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State Franchise and Dealer Laws

First Circuit Affirms Decision Finding That Claims Based on Alleged Exclusive Distributor Arrangement Were Time Barred

The United States Court of Appeals for the First Circuit partially affirmed a lower court's decision that a product distributor's claims based on an allegedly exclusive distribution agreement were barred by the three-year statute of limitations under Puerto Rico's Dealers Act ("Law 75"). *Medina & Medina Inc. v. Hormel Foods Corp.*, 840 F.3d 26 (1st Cir. 2016). Medina, the distributor, entered into a verbal distribution arrangement with Hormel in 1988, which Medina alleged gave it the exclusive right to distribute Hormel's retail refrigerated products in Puerto Rico. Beginning in 1990, Medina began to complain that stateside distributors were purchasing and distributing Hormel's retail refrigerated products in Puerto Rico in violation of the parties' exclusive arrangement. Over the course of twenty years, Medina repeatedly demanded that Hormel stop these mainland distributors. Medina finally filed suit in 2009 when Costco (which had previously purchased Hormel products from Medina) began purchasing party platters directly from Hormel at a lower price and shipping the products from the mainland to its stores in Puerto Rico. The district court held that Medina's claims were largely barred by Law 75's three-year statute of limitations but allowed the claims concerning the resale of party platters by Costco to proceed. Both parties appealed.

The First Circuit affirmed in part and reversed in part the district court's decision. The appellate court observed that, from the beginning of the parties' relationship, Medina knew that Hormel was selling its products to mainland distributors for ultimate resale in Puerto Rico and that Hormel did not consider the relationship an exclusive one. Because Medina failed to sue within the limitations period, the First Circuit affirmed the district court's conclusion that Medina's exclusivity claims under Law 75 were time barred. The First Circuit also overturned the district court's finding that the 2009 retail sales by Costco survived Law 75's statute of limitations, since they were based on the same time-barred claim of territorial exclusivity.

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