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Contracts

## Minnesota Federal Court Dismisses Franchisee's E-Commerce Claims

The United States District Court for the District of Minnesota recently dismissed several claims by a Party City franchisee premised on the franchisor's operation of an online store. *Newpaper, LLC v. Party City Corp.*, 2013 U.S. Dist. LEXIS 137396 (D. Minn. Sept. 25, 2013). Gray Plant Mooty represents Party City in this matter. The franchisee's complaint alleged that the operation of an online store by the franchisor breached the franchisee's contractual right to an exclusive territory. It also alleged that certain aspects of Party City's online store, including its return policy, online pricing, and the alleged use of advertising funds to promote the online store, constituted breaches of the covenant of good faith and fair dealing.

Party City moved to dismiss the franchisee's claims, arguing that the language of the parties' agreements expressly permitted Party City's operation of an online store and the manner in which Party City operated it. The court held that the franchisee's contractual exclusivity rights did not preclude an online retail presence by Party City. Likewise, under the parties' agreements the franchisee expressly agreed to accept returns from online store purchases and agreed that Party City could use advertising funds to promote the system's website as long as that promotion did not inure solely to the benefit of Party City. Thus, the court determined that the franchisee failed to state a claim based on those allegations. The franchisee's good faith and fair dealing claim, which alleged that Party City's low online retail pricing harmed the plaintiff's business, survived Party City's motion to dismiss. The court opined that if Party City's online pricing was designed to undermine the benefit of the bargain for the franchisee, a good faith and fair dealing claim might be sustainable.

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