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BLOGS

State Franchise and Dealer Laws

Sixth Circuit Affirms Application of Ohio Alcohol Distributor Protection Law's Successor-Manufacturer Exception to Parent-Level Sale

The United States Court of Appeals for the Sixth Circuit has affirmed a lower court's finding that the successor-manufacturer exception to Ohio's alcohol distributor protection law applies when termination follows the sale of an alcohol supplier's parent company to a third party. *Tri County Wholesale Distribs., Inc. v. Labatt USA Operating Co., LLC*, 2016 WL 3618970 (6th Cir. Mar. 17, 2016). Under ordinary circumstances, the Ohio statute requires a supplier to have "just cause" for termination of an alcohol distributor. There is, however, an exception to the just cause requirement when a successor manufacturer (i.e., an entity assuming control of supply as a result of the acquisition of an alcohol supplier) terminates a pre-existing distributor. In *Tri County*, the distributor was terminated following the sale of the supplier's parent entity. Sale of the parent gave the purchaser control over the subsidiary alcohol supplier, even though the supplier entity itself continued to be owned by the same parent entity. The terminated distributor sued, arguing that the sale of the parent did not qualify for the successor-manufacturer exception because the company sold (the parent) was not the entity actually supplying alcohol to distributors. The district court rejected the distributor's "hyperliteral" reading of the statute and found that the post-sale termination qualified for the exception and did not require the supplier to have just cause for termination.

The Sixth Circuit affirmed, condoning the control-based approach applied by the district court. In reviewing analogous case law, the Sixth Circuit distinguished the sale from an intra-company restructuring, which would not qualify for the exception. Because the termination was an exercise of newly acquired control over the business decisions of the supplier, the just cause standard did not apply. The court also concluded that the exception was not an unconstitutional governmental taking because distributor protection was a statutory right that the state was free to take away.

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