 Real Estates, No. 3-99-00870-CV, 2000 WL 1784317 (Tex. App.—Austin December 7, 2000, no pet. h.).
226. *Id.* at *2.
227. *Id.*
228. *Id.*
229. Fun Motors of Longview, Inc. v. Gratty, Inc., 51 S.W.3d 756 (Tex. App.—Texarkana 2001, pet. filed).

appeal attacked a number of the trial court's findings of fact and conclusions of law with respect to the various elements of the cause at issue. Fun Motors entered into an Asset Purchase Agreement for the sale of its ongoing Kawasaki business on the condition precedent that Gratty obtain Kawasaki's approval. Before Gratty's application for approval was submitted to Kawasaki, however, Fun Motors entered into another asset sales agreement with a third party under similar terms. The third party's application to Kawasaki was submitted three days after Gratty's application. Kawasaki contacted Fun Motors to ask which application it should consider. Fun Motors did not respond, and Kawasaki ultimately terminated the Fun Motors sales and service agreement. Gratty filed suit against Fun Motors and the president of Fun Motors (Louis Latch) claiming breach of contract, violations of the DTPA and tortious interference.[230] Following a bench trial, Gratty was awarded judgment on its tort claims against Latch, but a take nothing judgment was entered on the claims against Fun Motors.[231]

Fun Motors and Latch contested the legal sufficiency of the trial courts findings. The court of appeals upheld the damage award for compensatory losses as well as lost profits, reasoning that the evidence was both legally and factually sufficient to show the dealer intentionally contracted with another party, causing Gratty to fail to satisfy a condition precedent (obtaining Kawasaki's approval) and thus interfering with the contract to sell a dealership.[232] In short, the dealer's act constituted third party interference sufficient to support a tortious interference claim.

E. Implied Covenant of Good Faith and Fair Dealing

In *Southwest Materials Handling Co. v. Nissan Motor Co., Ltd.*,[233] plaintiff alleged a breach of implied covenant of good faith and fair dealing premised on the allegation that Nissan breached the non-exclusive dealership agreement between the parties by appointing another dealer within plaintiff's area of primary responsibility. Because a conflict of laws issue was unresolved, the *Southwest Materials* court applied the laws of both Texas and Illinois to each of plaintiff's claims.

Applying Texas law, the *Southwest Materials* court rejected plaintiff's good faith and fair dealing argument, holding that "Texas courts recognize an independent cause of action for the breach of the duty of good faith and fair dealing only where a 'special relationship' exists between the parties, one where there is substantially unequal bargaining power." The court continued, "the 'special relationship' cause of action in tort for breach of the duty of good faith and fair dealing, however, does not extend to ordinary commercial contractual relationships such as the sup-

230. *Id.* at 760.
231. *Id.*
232. *Id.* at 761-762.
233. Southwest Materials Handling v. Nissan Motor Co., No. 3:98-CV-2367-X, 2000 U.S. Dist. LEXIS 16275 (N.D. Tex. Nov. 2, 2000) [hereinafter *Southwest Materials*].

plier-distributor relationship" (internal citations omitted).[234] Rather, absent a special relationship Texas courts defaulted to the general contractual duty of good faith and fair dealing set forth in the UCC to be used as a guide in interpreting the contract.[235]

VI. STATUTORY CLAIMS

A. TEXAS DECEPTIVE TRADE PRACTICES - CONSUMER PROTECTION ACT

In *Patel v. Holiday Hospitality Franchising, Inc.*,[236] the court held that plaintiffs failed to plead they provided defendants with the required 60-day notice under the DTPA, nor had plaintiffs pled that either of the exceptions to the notice requirement were applicable. As a result, the court held that defendants were entitled to have the case held in abeyance until plaintiffs complied with the DTPA's notice requirements.[237]

B. COVENANTS NOT TO COMPETE

In *Amerispec, Inc. v. Metro Inspection Services, Inc.*,[238] the court found a sufficient basis to enforce, in part, a post-termination covenant not to compete in the context of a preliminary injunction. Amerispec is a franchisor which provides real estate inspection services. It argued that a former franchisee should be enjoined from competing within the franchise agreement's designated area, within a radius of 10 miles from its designated territory, and within 10 miles of any Amerispec location.[239] The court held that the first two were geographically reasonable, but modified the third portion of the covenant, as the court held there was no evidence that competitors operating in this "vast" market would adversely affect the goodwill of Amerispec.[240] Thus, while the courts remain willing to protect the legitimate interests of franchisors and their systems, the extent of the restraint must be reasonable. On a separate note, the court did not require the franchisor to post a bond or other security for the preliminary injunction due to specific terms of the franchise agreement.[241]

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234. *Id.* at *3.

235. *Id.*

236. Patel v. Holiday Hospitality Franchising, Inc., 172 F. Supp. 2d 821 (N.D. Tex. 2001).

237. *Id.* at 826.

238. Amerispec, Inc. v. Metro Inspection Servs, Inc., No. 3:01-CV-0946-D, 2001 WL 770999, at *6 (N.D. Tex. July 3, 2001).

239. *Id.* at *6.

240. *Id.*

241. *Id.* at *7.

VII. REMEDIES: DAMAGES AND INJUNCTIVE RELIEF

A. COMPENSATORY DAMAGES

The Lanham Act affords protection to the holder or registrant of a registered mark from infringement by unauthorized users and protects purchasers from being misled as to the identity of the business from which the goods and services are obtained. The enforcement powers of the Lanham Act include both monetary damages and injunctive relief.[242] With regard to compensatory damages, the Lanham Act gives the trial court broad discretion in determining the appropriate amount of damages.[243] The court is limited only by principles of equity, however, the court is restricted from making any award that is punitive in nature rather than simply compensatory.[244]

In *Dial One of the Mid-South, Inc. v. BellSouth Telecommunications, Inc.*,[245] in addition to addressing the trademark infringement issue discussed *supra*, the Fifth Circuit addressed the issue of whether the damage award was premised on penalizing the defendants rather than compensating the plaintiffs.[246] Dial One, as franchisor, and two of its franchisees, brought an infringement suit against BellSouth Telecommunications, Inc., among others, for listing a terminated franchisee in both the Yellow and White pages despite the fact that BellSouth had received notice of the termination.[247] BellSouth contended that it was an "innocent infringer" under Section 1114(2) of the Lanham Act, which limits the persons bringing actions under Sections 1114(1) and 1125(a) to injunctive relief if the defendant is an "innocent infringer."[248] The trial court held that BellSouth was not an innocent infringer and awarded damages to plaintiffs in the form of lost profits, but did not include any damages for loss of goodwill.[249] BellSouth and the other defendants challenged the standard used by the district court in applying the innocent infringer defense and the award of damages. Dial One cross-appealed the trial court's refusal to consider evidence of loss of goodwill to the Dial One mark.[250]

At the outset, the court noted that the issue of the proper standard to be used in applying the innocent infringer defense was one of first impression in the Fifth Circuit.[251] BellSouth argued that legislative history of the statute required the court to read "innocent" to mean "without

242. 15 U.S.C. §§ 1114, 1125 (1997 & Supp. 2001).

243. 15 U.S.C. § 1117 (1994 & Supp. 2001); Boston Professional Hockey Ass'n, Inc. v. Dallas Cap & Emblem Mfg., Inc., 597 F.2d 71, 75-76 (5th Cir. 1979) (holding that the standard of review for sufficiency of evidence supporting award of damages is clear error).

244. 15 U.S.C. § 1117 (1997 & Supp. 2001).

245. Dial One of the Mid-South, Inc. v. BellSouth Telecom., Inc, 269 F. 3d 523, 527 (5th Cir. 2001).

246. *Id.*

247. *Id.* at 525.

248. *Id.* at 525-26; *see* 15 U.S.C. § 1114(2)(A) (Vernon 1997 & Supp. 2001).

249. *Dial One of the Mid-South Inc.*, 269 F.3d at 525.

250. *Id.*

251. *Id.* at 526.

constitutional actual malice."[252] After applying statutory interpretation principles, the court concluded that it could not rely on the very limited legislative history and, thus, the proper standard for evaluating whether an infringer is innocent is "objective reasonableness."[253] The court found that there was no constitutional mandate to protect this type of speech under the heightened actual malice standard[254] and that the actual malice standard was inappropriate in this context.[255] Because BellSouth and the other defendants received notice of the termination of the franchise relationship, but failed to remove the terminated franchisee from the phone book listing, the Fifth Circuit upheld the district court's holding that the defendants were not innocent infringers.[256]

Next, the court addressed defendants' challenge to the awarded damages, which were premised on a calculation of lost profits. The Fifth Circuit upheld the damage award finding no indication of an award premised on penalizing the defendants rather than compensating plaintiffs.[257] While the Fifth Circuit was not overly impressed with the evidence put forth on plaintiffs' damages, the court found that the district court weighed several factors, including: "possible uncertainty in the estimates of future profits, whether evidence was corroborated, whether the harm from the infringing listing would continue beyond the actual period of infringement, and possible variability of profit margins."[258]

Lastly, the Fifth Circuit reviewed the district court's decision on a motion in limine to exclude any evidence of damage to Dial One's goodwill. The Fifth Circuit found no abuse of discretion in the district court's finding that the goodwill of the Dial One mark did not suffer when a nonfranchisee was erroneously listed in the phone book.[259] It should be noted however, that counsel for Dial One did not make an offer of proof as to what evidence it would have put on in order to show the loss of goodwill either after the motion in limine was granted or at the time of trial.[260] Without any evidence of loss of goodwill, it was not an abuse of discretion on the part of the district court to find that the improper listing

252. *Id.* BellSouth relied upon a statement by a co-sponsor of a 1988 amendment to the Lanham Act expressing a desire for "innocent" to incorporate the "actual malice" standard in *N.Y. Times v. Sullivan*, 376 U.S. 254 (1964).

253. *Dial One of the Mid-South, Inc.*, 269 F.3d at 526.

254. In addressing issues of commercial speech, the Supreme Court has held that when matters are not of public concern, they are not judged by the actual malice standard. *Dial One of the Mid-South, Inc.*, 269 F.3d at 526 (citing Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc., 472 U.S. 749, 760 (1985)). In the present case, the improper listing of a service repair business is not a matter of public concern. The Fifth Circuit concluded that "the interest of the public is probably best protected by allowing the suit to proceed without an actual malice defense, so as to promote accuracy in this type of speech." *Id.* at 527.

255. *Id.* at 526.

256. *Id.* at 527.

257. *Id.*

258. *Id.*

259. *Dial One of the Mid-South, Inc.*, 269 F.3d at 527-28.

260. *Id.* at 528. Due to the limited record, the Fifth Circuit offered no opinion on "the ownership of the mark or the feasibility of recovering goodwill damages where the plaintiff is the only licensee of the mark." *Id.*

of a terminated franchisee had little or no effect on the goodwill of the Dial One mark.[261]

B. Civil Penalties

In addition to compensatory damages, defendants may also be assessed civil penalties under the Texas Motor Vehicle Commission Code (the Code).[262] The applicability of these civil penalties is dependent upon the authority of the Texas Motor Vehicle Board (the Board)[263] and does not include an award of damages by the Board.[264] Two Texas Court of Appeals cases addressed the issue of the applicability and scope of civil penalties. First, in *Sportscoach Corp. of Am., Inc. v. Eastex Camper Sales, Inc.*,[265] the Code did not grant the Board authority to order a damage payment to the terminated franchisee dealer.[266] The court found that Sportscoach, the recreational vehicle manufacturer, violated the Code by failing to repurchase some recreational vehicles from its franchisee after termination. The Board had no statutory power to assess damages or order payment of damages to a private party, but did have power to assess civil penalties, issue cease and desist orders, and issue injunctions.[267] Thus, the order for payment of damages based upon a finding of a violation by the Board was reversed and remanded to district court.[268]

Second, in *American Honda Motor Co., Inc. v. Texas Department of Transportation—Motor Vehicle Division*,[269] the Board contended that its enforcement powers allowed it to impose civil penalties against the franchisor, Honda, regardless of whether the franchisee's complaint was viable under the act.[270] The Austin Court of Appeals held that the Board lacked jurisdiction to impose civil penalties;[271] the franchisee's complaint was not viable due to a statutory revision, and the Board invoked jurisdiction based solely on the franchisee's complaint. The Board's authority to assess civil penalties is limited to proceedings "conducted in accordance with the Act," which necessarily contemplates a proper invocation of jurisdiction.[272] Thus, where the complaint is invalid, the Board has no jurisdiction and cannot act nor impose civil penalties. It should be noted that

261. *Id.*
262. Tex. Rev. Civ. Stat. Ann. art. 4413(36) § 1.02 (West Supp. 2001).
263. *Id.* § 2.01.
264. Sportscoach Corp. v. Eastex Camper Sales, 31 S.W.3d 730, 734 (Tex. App.—Austin 2001, no pet.); *see* Kawasaki Motors Corp. U.S.A. v. Texas Motor Vehicle Comm'n, 855 S.W.2d 792, 797 (Tex. App.—Austin 1993, no writ) (stating that agency may exercise only specific powers conferred by legislature under express language of statute).
265. 31 S.W.3d at 730.
266. *Id.* at 735-36.
267. *Id.* at 734-35.
268. *Id.* at 736.
269. Am. Honda Motor Co., Inc. v. Texas Dep't Transp., 47 S.W.3d 614 (Tex. App.—Austin 2001, pet. denied).
270. *Id.* at 620.
271. *Id.* at 624-25.
272. *Id.* at 625 (citing Tex. Rev. Civ. Stat. Ann. art. 4413(36), § 6.01(a) (West Supp. 2001).

the court abstained from addressing the issue of whether the Board possesses the authority to institute proceedings independent of the franchisee's complaint, because those facts were not before the court.[273]

C. Lost Profit Damages

In the past year the Texas Court of Appeals in Texarkana addressed the recoverability of actual damages and lost profits for tortious interference with an asset purchase agreement. In *Fun Motors of Longview v. Gratty, Inc.*,[274] Gratty brought suit against Fun Motors of Longview, and its principle, for breach of an asset purchase agreement and against the principle of Fun Motors, Louis Randall Latch, for tortious interference with the asset purchase agreement.[275] According to Gratty, he and Fun Motors entered into an asset purchase agreement whereby by Gratty would purchase Fun Motors in order to sell Kawasaki all terrain vehicles "ATV's." As a condition precedent, the asset purchase agreement was subject to Kawasaki's approval of Gratty as a franchisee. According to the evidence put forth, not only did Latch delay Gratty's franchise application, but after submitting Gratty's application to Kawasaki, Latch entered into another asset purchase agreement with Scott Zhone and submitted Zhone's franchise application to Kawasaki.[276] When Kawasaki asked Latch which of the two applications it should consider, Latch did not respond. Thereafter, Kawasaki terminated its franchise agreement with Fun Motors.[277] The trial court found that Latch's conduct prevented Gratty from obtaining Kawasaki's approval and, thus, resulted in tortious interference with a contract. Gratty was awarded compensatory damages in the amount of $42,901.87 and $133,000.00 in lost profits.[278]

Both the liability and damage findings were appealed. After affirming liability, the court of appeals reviewed the damage finding *de novo*. Pursuant to the *de novo* standard, the damage finding must be upheld if it can be sustained on any legal theory supported by the evidence.[279] The court of appeals found that compensatory damages in the form of: legal fees to prepare the necessary agreements; legal fees to organize the business and building; and business expenses for the proposed location of the new franchise, were foreseeable and therefore recoverable.[280] Such expenses were foreseeable because they were incurred in order to obtain Kawasaki's approval which was required as a condition precedent to the sale of the franchise.[281] Moreover, the cause in fact element was met as Gratty testified that he would not have incurred such expenses were it

273. *Id.* at 625-26.
274. Fun Motors of Longview v. Gratty, Inc., 51 S.W.3d 756 (Tex. App.—Texarkana 2001, pet. filed).
275. *Id.* at 760.
276. *Id.* at 759.
277. *Id.* at 759-60.
278. *Fun Motors*, 51 S.W.3d at 763.
279. *Id.*
280. *Fun Motors of Longview, Inc.*, 51 S.W.2d 756.
281. *Id.*

not for his agreement to purchase Fun Motor's Kawasaki franchise which was subsequently frustrated by Latch.[282]

Next, Latch contested the award of lost profits contending that the future profits were too speculative as they arose from a "new" enterprise.[283] As in the case of many breaches or interference claims with an asset purchase agreement, the individual or company to operate the franchise is new, but the operation of a franchise in and of itself is not a new enterprise. Thus, it is important to remember that in determining lost profits of a particular enterprise, the "enterprise" referred to is not the potential new franchisee's business, but rather the activity that is alleged to have been damaged.[284]

The Texas Supreme Court held "the fact that an enterprise is new will not automatically preclude recovery for future lost profits, but rather is one factor in the 'reasonable certainty' test."[285] The reasonable certainty test focuses on three elements: (1) the experience of the person involved in the enterprise, (2) the nature of the business activity; and (3) the relevant market.[286] Therefore, even though an individual is a new franchisee, lost profits may still be recoverable if: the person involved has an established record in the business; the activity was for the sale of an established product; and the requesting party can demonstrate to a reasonable certainty the volume of sales in the relevant market.[287]

In *Fun Motors*, the evidence showed that Gratty had a successful business selling ATV's for the previous nine to ten years and, thus, Gratty had experience and knowledge to succeed in the business activity.[288] Moreover, the sale of Kawasaki motorcycles was considered the sale of an established product. In order to attack the lost profits calculation, Latch contended that Gratty's probable volume in the relevant market was not sufficiently certain due to the lack of evidence of a suitable comparison model.[289]

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282. *Id.* at 764.

283. *Id.* (citing Southwest Battery Corp. v. Owen, 115 S.W.2d 1097 (Tex. 1938)).

284. *Id.* at 764. In *Fun Motors*, the enterprise was not Gratty, Inc. formed by Gratty in anticipation of purchasing the Kawasaki franchise, but was the sale of Kawasaki motorcycles in the relevant market.

285. *Id.* at 764 (citing Texas Instruments, Inc. v. Teltron Energy Mgmt., Inc. 877 S.W.2d 276, 279-280 (Tex. 1994) (providing a more recent explanation and interpretation of the Texas Supreme Court case of Southwest Battery Corp. v. Owen, 115 S.W.2d 1097 (Tex. 1938)).

286. *Fun Motors*, 51 S.W.3d at 764.

287. *Id.*; *see* Pace Corp. v. Jackson, 284 S.W.2d 340, 348-349 (Tex. 1955) (upholding lost profit damages where the established product was cigarettes); Southwest Battery Corp. v. Owen, 115 S.W.2d at 1097 (Tex. 1938) (involving an established product such as car batteries).

288. *Fun Motors of Longview*, 51 S.W.3d at 765.

289. *Id.* According to Latch, there were comparison models available but they were not offered into evidence by Gratty, including Gratty's own past performance as dealer, Fun Motor's past performance in Longview and the present Longview Kawasaki dealers' performance. However, the court determined that the performance figures would not provide a good comparison base because: Gratty's prior market was much smaller; Fun Motors emphasized the sale of Honda over Kawasaki; and the current Longview dealership did not operate under the same business plan as proposed by Gratty. *Id.*

To prove his lost profit damages, Gratty introduced testimony of a professor of accounting.[290] Gratty's expert based his lost profit calculations upon information relating to Gratty's prior business, various markets and market share data for ATV's, market sales forecasts by Kawasaki's regional sales director, and demographics of the Longview area (relevant market area), as well as other financial and economic data models.[291] Latch did not present an alternative damage model, but rather attempted to poke holes in Gratty's damage model. Latch showed that Gratty's projected gross sales for 1999 overshot the actual 1999 gross sales of the current Kawasaki dealership.[292] Such evidence was most likely taken into consideration by the jury as Gratty's expert testified that Gratty suffered past lost profits in a range of $133,333.00 to $158,333.00, and future lost profits of $363,802.00 to $432,014.00, yet the trial court limited damages for lost profits to only $133,000.00. Based upon the record on appeal, the court of appeals concluded that there was sufficient evidence to support a finding of lost profit damages and that such damages had been proven with a reasonable degree of certainty.[293]

D. Injunctive Relief

The intellectual property of a franchise including its trademark, trade name, proprietary system of operation, and trade dress, are all valuable and unique assets which many times can only be protected by seeking injunctive relief. A franchisor may seek both a temporary and permanent injunction in order to prevent an individual from infringing on its intellectual property and to prevent an unauthorized user from tarnishing the franchisor's reputation, trade and goodwill among its customers.[294]

Under federal common law, in order to obtain a preliminary injunction, the party seeking such relief must establish each of the following four requirements: (1) a substantial likelihood that it will prevail on the merits; (2) a substantial threat that it will suffer irreparable injury if the injunction is not granted; (3) that the threatened injury to it outweighs the threatened harm the injunction may do to the enjoined party; and (4) granting the preliminary injunction will not disserve the public interest.[295]

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290. The qualifications of Gratty's expert, Dr. Sammie P. Smith, were not challenged. *Id.*

291. *Id.*

292. *Id.* at 765-66.

293. *Id.* at 766. In addition to the market share challenged, Latch questioned whether Gratty's calculation of lost profits took into consideration the $90,000.00 purchase price of the franchise. While Gratty's expert did not set out his lost profit calculation in detail, the court of appeals concluded that because the expert used terminology distinguishing gross sales from profit, it would be presumed that he accounted for the cost of various assets in calculating profit. *Id.*

294. 15 U.S.C. §§ 1114, 1125 (1997 & Supp. 2001).

295. Plains Cotton Coop. Ass'n v. Goodpasture Computer Serv. Inc., 807 F.2d 1256, 1259 (5th Cir. 1987); Enter. Int'l, Inc. v. Corporacion Estatal Petrolera Ecuatoriana, 762 F.2d 464, 471 (5th Cir. 1985). As set forth in footnote (75) above, Texas state common law provides for three specific elements for a temporary injunction.

In *Ramada Franchise Systems, Inc. v. Jacobcart, Inc.*,[296] the Northern District of Texas applied this four-part preliminary injunction standard to determine whether Ramada was entitled to a preliminary injunction to prevent former franchisees from marketing, promoting, or renting their guest lodging facility in such a manner that the hotel was falsely designated as a Ramada.[297] Ramada licenses its franchisees to operate hotels and motels under the Ramada trademark and provides its franchisees access to a centralized reservation system, advertising, and the right to use the Ramada name and logo. In the *Jacobcart* matter, the franchisees failed to make the contractually required improvements to their facilities and pay the periodic fees required by the franchise agreement. Ramada brought suit to enjoin the terminated franchisees from using the Ramada marks and to require the terminated franchisees to "completely deidentify the unit from its appearance as a Ramada guest lodging facility."[298] The court issued the preliminary injunction finding that Ramada easily established the four-part preliminary injunction standard.

First, Ramada showed a likelihood of success on its Lanham Act claim, as the court found Ramada's trademark was clearly protected as a distinctive and arbitrary mark and the terminated franchisees' actions constituted trademark infringement.[299] The court in fact, found that the Ramada name was entitled to the highest degree of protection.[300] Ramada established the second element, because the injunction was granted "in a trademark infringement case and thus, 'a substantial likelihood of confusion constitutes irreparable injury.'"[301] The court found that the necessity of preventing confusion is particularly pressing in the context of a motel chain as a bad experience may cause a guest to stay at a particular franchise only once. Ramada would suffer irreparable injury due to customer confusion created by a substandard non-Ramada franchisee.[302] Next, the court found that as a whole, the threatened injury to Ramada outweighed the threatened harm to the terminated franchisees.[303] Finally, the court found that because Ramada would suffer substantial harm if it could not control its own reputation and goodwill,

296. Ramada Franchise Sys., Inc. v. Jacobcart, Inc., No. 3:01 CV-0306-D, 2001 WL 540213, at *1 (N.D. Tex. 2001).

297. *Id.* at *1.

298. *Id.*

299. *Id.* at *2.

300. *Id.* "Fanciful and arbitrary marks are the strongest types of marks." *Id.* (quoting Lawfinders Assoc. Inv. v. Legal Research Ctr., 65 F. Supp. 2d 414, 425 (N.D. Tex. 1998)). "Arbitrary and fanciful terms or phrases are those which are either coined words or words which are not suggestive of the product or the service." *Id.* "A fanciful mark is a combination of letters or other symbols signifying nothing other than the product or service to which the mark has been assigned." *Id.*

301. *Id.* at *3 (citing KFC Corp. v. Goldey, 714 F. Supp. 264, 267 (W.D. Ky. 1989)); *see* Joy Mfg. Co. v. CGN Valve & Gauge Co., Inc., 730 F. Supp. 1387, 1394 (S.D. Tex. 1989) (stating that the basic test for trademark infringement is "likelihood of confusion," actual confusion is not necessary).

302. Ramada Franchise Sys., Inc. v. Jacobcart, Inc., No. 3:01 CV-0306-D, 2001 WL 540213, at *2 (N.D. Tex. 2001).

303. *Id.* at *3.

granting the preliminary injunction would not disserve the public interest.[304]

In addition to protecting a franchisor's intellectual property, a franchisor may seek a temporary injunction to enforce a non-competition agreement. In *AmeriSpec, Inc. v. Metro Inspection Services, Inc.*,[305] the franchisor did both. As previously noted, AmeriSpec, Inc., is a franchisor of a business which provides real estate inspection services. After operating an AmeriSpec franchise for ten years, Wayne and Debra Holt decided not to renew the franchise agreement and formed Metro Inspection Services.[306] First, AmeriSpec sought to enjoin the Holts and Metro from using the AmeriSpec trademark or trade name in telephone listings.[307] AmeriSpec specifically complained about the continued listing of the AmeriSpec name in the yellow and white pages of the telephone directories. The Holts, however, produced evidence that they notified the telephone company that: (1) Metro was not authorized to use the former AmeriSpec numbers; (2) requested new telephone numbers and fax lines; and (3) that the delay in canceling the AmeriSpec phone numbers was due solely to the telephone company.[308] Thus, there was no basis to enjoin Metro from using its new unrelated telephone numbers.[309]

Second, AmeriSpec sought to enjoin the Holts and Metro from providing real estate inspection services that violated the franchise agreement's covenant not to compete.[310] Specifically, AmeriSpec sought to enforce a post-termination covenant which required that for a period of one year, the franchise could not directly or indirectly operate, own, be employed by, or consult with any business that conducts residential building inspections or provide business inspection services, other than the one operated under a valid AmeriSpec franchise, within the franchise agreement's des-

304. *Id.* It should be noted that the *Jacobcart* case has recently been subsequently cited by Judge Fitzwater with approval in support of a preliminary injunction issued on a trade dress violation claim. *See* Urgent Gear, Inc. v. Savoia, No. 3:01-CV-2190-D, 2001 WL 1577395 (N.D. Tex. Dec. 10, 2001). In Urgent Gear, Inc. v. Savoia, the court found that Savoia was infringing on Urgent Gear's protected trade dress by marketing knock-off clothing products containing certain inherently distinctive features of the Urgent Gear trade dress. *Id.* at *5.

305. Amerispec, Inc. v. Metro Inspection Serv., Inc., No. 3:01-CV-0946-D, 2001 WL 770999, at *1 (N.D. Tex. 2001).

306. *Id.* at *2.

307. *Id.*

308. *Id.* at *3.

309. *Id.*

310. *Id.* at *4. A covenant not to compete is enforceable under Texas law "to the extent that it contains limitations as to time, geographic area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee." TEX. BUS. & COM. CODE ANN. § 15.50(a) (Vernon Supp. 2001). In the present case, no challenge was made as to the period of time. The Holts and Metro limited their challenge the activity restrained and the geographical scope. AmeriSpec contended that if the covenant not to compete was found to be unreasonable, it must be reformed under both Section 15.51(c) of the Texas Business and Commerce Code and the terms of the franchise agreement itself. The court summarily dismissed the Holts and Metro's challenge as to the scope of activity and analyzed and reformed the geographic scope.

ignated territory or within a radius of ten miles from the location of any other AmeriSpec office in existence at the time of expiration or termination of the franchise agreement.[311] The court reformed the covenant not to compete and held that AmeriSpec was entitled to a preliminary injunction preventing the Holts and Metro from competing at least within a ten mile radius from its designated territory under the terminated franchise agreement. The court further held it unreasonable to extend the protected territory to include areas surrounding other AmeriSpec offices, because it would impose a greater restraint on trade than necessary to protect the goodwill and business interest of AmeriSpec. In reaching this decision, the court found that the AmeriSpec trademark had developed goodwill and that AmeriSpec was "entitled to protect that goodwill by preventing a former franchisee who operated under its trademark for ten years from competing against it."[312] The court further found that the portion of the covenant not to compete which prohibited the Holts and Metro from operating in a vast market beyond their former designated franchise territory was geographically unreasonable as there was no evidence that such competition would be based upon use of the goodwill of the franchise.[313] Thus, the covenant not to compete was reformed by the court and enforced in the more limited geographical area.

One of the cases cited in the 2001 Franchise Law Update has since been reviewed by the Texas Supreme Court. *Ford Motor Co. v. Butnaru*[314] involved a suit by potential buyers of a Ford dealership against the dealership and its shareholders and another buyer for breach of a purchase and sale agreement, and the manufacturer, Ford, for tortious interference.[315] The trial court granted a temporary injunction[316] preventing Ford from exercising its right of first refusal to buy the dealership at issue. The San Antonio Court of Appeals dissolved the temporary injunction concluding that the temporary injunction by the trial court constitutes nothing more than an attempt to enforce a contract by injunction, which is improper because a suit for damages is deemed an adequate remedy.[317] Plaintiffs sought review by the Texas Supreme Court contending that: (1) they were not required to show the lack of an adequate legal remedy because the injunction was based upon an alleged statutory

311. *AmeriSpec, Inc.*, 2001 WL 770999, at *5.
312. *Id.* at *4.
313. *Id.* at *6.
314. Butnaru v. Ford Motor Co., 44 Tex. Sup. Ct. J. 808 (Tex. June 7, 2001).
315. *Id.* at 808-09.
316. "Under Texas state common law, to obtain a temporary injunction, the applicant must plead and prove three specific elements: (1) a cause of action against the defendant; (2) a probable right to the relief sought; and (3) a probable, imminent and irreparable injury in the interim." *Id.* at 813 (citing Walling v. Metcalfe, 863 S.W.2d 56, 57 (Tex. 1993); Sun Oil Co. v. Whitaker, 424 S.W.2d 216, 218 (Tex. 1968); Fasken v. Darby, 901 S.W.2d 591, 592 (Tex. App.—El Paso 1995, no writ); Henderson v. KRTS, Inc., 822 S.W.2d 769, 773 (Tex. App.—Houston [1st Dist.] 1992, no writ). Further, an injury cannot be irreparable if the injured party can be adequately compensated by damages which can be measured by a certain pecuniary standard. *Butnaru*, 44 Tex. Sup. Ct. J. at 813.
317. *Id.* at 809.

violation;[318] and alternatively (2) they lacked an adequate remedy because Ford's exercise of its right of first refusal, would deprive plaintiffs of an opportunity to purchase unique assets—real property and the dealership located on the real property.[319]

In addressing the first issue, the Texas Supreme Court held that the Butnarus were not relieved from their burden of establishing an inadequate legal remedy. The Texas Supreme Court distinguished the case relied upon by Butnarus finding that there was no general rule that an alleged statutory violation relieves the party seeking a preliminary injunction from proving the lack of an adequate legal remedy. The court, *in dicta*, recognized that some specific statutes granted a party the right to an injunction and a party relying on such a statutory right need not prove the lack of a legal remedy.

Nevertheless, the Texas Supreme Court upheld the trial court's granting of an injunction prohibiting Ford from exercising its right of first refusal. The court found that the Butnarus met their burden on the three temporary injunction elements by showing: (1) the Butnarus had a direct cause of action against Ford for tortious interference with the asset purchase agreement; (2) Ford's exercising of its right of first refusal would amount to tortious interference with the Butnarus' contract to purchase real property and the dealership; and (3) the Butnarus would suffer imminent and irreparable injury if Ford was allowed to exercise its right of first refusal because Butnarus would lose the opportunity to purchase two unique assets, the real property and the dealership.[320]

Finally, in an interesting case out of the Superior Court of Pennsylvania, a permanent injunction was issued which included an injunction of the terminated franchisee's use of the phone numbers used during the course of the franchise relationship and the transfer of such phone numbers from the terminated franchisee to the franchisor.[321] This case involved a real estate franchise wherein the Skillmans entered into a franchise agreement authorizing them to open and operate a "Realty Executives" franchise in Bucks County, Pennsylvania.[322] After operating the Realty Executives office for over five years, the franchise agreement was subsequently terminated, and the Skillmans established a new real estate business under the name "Realty Excel." The Skillmans transferred the telephone numbers used while operating as Realty Executives to the new Realty Excel. RESPA, the franchisor of Realty Executives, sought and obtained a temporary injunction. Thereafter, a permanent in-

318. *Id.* at 813 (relying upon Furr v. Hall, 553 S.W.2d 666, 672 (Tex. Civ. App.—Amarillo 1977, writ ref'd n.r.e.).

319. *Id.* at 813 (arguing that lack of an opportunity to purchase real property and the dealership could not be remedied by money damages).

320. *Id.* at 815 (recognizing a trial court may grant equitable relief when a dispute involves real property).

321. RESPA of Pennsylvania, Inc. v. Skillman, 768 A.2d 335 (Pa. Super. Ct. 2001).

322. *Id.* at 337.

junction hearing was held.[323] In response to RESPA's demand for a permanent injunction, the Skillmans argued that the franchise agreement did not contain a requirement that the franchisee transfer phone numbers to the franchisor upon termination; and alternatively that the proper remedy was not an injunction, but rather to transfer the telephone numbers to a "split-interrupt" service which would allow callers to choose whether they wanted to contact Realty Executives or Realty Excel.[324] The court entered the permanent injunction based upon the strong possibility of public confusion.[325] The court found that the use of the name Realty Excel was so closely related to Realty Executives that it would likely lead to public confusion.[326] Moreover, the Skillmans failed to distinguish themselves from the former Realty Executives through an aggressive advertising campaign or otherwise. It was clear that the Skillmans hoped to capitalize on the goodwill of the former franchisor and, thus, they were enjoined from doing so.[327]

323. *Id.* at 338.
324. *Id.*
325. *Id.* at 342.
326. *RESPA*, 768 A.2d at 341-42.
327. *Id.* at 342.