

NEWS RELEASES

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ANN M. MAHER
MILWAUKEE:
414.978.5410
ANN.MAHER@
HUSCHBLACKWELL.COM

JOSEPH S. DIEDRICH
MILWAUKEE:
414.978.5425
WASHINGTON:
202.378.2300
MADISON:
608.255.4440
JOSEPH.DIEDRICH@
HUSCHBLACKWELL.COM

JACOB R. HARRIS

Husch Blackwell Earns Appellate Victory in Key Franchise Law Case

Husch Blackwell secured a victory before the U.S. Court of Appeals for the Eighth Circuit on behalf of Industrial Combustion, LLC (IC) and its affiliated company Cleaver-Brooks, Inc., in litigation brought under the Minnesota Franchise Act by a former distributor of IC-manufactured burners used in institutional boiler systems. The published appellate decision affirmed a complete defense victory on summary judgment in the U.S. District Court for the District of Minnesota.

The Eighth Circuit identified the central question in the case at outset: “When a manufacturer sells replacement parts to a distributor to repair products the distributor sold, does the manufacturer collect an indirect “franchise fee” within the meaning of the Minnesota Franchise Act, Minn. Stat. § 80C.01, subd. 4, if it charges the distributor a price based on the retail price the manufacturer paid a third party vendor for the parts?” The court then provided an unequivocal answer: “We agree with the district court the answer is clearly no.”

Plaintiffs—former distributors of IC-manufactured burners and parts--brought suit in 2019 after IC issued a notice of termination of a distributorship arrangement that had spanned many decades. The lawsuit sought damages, declaratory judgment, and injunctive relief for an alleged violation of the Minnesota Franchise Act, on the theory that the parties had a “franchise” relationship under the statute, which could only be terminated for cause. Plaintiffs also brought claims for breach of contract and promissory estoppel.

The Eighth Circuit shot down each of the claims at issue, and in so doing clarified how the court construes key provisions of the Minnesota Franchise Act. The court held that for sales above bona fide wholesale prices to constitute a franchise fee, there must be evidence of compulsion accompanied by the threat of termination. The court found that plaintiffs in this case failed to

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present sufficient evidence that IC required them to purchase minimum quantities of replacement parts in order to continue the distributorship business. Therefore, IC's sales of replacement parts to plaintiffs above bona fide wholesale prices did not constitute an indirect franchise fee. This decision should help thwart future attempts by distributors to attach the protections of franchise law to traditional manufacturer-distributor relationships.

As mentioned, the Eighth Circuit's decision affirmed a Husch Blackwell victory in the U.S. District Court for the District of Minnesota. At the outset of the litigation, the court denied the plaintiffs' motion for a preliminary injunction enjoining IC from terminating the distributorship. The court then dismissed some of plaintiffs' claims on a motion to dismiss and disposed of plaintiffs' remaining claims on summary judgment.

The Husch Blackwell team included Ann Maher, Joseph Diedrich, and Jacob Harris.