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BLOGS

State Franchise and Dealer Laws

Court Refuses to Extend Protections of Minnesota Franchise Act to Out of State Distributor

A federal district court in Minnesota recently clarified that the reach of the Minnesota Franchise Act does not extend to protect entities operating outside Minnesota. In *Johnson Brothers Liquor Co. v. Bacardi U.S.A., Inc.*, 2011 U.S. Dist. LEXIS 132768 (D. Minn. Nov. 17, 2011), plaintiff Johnson Brothers was a Minnesota entity whose out of state subsidiaries entered contracts with Bacardi and Brown-Forman Corporation to distribute their products in states other than Minnesota. Bacardi and Brown-Forman terminated their distributorship agreements with Johnson Brothers' subsidiaries, and Johnson Brothers brought suit. Among other claims, Johnson Brothers alleged that the terminations violated the provisions of the Minnesota Franchise Act (MFA).

Bacardi and Brown-Forman moved to dismiss the complaint, arguing that the MFA could not apply to entities located outside the state. In response, Johnson Brothers alleged that the agreements between Bacardi and Brown-Forman on the one hand and Johnson Brothers' out of state subsidiaries on the other created an implied franchise relationship between Johnson Brothers itself and Bacardi and Brown-Forman. Because Johnson Brothers is a Minnesota entity, it argued the MFA applied to that implied franchise relationship.

The court rejected that argument, finding that the written agreements between Bacardi and Brown-Forman and the out of state subsidiaries controlled the parties' relationship. The court acknowledged the possibility that an implied franchise relationship could exist under some circumstances, but found that agreements entered by Johnson Brothers' subsidiaries were insufficient to create such a relationship.