

## BLOGS

Definition of a Franchise

# Minnesota Federal Court Holds that Optional Parts Purchases Do Not Constitute an Indirect Franchise Fee

A federal court in Minnesota recently granted summary judgment to a manufacturer on all claims brought against it by its distributor, holding that optional equipment purchases cannot constitute a franchise fee under the Minnesota Franchise Act. *Louis DeGidio, Inc. v. Indus. Combustion, Inc.*, 2021 WL 6127865 (D. Minn. Dec. 28, 2021).

A federal court in Minnesota recently granted summary judgment to a manufacturer on all claims brought against it by its distributor, holding that optional equipment purchases cannot constitute a franchise fee under the Minnesota Franchise Act. *Louis DeGidio, Inc. v. Indus. Combustion, Inc.*, 2021 WL 6127865 (D. Minn. Dec. 28, 2021). Plaintiff DeGidio filed suit against Industrial Combustion alleging, among other things, that its distributorship agreement had been wrongfully terminated. DeGidio operated as a distributor of Industrial Combustion's industrial burners and, as part of its service business, purchased replacement parts from Industrial Combustion. DeGidio argued that these purchases constituted a franchise fee, so that good cause was required for termination under the Minnesota Franchise Act. DeGidio also alleged breach of contract, promissory estoppel, tortious interference, and unjust enrichment claims against Industrial Combustion.

The court held that the purchases were not a franchise fee because, while required purchases above wholesale prices can constitute a franchise fee, optional purchases cannot. Industrial Combustion did encourage distributors to purchase parts from it, but there was no requirement that they do so. DeGidio did, in fact, purchase parts from other vendors. Accordingly, the court held that amounts paid for parts did not constitute an indirect franchise fee and dismissed DeGidio's franchise law violation claims. The court also found that Industrial Combustion did not breach the contract where no contractual provision limited its right to terminate with proper notice, that it was not subject to promissory estoppel where DeGidio did not reasonably rely on any assurances from Industrial Combustion, that Industrial Combustion did not interfere with DeGidio's prospective economic advantage, and that Industrial Combustion was not unjustly enriched where it had committed no illegal or wrongful act. As a result, the court entered summary judgment in favor of Industrial Combustion on all claims.

## Related People

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