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State Franchise and Dealer Laws

Hawaii Federal Court Denies Franchisor's Motion to Dismiss; Finds Harley-Davidson License Agreement May Constitute Franchise

A federal court recently denied defendant Harley-Davidson's motion to dismiss a claim under the Hawaii Franchise Investment Law ("HFIL"). *Cycle City Ltd., v. Harley-Davidson Motor Co.*, 2015 WL 3407825 (D. Haw. May 26, 2015). Cycle City alleged that Harley-Davidson failed to renew a license agreement between the parties in violation of the HFIL. In response, Harley-Davidson argued that Cycle City failed to state a claim under the HFIL because the relationship between the parties is not a franchise governed by the law. Under the parties' license agreement, Cycle City was granted the right to manufacture certain goods bearing Harley-Davidson trademarks, subject to Harley-Davidson's approval of all products, packaging, and promotional materials. The license agreement required Cycle City to pay Harley-Davidson royalties for the sale of such licensed products.

The court noted that under the HFIL, the parties' relationship must satisfy three criteria to qualify as a franchise: (i) Cycle City must have received the right to use the Harley-Davidson trademark; (ii) a community interest must exist between Cycle City and Harley-Davidson; and (iii) Cycle City must be required to pay a franchise fee to Harley-Davidson. Harley-Davidson argued that the relationship could not be considered a franchise because the second and third factors were not present. The court disagreed, noting that Cycle City sufficiently alleged facts indicating the existence of a continuing financial interest between the parties in the operation of the business in order to demonstrate the existence of a community interest. In addition, the court noted that the HFIL defines a franchise fee as any fee or charge that a franchisee is required to pay for the right to enter into a business or continue a business. Because Cycle City was required to pay Harley-Davidson royalties under the license agreement, the court determined that all three factors were sufficiently alleged, and that Cycle City successfully stated a claim under the HFIL.

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