

## BLOGS

State Franchise and Dealer Laws

# Illinois District Court Grants in Part and Denies in Part Supplier's Motion to Dismiss for Failure to State a Claim

A federal court in Illinois has granted in part and denied in part a manufacturer's motion to dismiss claims brought under the Illinois Franchise Disclosure Act of 1987 ("IFDA") and the California Franchise Relations Act ("CFRA") arising from the termination of a distribution agreement. *H.C. Duke & Son, LLC v. Prism Mktg. Grp.*, 2013 U.S. Dist. LEXIS 140254 (C.D. Ill., Sept. 30, 2013). H.C. Duke & Son and Prism Marketing Group were parties to an agreement in which Prism distributed Duke's line of soft-serve ice cream machinery and related equipment. Duke terminated the agreement and Prism contested. Duke therefore sought a declaratory judgment and additional relief, and Prism filed a counterclaim, including allegations that Duke's termination violated the IFDA and CFRA. Duke moved to dismiss for failure to state a claim, challenging Prism's eligibility for protection under the IFDA and CFRA on the basis that no franchise fee was paid. Duke further argued that Prism fell outside the IFDA's protected class.

To qualify as a franchise under the IFDA and CFRA, both acts require the franchisee to pay the franchisor a franchise fee exceeding \$500 and \$100, respectively. A franchise fee may exist regardless of the designation or form of the fee. Prism alleged that it was required to assume the debt of a prior distributor, and made payments to Duke to purchase and carry certain parts, and for advertising and promotional materials. The court held that such allegations constituted a plausible claim that a franchise fee was paid, and they were sufficient to meet the notice pleading requirement. Therefore, Duke's motion to dismiss Prism's claims under the CFRA was denied. However, the court agreed with Duke's allegation that Prism fell outside the protected class of the IFDA, as the IFDA's purpose is to protect Illinois residents. Prism is a Nevada corporation with a principal place of business in Washington. Additionally, the parties' agreement only permitted Prism to distribute Duke products in Nevada and California. Although Prism argued that the agreement was executed in Illinois and required Duke's action in Illinois, the court held that these allegations did not create a reasonable inference that Prism was located in Illinois. Therefore, the court granted Duke's motion to dismiss Prism's claims under the IFDA.

## Related People

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