BLOGS

State Franchise and Dealer Laws

Federal Court Denies Motion Seeking to Enjoin the Expiration of a Distributor Agreement Under the Minnesota Franchise Act

In a case defended by Gray Plant Mooty, a Minnesota federal court recently denied an injunction motion brought by a party claiming to be a putative franchisee under the Minnesota Franchise Act (MFA). *Wave Form Sys., Inc. v. AMS Sales Corp.*, 2014 U.S. Dist. LEXIS 175927 (D. Minn. Dec. 22, 2014). Wave Form was an Oregon corporation that supplied health care providers with laser equipment and services, including medical procedures that use "GreenLight" lasers marketed by AMS Sales Corp. In 2012, Wave Form signed a two-year agreement with AMS that provided nonexclusive use of AMS's trademarks and allowed Wave Form to obtain the fibers necessary for use of AMS's GreenLight lasers. The distribution agreement also required Wave Form to purchase a service plan for the upkeep of its GreenLight lasers. With the distribution agreement set to expire on Dec. 31, 2014, Wave Form filed suit, asking the court to declare that the MFA applied to the agreement. Wave Form moved for a preliminary injunction to prevent the expiration of the contract, arguing that AMS violated the Minnesota statute by failing to renew.

AMS argued first that the MFA did not protect an Oregon company that did not do business in Minnesota, and second, that even if the MFA did apply extra-territorially, Wave Form was not entitled to its protections because there was no indirect franchise fee as required by the law. The court acknowledged that there was some support for a statutory interpretation that the MFA applied to out-of-state plaintiffs, but noted that because the Minnesota legislature intended the law to protect Minnesota franchisees, its application in this case seemed to be a "stretch." Likewise, the court noted that there was some support for both parties' arguments regarding whether the required service plan could constitute an indirect "franchise fee" if the MFA did apply. The court concluded, however, that it did not need to resolve either issue at the preliminary injunction stage because Wave Form had failed to show it would be irreparably harmed if the agreement expired on a date agreed upon by both parties at the outset of the relationship. Any financial harm incurred by Wave Form could be readily compensated with money damages if it prevailed at trial, and Wave Form presented only anticipatory and speculative evidence that its reputation or goodwill would be harmed by the expiration. Because the balance of harm and public interest in forcing AMS to continue an unsatisfactory business relationship also weighed against Wave Form in this case, the court denied the motion for a temporary injunction.

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