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FRANCHISE LAW

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I. INTRODUCTION

THIS article provides an update of certain significant developments in franchise law in Texas and in the Fifth Circuit during the Survey period. This article also highlights cases involving dealerships and distributorships that, in the authors' judgment, provide a relevant backdrop for franchising. Of particular interest to the franchise practitioner during this Survey period are cases dealing with a range of issues such as jurisdiction connected to sales from internet sites, the enforceability of arbitration clauses, parties' respective rights under the Petroleum Marketing Practices Act (PMPA), and the enforceability of non-competition covenants. In addressing the specific areas that affect franchise and distribution systems, this update has not attempted to explain the entire body of franchise law but, instead, has focused on those Texas and Fifth Circuit cases that are particularly instructive.

II. PROCEDURE

A. JURISDICTION

Courts continue to grapple with the issue of jurisdiction in internet cases. A federal district court considered this issue in *Carrot Bunch Co. v. Computer Friends, Inc.*¹ Carrot Bunch Companies filed suit against Computer Friends, Carrots Inks and Jimmie Moglia in the Northern District of Texas for violations of the Anticybersquatting Consumer Protection Act ("ACPA"), the Lanham Act, unfair competition, misappropriation, and the Texas tort of Injury to Business Reputation or Trade Name or Mark.² The plaintiff is a Texas corporation engaged in

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1. *Carrot Bunch Co. v. Computer Friends, Inc.*, 218 F. Supp. 2d 820 (N.D. Tex. 2002).

2. *Id.* at 822.

the business of selling ink jet cartridges. Computer Friends and Carrots Inks are Oregon corporations owned by Moglia, an Oregon resident, and are also engaged in the sale of ink cartridges. All three of the entities have websites to market and sell their goods. Carrot Bunch sued defendants because it alleged that they were improperly using a trademark that belonged to it.³ Carrots Inks and Moglia moved to have the court dismiss the claims against them arguing the absence of personal jurisdiction. Computer Friends consented to jurisdiction. Alternatively, all of the defendants moved to transfer the matter to a United States district court for the district of Oregon.⁴

The court in this matter looked to the "clear Fifth Circuit standard for assessing personal jurisdiction in Internet cases."⁵ "In *Mink v. AAAA Development L.L.C.*,⁶ the Fifth Circuit adopted the sliding scale test first set forth in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.* to evaluate the effects of a defendant's Internet activities" on the determination of personal jurisdiction.⁷

Zippo requires a court to look to the "nature and quality of commercial activity that an entity conducts over the Internet."⁸ The court in *Zippo* set forth three categories of activities. "The first category consists of situations where a defendant does business over the Internet by entering into contracts with residents of other states by knowingly and repeatedly transmitting computer files over the Internet."⁹ Courts have held that jurisdiction is proper in this situation.¹⁰

The second category "consists of situations where a defendant has a website that allows a user to exchange information with a host computer."¹¹ Courts determine jurisdiction in these cases by looking at "the level of interactivity and commercial nature of the exchange of information that occurs on the Web site."¹² "The more interactive and commercial the website is, the more likely it is that a court will find that the minimum contacts requirement is met."¹³

The third category "consists of situations where a defendant has merely posted information on an Internet website which is accessible to out of state users."¹⁴ This contact is not sufficient to satisfy the minimum contacts necessary to establish jurisdiction, because the nature of the information "does not necessitate an interaction between the website and the

3. *Id.* at 823.

4. *Id.* at 822.

5. *Id.* at 824.

6. *Mink v. AAAA Dev. L.L.C.*, 190 F.3d 333 (5th Cir. 1999).

7. *Carrott*, 218 F. Supp. 2d at 824; *see Mink*, 190 F.3d at 336 (5th Cir. 1999) (citing *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997)).

8. *Carrot*, 218 F. Supp. 2d at 825 (citing *Zippo Mfg. Co.*, 952 F. Supp. at 1124).

9. *Id.*

10. *Id.*

11. *Id.*

12. *Id.* (citing *Maritz, Inc. v. Cybergold, Inc.*, 940 F. Supp. 96 (E.D. Mo. 1996)).

13. *Id.*

14. *Id.*

user.”¹⁵

Carrots Inks sold products to Texas customers over the website and sent them e-mail confirmations. The court held that Carrots Inks’ operation of an interactive website to sell to Texas customers was of a type to warrant jurisdiction over it in Texas. It also found that Moglia’s intentional direction of his tortious conduct toward a company in Texas, the forum state, was sufficient to warrant jurisdiction in Texas.¹⁶ Therefore, the court denied the defendants’ motion to dismiss or transfer venue.¹⁷

Autobahn Imports, Inc. v. BMW of North America, L.L.C.,¹⁸ involved a franchisor’s motion to dismiss or motion to abate proceedings pending appeal of an administrative claim. Autobahn Imports, Inc., the franchisee, became a franchise dealer for BMW of North America, L.L.C. (BMW) in July 1992.¹⁹ In July 1999, BMW informed its dealers that in order to sell and service BMW’s new X5 Sports Activity Vehicles (X5 SAVs), being introduced that year, all dealers would have to sign a letter of intent and execute a new dealer agreement. The franchisee “refused to sign the letter of intent, claiming that the X5 SAV was covered under the existing Dealer Agreement.”²⁰ BMW informed the franchisee that it would not receive any of the X5 SAVs.²¹

The franchisee then filed an administrative complaint pursuant to the Texas Motor Vehicle Commission Code (“the Code”), alleging that BMW had violated the Code in distributing the X5 SAVs in Texas. The Texas Department of Transportation, Motor Vehicle Division (“the Board”), notified BMW of the complaint and imposed a statutory stay precluding BMW from violating the franchisee’s rights under the existing Dealer Agreement. BMW then delivered several X5 SAVs to the plaintiff’s competitors for promotion purposes and to take orders but failed to deliver any to the franchisee, which the franchisee alleged violates the statutory stay.²² In late November 1999, an agreed Interim Order was issued in the administrative action that ordered BMW to deliver new X5 SAVs to all Texas BMW dealers who held franchises under the BMW dealer agreement. In July 2001, “the Board issued a ‘Final Order,’ that found that [BMW] had violated section 5.02 of the Code and prohibited BMW from implementing a separate franchise agreement for the X5 SAV.”²³ BMW filed a motion for rehearing, which the Board denied.²⁴

After that, the franchisee filed a complaint against BMW in state court alleging several causes of action, including violations of the Code, viola-

15. *Id.*

16. *Id.*

17. *Id.* at 827.

18. *Autobahn Imports, Inc. v. BMW of N. Am., L.L.C.*, No. CIV-A 4:01-CY-926-Y, 2002 U.S. Dist. LEXIS 9379, at *1 (N.D. Tex. May 28, 2002).

19. *Id.* at *2.

20. *Id.*

21. *Id.*

22. *Id.*

23. *Id.* at *5.

24. *Id.*

tion of the automatic stay imposed by the Code, breach of the agreed interim order, breach of the dealer agreement, breach of the duty of good faith and fair dealing and recovery of attorneys' fees.²⁵ BMW removed the case to federal court. BMW filed a motion to dismiss or, alternatively, a motion to abate, claiming that the plaintiff's claims were "either premature or concern[ed] matters that fall within the exclusive or primary jurisdiction of the Board and [were] not properly before the court."²⁶ BMW argued that the court did not have jurisdiction to hear the case with respect to plaintiff's claims that were pursued before the Board, because the Board had not yet issued a final order.²⁷ The court found that the Board issued a final order on July 19, 2001, and that BMW filed a motion for rehearing, which was denied on October 24, 2001. Thus, "the Board's order became final on this date as the Board had determined that [BMW] had violated some of the provisions of the Code."²⁸ This concluded the administrative process. BMW appealed the Board's order to a state court in Travis County, Texas, pursuant to the Government Code. BMW requested, as an alternative form of relief, that the Court abate the case until BMW's appeal of the Board's decision in the state court action was finalized,²⁹ claiming that it was illogical and inefficient for the court to interpret the Code to allow a claim for damages before a final, non-appealable order had been entered. The court agreed and abated the action pending conclusion of the defendant's appeal in the state court action. Accordingly, the court denied the motion to dismiss, but granted the motion to abate.³⁰

*Subaru of America, Inc. v. David McDavid Nissan, Inc.*³¹ involved the interrelation between a trial court's original jurisdiction and the Board's original jurisdiction under the Code.³² The plaintiff was the owner of an Oldsmobile and a Subaru franchise. He wanted to move his dealerships to a new location. Subaru's regional vice-president allegedly orally consented to the relocation. The plaintiff moved his Oldsmobile franchise and prepared to move the Subaru franchise next to it.³³ Subaru then wrote to the plaintiff and stated that it would not allow any Subaru franchisee to move to that location. Consequently, the plaintiff terminated his Subaru dealership. The next year, Subaru allowed another dealer to move to a lot adjoining the plaintiff's proposed site.³⁴

The plaintiff sued Subaru for refusing to allow him to relocate and alleged that Subaru violated the Code provision that made it unlawful for a

25. *Id.* at *6.

26. *Id.*

27. *Id.*

28. *Id.* at *11.

29. *Id.* at *13.

30. *Id.* at *11-14.

31. *Subaru of America, Inc. v. David McDavid Nissan, Inc.*, 84 S.W.3d 212 (Tex. 2002)

32. *Id.* at 217.

33. *Id.*

34. *Id.*

manufacturer to unreasonably deny a dealership-relocation application.³⁵ Subaru filed a summary judgment motion, asserting that the plaintiff did not raise these claims before the Board and, consequently, could not bring these claims in court. The court granted Subaru's summary judgment motion.³⁶ On appeal, the court of appeals affirmed the trial court's dismissal of McDavid's Code claims and DTPA claims because they fell within the court's exclusive jurisdiction, but the court remanded McDavid's common law breach of oral contract claims for determination by the trial court.³⁷

The Supreme Court of Texas upheld the appellate court's jurisdictional determinations.³⁸ The Code states that the Board has general and original power and jurisdiction to regulate all aspects of the distribution, sale, and leasing of motor vehicles.³⁹ The Code's plain language, purposes, and scheme convinced the court that the Legislature did not confer exclusive jurisdiction on the Board over all issues or disputes related to motor vehicle sales and distribution.⁴⁰ Rather, the Board has exclusive jurisdiction over only those issues expressly identified in the Code as exclusively within the Board's purview.⁴¹ In this case, the parties had not raised any issues over which the Board had exclusive jurisdiction.

In making these determinations, the Texas Supreme Court considered the doctrine of primary jurisdiction.⁴² This doctrine arises when a plaintiff seeks a remedy in court and the issue or claim also falls within a regulatory scheme's subject matter.⁴³ The doctrine presumes that concurrent jurisdiction over an issue exists between the courts and the agency at issue except where the governing statute specifically provides the agency with exclusive jurisdiction.⁴⁴

B. ARBITRATION

Texas courts have written opinions during the Survey period regarding motions to compel arbitration, motions to stay underlying actions pending arbitration, and the ability to arbitrate certain claims under the parties' agreements.

In *Gary Barber v. Gloria Jean's Gourmet Coffees Franchising Corp.*,⁴⁵ the franchisee entered into a franchise license agreement and a store development agreement with its franchisor for the purchase and operation

35. *Id.*

36. *Id.* at 218.

37. *Id.*

38. *Id.* at 227-28.

39. *Id.* at 223.

40. *Id.* at 223-24.

41. *Id.*

42. *Id.* at 220-21.

43. *Id.*

44. *Id.*

45. *Gary Barber v. Gloria Jean's Gourmet Coffees Franchising Corp.*, No. CIV.A 3:01-CV-1027-P, 2002 U.S. Dist. LEXIS 630, at *1 (N.D. Tex. Jan. 17, 2002).

of a coffee store in Texas.⁴⁶ The agreements contained arbitration clauses and forum selection clauses.⁴⁷ The franchisee alleged that in connection with the negotiations of the agreements, the franchisor, or its agents, failed to disclose or misrepresented certain matters which were intended to and did induce them to enter into the transactions.⁴⁸ The franchisee filed suit under the Texas Deceptive Trade Practices-Consumer Protection Act (DTPA) and for breach of contract. The franchisor removed the case to federal court, answered on the merits, and sought to stay judicial proceedings in favor of arbitration some three months after commencement of suit.⁴⁹ Rejecting the franchisee's claim of waiver, the court held that the franchisor's conduct did not "constitute an invocation of the judicial process sufficient to effect a waiver of [its] right to arbitrate" under the agreement.⁵⁰ The franchisee also argued that the franchisor's choice of the California forum discouraged the litigation of valid claims by franchisees and, in the alternative, the agreement itself was unfair because of the unequal bargaining power of the parties. Because the franchisee failed to offer any proof to support his allegations, however, the court rejected this argument and stayed the case pending arbitration.⁵¹

In *Sharju Limited Partnership v. Choice Hotels International, Inc.*,⁵² another Texas district court granted a franchisor's motion to compel arbitration. This dispute arose out of a hotel franchisee's claim that Choice Hotels tortiously interfered with its contract to sell its franchised hotel to a third party. The franchisee claimed that Choice Hotels intentionally misrepresented the franchisee's ability to convey certain hotel properties to the third party, thus prompting the third party to abandon the sale.⁵³ Allegedly, Choice Hotels misrepresented the franchisee's compliance with a provision of the franchise agreement that provided Choice Hotels the right of first refusal. In response to these claims, Choice Hotels moved to compel arbitration pursuant to the written arbitration clause in the franchise agreement.⁵⁴ The court held that the arbitration clause was enforceable and reasoned that "the success or failure of Sharju's tortious interference claims depend[ed], as a legal matter, on whether the parties complied with the terms of the Franchise Agreement."⁵⁵ Since it was the performance or non-performance of a specific contractual duty created by the franchise agreement that formed a condition precedent to the maintenance of the franchisee's tort claim, the arbitration provision

46. *Id.* at *2.

47. *Id.* at *3-4.

48. *Id.* at *2.

49. *Id.* at *2-3.

50. *Id.* at *9.

51. *Id.* at *15.

52. *Sharju Ltd. P'ship v. Choice Hotels Int'l, Inc.*, No. Civ.A 3:01-CV-2605-X, 2002 U.S. Dist. LEXIS 1074, at *1 (N.D. Tex. Jan. 22, 2002).

53. *Id.* at *2.

54. *Id.* at *4.

55. *Id.* at *7.

would govern that tort claim and was the ultimate issue in the case.⁵⁶ The court reasoned that because Sharju's allegations were so interwoven with the provisions of the Franchise Agreement that its tortious interference claim cannot be maintained without reference to the contract, they fell within the scope of the arbitration clause.⁵⁷ As a result, the court stayed the lawsuit pending completion of the arbitration.

In *Cash America International, Inc. v. Exchange Services, Inc.*,⁵⁸ the franchisor of a check cashing business and the guarantor of the franchise agreement sought to arbitrate their disputes with the franchisee. Mr. Payroll Corporation, the franchisor, and Exchange Services, Inc., the franchisee, executed an amended and restated franchise agreement to be effective July 31, 2000. Cash America International, Inc. executed the agreement as guarantor. Under the agreement, if the franchisee did not operate the business in which a check-cashing facility was located, then the franchisor was required to lease or sublease the facility Location and in turn sublease its Location rights to the franchisee.⁵⁹ The franchise agreement required arbitration of "any and all" disputes with the franchisor and guarantor.⁶⁰ The court of appeals rejected the franchisee's two main arguments: (1) the landlord was a necessary party to the proceeding and could not be forced to arbitrate; and (2) it was proceeding only under lease documents that contained no arbitration clause.⁶¹ The court determined that if a party to a valid arbitration agreement could effectively negate the agreement by filing suit and joining into the suit any necessary or proper party who had not agreed to arbitrate, then agreements to arbitrate disputes would be, practically speaking, illusory. The court noted that the plain, unambiguous language of the arbitration provision before the court provided for arbitration of all disputes between the franchisee and the franchisor with specific exceptions for actions with regard to ownership or use of Proprietary Marks or fees to be paid under a specified section of the franchise Agreement.⁶² The court concluded that the dispute was within the scope of the arbitration provision.⁶³

In *Investment Partners, L.P. v. Glamour Shots Licensing, Inc.*, the Fifth Circuit was presented with the question of "whether an arbitration clause that prevents the award of punitive damages proscribes antitrust treble damages and whether, if so, the arbitration clause is void as against public policy."⁶⁴ The court affirmed the district court's decision that statutory treble damages were not equivalent to "punitive damages," that the arbi-

56. *Id.*

57. *Id.* at *8.

58. *Cash America Int'l, Inc. v. Exch. Serv., Inc.*, 83 S.W.3d 183 (Tex. App.—Amarillo 2002, no pet.).

59. *Id.* at 184.

60. *Id.*

61. *Id.* at 186.

62. *Id.* at 187.

63. *Id.*

64. *Inv. Partners, L.P. v. Glamour Shots Licensing, Inc.*, 298 F.3d 314 (5th Cir. 2002).

tration clause was enforceable, and that the parties were required to arbitrate.⁶⁵

III. THE FRANCHISE RELATIONSHIP, TERMINATION AND NON-RENEWAL

A. THE FRANCHISE RELATIONSHIP

Although franchisees and franchisors must comply with the Texas Business Opportunity Act, which protects businesses from false, misleading, or deceptive practices in the sale or lease of a business opportunity, Texas does not have a franchise specific relationship law.⁶⁶ Therefore, franchisees will allege, in addition to general contract claims, antitrust violations and other statutory causes of action that can possibly be construed to apply to the franchise relationship in an attempt to take advantage of more severe penalties. The Petroleum Marketing Practices Act ("PMPA") often used in this manner, is a federal statutory scheme created to regulate the termination and non-renewal of petroleum franchise relationships.⁶⁷

In *Shell v. Shell Oil Co.*,⁶⁸ franchisees of Shell-branded gasoline stations in California, Texas, and New York brought suit against the franchisor, Shell Oil Co., claiming that the requirement that the franchisees execute new agreements, accompanied by the threat that their franchises would not be renewed if they did not, constituted a constructive termination of the franchise relationship in violation of the PMPA. Section 2802(a) of the PMPA prohibits termination or nonrenewal of franchises unless the notification requirements of the PMPA are met and the termination or nonrenewal is based on specified grounds.⁶⁹

The correspondence at issue included a retail facility lease, a retail sales agreement, and a cover letter to the franchisees.⁷⁰ The cover letter stated that "if you do not sign and return the Lease and other enclosed documents in a timely manner, be advised that Equilon will issue without further warning a non-rescindable notice of non-renewal pursuant to the terms of the [PMPA]."⁷¹

The plaintiffs in this matter were composed of franchisees who had received the correspondence and those who would receive it in the future.⁷² They claimed that the PMPA contemplated a claim for constructive termination and that the franchisor's actions in this matter violated those provisions of the PMPA.⁷³

65. *Id.* at 315, 318.

66. Tex. Bus. & Com. Code Ann. §§ 41.001-303 (Vernon 2002).

67. 15 U.S.C. §§ 2801-2841 (2000).

68. *Shell v. Shell Oil Co.*, 216 F. Supp. 2d 634 (S.D. Tex. 2002).

69. 15 U.S.C. § 2802(a) (2000).

70. *Shell*, 216 F. Supp. 2d at 635.

71. *Id.*

72. *Id.*

73. *Id.*

Under the PMPA, one of the reasons a franchisor may refuse to renew a franchise is that the franchisee refuses to agree to changes or additions to a new franchise agreement.⁷⁴ Two conditions must be met, however:

- (i) such changes or additions are the result of determinations made by the franchisor in good faith and in the normal course of business, and
- (ii) such failure is not the result of the franchisor's insistence upon such changes or additions for the purpose of converting the [facility] to an operation by employees or agents of the franchisor for the benefit of the franchisor or otherwise preventing the renewal on the franchise relationship.⁷⁵

The court held that the franchisee-plaintiffs who had not received the agreements and cover letter did not have a cause of action because they were merely anticipating termination, but had not been threatened with it.⁷⁶ With regard to the plaintiffs who actually received the cover letter, the court held that the provisions of the PMPA did not support a claim for construction termination.⁷⁷ In doing so, the court reasoned that the PMPA provides a statutory remedy to insure that independent service station franchisees are not the victims of arbitrary and discriminatory termination and that statutory framework alleviates the necessity for any construction termination claim.⁷⁸

The court further noted that the danger with having a constructive termination theory in this situation is that a franchisee that is still operating profitably could render a claim for damages for alleged termination even if they suffered little or no injury.⁷⁹ The court determined that this was not a reasonable interpretation of the statute and declined "to recognize a constructive termination theory where the franchisor had given no definite notice of termination or non-renewal pursuant to § 2804, and the franchise relationship is ongoing."⁸⁰

B. TERMINATION AND NON-RENEWAL

As with most relationships, the most sensitive and difficult part of the franchise relationship is ending it. In *Exxon Corp. v. Mahmoud*,⁸¹ Exxon appealed the trial court's decision that it wrongfully terminated a service station franchise agreement with one of its service station owners.⁸² It was undisputed that Mahmoud had shown that Exxon terminated the franchise; therefore, the burden shifted to the franchisor to establish that the termination was proper under the PMPA.⁸³ The PMPA requires ter-

74. *Id.* at 636 (citing 15 U.S.C. § 2802(b)(3)(A) (2000)).

75. *Id.*

76. *Id.* at 639.

77. *Id.*

78. *Id.*

79. *Id.* at 641.

80. *Id.* (citing 15 U.S.C. § 2804 (2000)).

81. *Exxon Corp. v. Mahmoud*, No. 05-00-01927-Cu (Tex. App.—Dallas Jan. 25, 2001) (not designated for publication), 2002 WL 92867.

82. *Id.* at *1.

83. *Id.* at *2; 15 U.S.C. § 2805(c) (2000).

mination to be based on a ground set out in the PMPA.⁸⁴ One such ground for termination is that the franchisee breached a term of the franchise agreement that is both reasonable and of material significance to the franchise relationship.⁸⁵

The majority of the court's opinion was dedicated to evaluating which term of the franchise agreement the franchisee was accused of violating. Exxon asserted that Mahmoud used unscrupulous and unethical business practices in his business dealings related to a franchise not the subject of this litigation.⁸⁶ Exxon further asserted that Mahmoud's questionable business dealings were a violation of the public confidence provision of the franchise agreement which stated that "while displaying EXXON identification and offering products for sale, DEALER will: (D) Conduct DEALER'S business in a fair, scrupulous and ethical manner."⁸⁷

The court found, however, that the provision was clearly directed to the promotion and sale of Exxon products to its customers, and there was no evidence that Mahmoud displayed Exxon identification and offered Exxon products for sale while committing any of the allegedly unethical and unscrupulous activity.⁸⁸ Thus, the court held that Exxon failed to conclusively establish that its termination of Mahmoud's franchise was justified and affirmed the judgment in Mahmoud's favor.⁸⁹

IV. INTELLECTUAL PROPERTY

A. TRADEMARKS

1. *Infringement/Enforcement*

In *Pizza Hut, Inc. v. White*,⁹⁰ the court considered Pizza Hut's application for a temporary restraining order and motion for preliminary injunction and the defendant's motion to compel arbitration. Pizza Hut sought an injunction and other relief to enjoin franchisee White "from continuing to operate his restaurants using Pizza Hut's trademarks, trade names, logos, designs, and business and merchandising systems."⁹¹ Under the franchise agreement between parties, White was authorized during the effective period of the agreement to utilize the Pizza Hut trademarks.⁹² The parties entered into that agreement February 26, 1990.⁹³

By letter dated February 20, 2002, Pizza Hut notified White that he was in default under the terms of the Franchise Agreement.⁹⁴ White failed to

84. 15 U.S.C. § 2802(b) (2000).

85. *Id.* at § 2802(b)(2)(A).

86. *Exxon*, 2002 WL 92867, at *1.

87. *Id.* at *2.

88. *Id.* at *4.

89. *Id.*

90. *Pizza Hut, Inc. v. White*, No. Civ.A 3:02-CV-0790-L, 2002 U.S. Dist. LEXIS 19930, at *1 (N.D. Tex. Oct. 18, 2002).

91. *Id.*

92. *Id.* at *3.

93. *Id.*

94. *Id.*

cure the default and his franchise agreement was ultimately terminated.⁹⁵ Pizza Hut alleged, and White did not dispute, that White continued to operate his business under the Pizza Hut license system even though the franchise agreement had been terminated.⁹⁶

To prevail on a motion for preliminary injunction, a movant must establish that (1) “there is a substantial likelihood that [it] would prevail on all the merits; (2) there is a substantial threat that irreparable harm will result if the injunction is not granted; (3) the threatened injury outweighs the threatened harm to the defendant;” and (4) a preliminary injunction or temporary restraining order will not disserve the public interest.⁹⁷

Although many infringement cases are predicated on the defendant’s use of marks so similar to that of the plaintiff that the public will mistake the defendant’s product for those of the plaintiff, the Fifth Circuit has also recognized that “falsely suggesting affiliation with the trademark owner in a manner likely to cause confusion as to source or sponsorship constitutes infringement.”⁹⁸ The court held that White’s continued use of the Pizza Hut marks after the termination of the franchise agreement was likely to cause confusion between White’s products and those of authorized Pizza Hut franchisees.⁹⁹ The court found that White’s use of the marks gave the false impression or false suggestion that White’s restaurant was sponsored by and affiliated with Pizza Hut.¹⁰⁰ Accordingly, the court held that Pizza Hut satisfied the first prong of the requirements to obtain injunctive relief.¹⁰¹ The court further held that in a trademark infringement case, “a substantial likelihood of confusion constitutes irreparable injury.”¹⁰²

The court found in Pizza Hut’s favor on the remaining factors as well: that Pizza Hut’s harm would outweigh the threatened harm to White and that no disservice to the public interest would result from the granting of an injunction in Pizza Hut’s favor.¹⁰³ Because Pizza Hut satisfied all of the requisite factors for injunctive relief, the court issued a preliminary injunction.¹⁰⁴

In *Dial One of the Mid-South, Inc. v. Bellsouth Telecommunications, Inc.*,¹⁰⁵ a case cited in last year’s Survey, the franchisor of the Dial One

95. *Id.*

96. *Id.* at *4.

97. *Clarke v. Pritchard*, 812 F.2d 991, 993 (5th Cir. 1987); *Canal Auth. v. Callaway*, 489 F.2d 567, 572 (5th Cir. 1974) (en banc).

98. *Prof’l Golfers’ Assoc. v. Bankers Life & Cas. Co.*, 514 F.2d 665, 670 (5th Cir. 1975).

99. *Pizza Hut*, 2002 U.S. Dist. LEXIS 19930, at *9.

100. *Id.*; *Burger King Corp. v. Mason*, 710 F.2d 1480, 1492 (11th Cir. 1983) (“Common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor’s trademarks.”).

101. *Pizza Hut*, 2002 U.S. Dist. LEXIS 19930, at *9.

102. *Id.* at *10 (quoting *Ramada Franchisee Sys., Inc. v. Jacobcart, Inc.*, No. CIV.A3:01-CV-0306-D, 2001 U.S. Dist. LEXIS 6650 (N.D. Tex. May 17, 2001)).

103. *Pizza Hut*, 2002 U.S. Dist. LEXIS 19930, at *11-12.

104. *Id.* at *13.

105. *Dial One of the Mid-South, Inc. v. Bellsouth Telecommunications, Inc.*, 269 F.3d 523 (5th Cir. 2001).

plumbing and heating service business and two of its existing franchisees brought suit under the Lanham Act¹⁰⁶ against the publishers of a local telephone directory on the basis that the publishers' failure to remove an incorrect telephone listing for a former Dial One franchisee constituted infringement of the Dial One trademark.

The franchisor had terminated franchisee U.A. Durr in January 1998, and notified the publishers of the Yellow Pages and White Pages for southeastern Louisiana.¹⁰⁷ The defendant publishers nonetheless listed Durr as a franchisee of Dial One in the May 1998, edition of the Yellow pages and the October 1998, edition of the White pages.¹⁰⁸

The trial court entered judgment for the franchisor and its franchisees and awarded damages, but the defendant publishers appealed on grounds that the trial court erred in not applying an actual malice standard to the innocent infringer defense under §1114(2) of the Lanham Act.¹⁰⁹ The innocent infringer defense "limits persons bringing actions under §§1114(1) and 1125(a) to injunctive relief if the defendant is an innocent infringer."¹¹⁰ The defendant publishers contended that the trial court erred in using a standard of objective reasonableness to review their conduct and determine their status as innocent infringers.¹¹¹ Under the standard of objective reasonableness, a defendant is an innocent infringer only if his or her conduct is reasonable, regardless of state of mind.¹¹² The United States district court for the Eastern District of Louisiana held that the publishers' actions in failing to remove the incorrect listings were not objectively reasonable.¹¹³

The Fifth Circuit looked to the language of the statute¹¹⁴ and noted that:

[o]n its face, "innocent infringer" suggests a party who is without blame, but also may connote one who is without knowledge of a wrong or who has no improper motive. The latter interpretation suggests an unremarkable legal scheme whereunder any "infringer" will be held accountable, but an "innocent infringer" will not be subject to as stiff a penalty. Our task is to determine the legal significance of the term "innocent."¹¹⁵

Noting that the issue was one of first impression in the Fifth Circuit, the court held that the objective reasonableness standard is the proper standard for evaluating whether an infringer is innocent.¹¹⁶ The Fifth Circuit

106. 15 U.S.C. § 1125 (2000).

107. *Dial One*, 269 F.3d at 525.

108. *Id.*

109. *Id.*

110. 15 U.S.C. §1114(2) (2000).

111. *Dial One*, 269 F.3d at 525-26.

112. *Id.* at 525.

113. *Id.*

114. *Id.* (citing *Negonsott v. Samuels*, 507 U.S. 99, 104 (1993) (holding the best evidence of this intent is the language of the statute)).

115. *Dial One*, 269 F.3d at 525-26.

116. *Id.* at 526.

rejected the publishers' attempt to link their speech to the protection of the Constitution and found there was no constitutional mandate to protect the publishers' type of speech under the heightened actual malice standard, that certain inconsistencies in the legislative history were not probative and most importantly, "the logic of the actual malice standard is not appropriate in this context."¹¹⁷

The Fifth Circuit focused on the United States Supreme Court holding that matters not of public concern are not judged under the actual malice standard¹¹⁸ in finding that, "[a]lthough the trademark at issue in this case was certainly a matter of public consumption, the improper listing of a service repair business is hardly a matter of public concern such that the improper listing should be protected."¹¹⁹ The Fifth Circuit went even further to state that the public interest is best served by the lesser objective reasonableness test "to promote accuracy in this type of speech."¹²⁰

2. *Cybersquatting*

In Texas, the victims of cybersquatters have in the past relied on the injunctive relief available under the Texas Anti-Dilution Statute.¹²¹ The Texas Anti-Dilution Statute permits a party to enjoin an act that is likely to dilute the distinctive quality of a registered or otherwise protectable mark.¹²² The party must prove ownership of the mark and a likelihood of dilution.¹²³ In November of 1999, Congress passed the Anti-Cybersquatting Consumer Protection Act ("ACPA")¹²⁴ which offers additional protections and enforcement tools for traditional trademark infringement claims under the Lanham Act,¹²⁵ federal¹²⁶ or state trademark dilution statutes,¹²⁷ and common law unfair competition doctrines.

The ACPA provides for civil liability to the owner of a mark in circumstances where it is determined the registrant:

- (1) has a bad faith intent to profit from that mark, including a personal name which is protected as a mark under this section; and
- (2) registers, traffics in, or uses a domain name, [which], in the case of a mark that is distinctive at the time of registration of the domain name, is identical or confusingly similar to that mark, [or, in] the case of a famous mark that is famous at the time of registration of the domain name, is identical or confusingly similar to or dilutive of that mark.¹²⁸

117. *Id.*

118. *Dun & Bradstreet, Inc. v. Greenmoss Builders, Inc.*, 472 U.S. 749, 760 (1989).

119. *Dial One*, 269 F.3d at 527.

120. *Id.*

121. TEX. BUS. & COM. CODE ANN. § 16.29 (Vernon 2002).

122. *Id.*

123. *Pebble Beach Co. v. Tour 18 I Ltd.*, 942 F. Supp. 1513, 1514 (S.D. Tex. 1996).

124. 15 U.S.C. § 1125(d) (2000).

125. *Id.* at § 1114(1).

126. *Id.* at § 1125(c).

127. TEX. BUS. & COM. CODE ANN. § 16.29.

128. 15 U.S.C. §§ 1125(d)(1)(A), § 1129 (2000).

In *E. & J. Gallo Winery v. Spider Webs Ltd.*,¹²⁹ the Fifth Circuit considered the summary judgment granted by the district court for the Southern District of Texas that awarded damages and injunctive relief to E. & J. because Spider Webs had registered the domain name “ernestandjulio-gallo.com” in bad faith and in violation of the ACPA.¹³⁰ Spider Webs appealed the ruling claiming that it did not act with a “bad faith intent” to profit as required by the ACPA.¹³¹

After considering several factors, including the fact that (1) Spider Webs bought over 2,000 famous domain names with the express intent to resell them to the companies that would have an interest in using them; (2) Spider Webs did not begin to use the domain name until after the litigation began; (3) E. & J.’s mark was well known in the marketplace; and (4) Spider Webs sought to capitalize on E. & J.’s good will, the court found that Spider Webs had acted in bad faith.¹³² Therefore, it upheld the district court’s ruling of the transfer of the domain name and the award of damages.¹³³

In *Goldstein v. Gordon*,¹³⁴ the district court considered the issue of jurisdiction with regard to a domain name under the ACPA. On January 2, 1998, Philip Alexander Gordon registered the name “cheaters.com” with an internet domain name registrar and database company.¹³⁵ On January 6, 2000, plaintiff Robert Goldstein filed suit against Gordon claiming that he had engaged in unfair competition under the Lanham Act by taking illegal ownership of and illegally using the domain name “www.cheaters.com.”¹³⁶ The District Court issued a summons to Gordon at an address in Canada, but the summons was never served.¹³⁷

Goldstein was unable to locate Gordon. He amended his complaint to add the domain name itself as a defendant.¹³⁸ Goldstein urged the court to proceed against the domain name *in rem* pursuant to 15 U.S.C. § 1125(d)(2)(A).¹³⁹ Goldstein later filed a motion for a finding of no personal jurisdiction over defendant Phillip Alexander Gordon.¹⁴⁰ In the motion, Goldstein requested that the court find that service was proper on the domain name because he could not obtain personal jurisdiction over Gordon.¹⁴¹ The court granted the motion.¹⁴² Subsequently, the court granted a default judgment against cheaters.com and in favor of

129. *E. & J. Gallo Winery v. Spider Webs Ltd.*, 286 F.3d 270 (5th Cir. 2002).

130. *Id.* at 273.

131. *Id.* at 274.

132. *Id.* at 275-77.

133. *Id.*

134. *Goldstein v. Gordon*, No. Civ. A 3:00-CV-0022-P, 2002 U.S. Dist. LEXIS 3348, at *1 (N.D. Tex. Feb 27, 2002).

135. *Id.* at *2.

136. *Id.*

137. *Id.*

138. *Id.* at *3.

139. *Id.*

140. *Id.* at *4.

141. *Id.* at *4-5.

142. *Id.* at *5.

Goldstein.¹⁴³ Nine months after the motion for default was granted, cheaters.com moved to set aside the default judgment because the court lacked personal and *in rem* jurisdiction.¹⁴⁴

Cheaters.com claimed the default judgment was void.¹⁴⁵ The two factors used by the court to determine voidness are “(1) whether the court lacks jurisdiction over the subject matter or the parties or (2) if the court acted in a manner inconsistent with due process.”¹⁴⁶ The court examined the ACPA provisions upon which the default judgment was based,¹⁴⁷ and in particular, the provisions that address when a plaintiff can file an *in rem* action against the mark.¹⁴⁸ The court found that “the ACPA provides for *in rem* jurisdiction against a domain name only in those circumstances where *in personam* jurisdiction is not available or where the individual defendant cannot be located after a diligent effort.”¹⁴⁹ Courts have also held that a plaintiff must prove that the individual defendant is not subject to “*in personam* jurisdiction . . . in *any* judicial district in the United States.”¹⁵⁰

The *Goldstein* court ruled that Goldstein failed to establish that Gordon “was not subject to *in personam* jurisdiction in any judicial district in the United States.”¹⁵¹ In doing so, the court noted that in one of Goldstein’s pleadings, he listed a California address for Gordon on the certificate, which turned out to be the address at which Gordon could have been reached.¹⁵² Since Goldstein could have obtained personal jurisdiction over Gordon, the court ruled Goldstein could not maintain an *in rem* action against cheaters.com and the default judgment was void.¹⁵³ As a result, the court set aside the default judgment against cheaters.com.¹⁵⁴

Also noteworthy is the fact that the court also granted sanctions against Goldstein for his misrepresentations to the court regarding his attempts and inability to serve Gordon.¹⁵⁵

V. COMMON LAW CLAIMS

A. CONTRACT ISSUES

In *Haase v. Glazner*,¹⁵⁶ the Texas Supreme Court held that a contract

143. *Id.*

144. *Id.* at *5-6.

145. *Id.* at *5.

146. *Id.* (citing *Carter v. Fenner*, 136 F.3d 1000, 1006 (5th Cir. 1998)).

147. *Id.* at *8.

148. *Id.*

149. *Id.* at *9.

150. *Id.* (citing *Heathmount A.E. Corp. v. Technodome. Com.*, 106 F. Supp. 2d 860, 867 (E.D. Va. 2000)).

151. *Id.* at *11.

152. *Id.*

153. *Id.* at *4.

154. *Id.* at *19.

155. *Id.* at *27.

156. *Haase v. Glazner*, 62 S.W.3d 795 (Tex. 2002).

to sell a franchise was unenforceable under the Statute of Frauds and could not support a fraud or fraudulent inducement claim.¹⁵⁷ Glazner worked for Haase at a Whataburger. Haase promised to sell his franchise to Glazner. The negotiations were set forth in three letters that were sent to Whataburger. Whataburger never granted a franchise to Glazner. Glazner sued Haase alleging breach of contract, fraud, fraudulent inducement and unjust enrichment.¹⁵⁸ Haase moved for summary judgment, which the trial court granted. On appeal, the court affirmed the summary judgment on all claims except those for fraud and fraudulent inducement.¹⁵⁹ On the fraudulent inducement claim, the Texas Supreme Court reversed and held, that without a contract, there could be no claim that a party was fraudulently induced to enter into a contract.¹⁶⁰ On the fraud claim, the court held that, to the extent Glazner sought to recover the benefit of the bargain of a contract that was unenforceable under the Statute of Frauds, the statute bars the claim.¹⁶¹ The court did find that any claim for out-of-pocket damages was extra-contractual and would survive the Statute of Frauds.

B. VICARIOUS LIABILITY

In *Khan v. Shell Oil Co.*,¹⁶² an automobile service station attendant brought claims against the service station franchisor for negligent failure to maintain a safe work place as a result of injuries sustained when Khan was shot during an armed robbery at the Shell service station where he worked.¹⁶³ Reversing the trial court's summary judgment, the court held that a fact question existed concerning whether security-related matters, over which the franchisor had the right to exercise control, played a part in the shooting or the robbery during which the attendant was shot.¹⁶⁴ The court noted that the terms of the station lease and dealership agreement supported the position that the franchisor had a right to control the security-related matters at the station and, therefore, had a duty to provide a safe work place for the employee.¹⁶⁵ Indeed, the contracts required the franchisee to obtain the franchisor's permission before installing new lights for greater illumination, installing bullet proof glass, or even putting up a sign that announced minimal cash on hand.¹⁶⁶ Similarly, the franchisee needed the franchisor's permission before installing a security camera.¹⁶⁷ Furthermore, the court reasoned that, although the franchisee had to request the franchisor's permission to make certain

157. *Id.* at 796.

158. *Id.*

159. *Id.* at 797.

160. *Id.* at 798.

161. *Id.* at 798-99.

162. *Khan v. Shell Oil Co.*, 71 S.W.3d 890 (Tex. App.—Texarkana 2002, pet. granted).

163. *Id.* at 891-92.

164. *Id.* at 894.

165. *Id.* at 892-93.

166. *Id.* at 893.

167. *Id.*

changes related to security, the franchisor had the power to step in at any time and make security-related changes itself.¹⁶⁸

C. TORTIOUS INTERFERENCE

In *Butnaru v. Ford Motor Co.*,¹⁶⁹ a Ford dealer wished to sell its dealership to another party. The dealership's agreement with Ford, however, granted Ford a right of first refusal with respect to the dealership and the land on which it operated.¹⁷⁰ Butnaru, the prospective buyer of the dealership, sued Ford, for tortious interference and injunctive relief claiming that by invoking its right of first refusal, Ford tortiously interfered with its purchase and sale agreements with the dealer, in violation of the Code.¹⁷¹ The trial court granted the injunctive relief requested.¹⁷² On appeal, Ford argued that this was a simple breach of contract case, and injunctive relief was not proper.¹⁷³ Upholding the trial court's decision granting a temporary injunction using an abuse of discretion standard, the court held that property and dealership were unique, and even though the sale was the subject of a contract, the fact that it involved a piece of land was sufficient to warrant injunctive relief.¹⁷⁴

In *Apani Southwest, Inc. v. Coca-Cola Enterprises, Inc.*,¹⁷⁵ a bottled beverage seller brought antitrust, tortious interference, and civil conspiracy claims against a competitor which had entered into an exclusive supply arrangement with the City of Lubbock, Texas.¹⁷⁶ The Fifth Circuit affirmed the court's dismissal of the seller's tortious interference claims, holding that Apani failed to present sufficient evidence that the actions of Coca-Cola Enterprises, Inc. ("CCE") were unlawful or independently tortious, which are two essential elements of claims based on tortious interference with an existing business relationship or tortious interference with a prospective business relationship.¹⁷⁷

VI. STATUTORY CLAIMS

A. TEXAS DECEPTIVE TRADE PRACTICES- CONSUMER PROTECTION ACT

In *Subaru of America, Inc. v. David McDavid Nissan, Inc.*,¹⁷⁸ Subaru filed suit against David McDavid Nissan, Inc. ("McDavid") for violating the Code, the DTPA and for breach of contract and the duty of good faith

168. *Id.*

169. *Butnaru v. Ford Motor Co.*, 84 S.W.3d 198 (Tex. 2002).

170. *Id.* at 201.

171. *Id.*

172. *Id.*

173. *Id.*

174. *Id.* at 210-12.

175. *Apani Southwest, Inc. v. Coca-Cola Enterp., Inc.*, 300 F.3d 620 (5th Cir. 2002).

176. *Id.* at 623-24.

177. *Id.* at 634.

178. *Subaru of Am., Inc. v. David McDavid Nissan, Inc.*, 84 S.W.3d 212 (Tex. 2002).

and fair dealing.¹⁷⁹ McDavid alleged that Subaru gave oral permission to relocate a dealership, but after relocation began, denied the permission.¹⁸⁰ McDavid also alleged that after it closed its dealership, Subaru allowed another dealership to relocate next to the proposed spot.¹⁸¹ During the pendency of the claim, the Texas Legislature amended the Code to provide for the exclusive jurisdiction over Code related claims with the Board.¹⁸² As a result, the Texas Supreme Court held that the Code-based claims (DTPA, bad faith and breach of oral contract) were remanded to the trial court, which was ordered to abate its proceeding until the dealer exhausted the administrative remedies provided for in the Code.¹⁸³

B. COVENANTS NOT TO COMPETE

1. *Noncompetition Agreement Not Enforced*

In *Total Car Franchising Corp. v. Esh*,¹⁸⁴ the plaintiff, Total Car Franchising Corporation ("TCFC"), filed suit against David Esh ("Esh") and Perfect Appearance, Inc. ("PAI") alleging breach of a noncompetition agreement, breach of contract, unjust enrichment, breach of the covenant of good faith and fair dealing, as well as violations of Texas and Georgia trade secrets acts.¹⁸⁵ TCFC entered into a franchise contract with Esh on behalf of PAI for mobile paint restoration for automobiles, certain types of watercraft and aircraft under the franchise agreement.¹⁸⁶ TCFC granted PAI a franchise with a territory that consisted of four automobile dealerships in Atlanta, Georgia.¹⁸⁷ Less than two years after the franchise agreement was executed, Esh notified TCFC that he would be terminating his franchise.¹⁸⁸ Two months later, however, Esh notified TCFC that he wished to rescind his franchise termination and transfer his franchise to Dallas, Texas, and Esh moved to Dallas.¹⁸⁹ Esh and TCFC never modified the franchise contract in writing to reflect a transfer of the franchise to Dallas.¹⁹⁰

Once in Dallas, Esh worked for TCFC but was ultimately terminated due to a compensation dispute.¹⁹¹ Esh retained the accounts he had obtained while working for TCFC in Dallas and sought to compete with TCFC in the Dallas area.¹⁹² TCFC sought a preliminary injunction to

179. *Id.* at 217.

180. *Id.*

181. *Id.*

182. *Id.* at 219.

183. *Id.* at 228.

184. *Total Car Franchising Corp. v. Esh*, No. 3:02-CV-0141-R, 2002 U.S. Dist. LEXIS 22148, at *1 (N.D. Tex. Dec. 4, 2002).

185. *Id.* at *1.

186. *Id.*

187. *Id.*

188. *Id.*

189. *Id.* at *2-3

190. *Id.* at *3.

191. *Id.*

192. *Id.* at *1-2.

prohibit Esh from competing against TCFC in the Dallas-Ft. Worth metropolitan area.¹⁹³ The United States magistrate judge held that TCFC failed to present evidence of irreparable harm and, thus, TCFC failed to provide evidence of one of the seminal elements of an injunction action.¹⁹⁴

C. ANTITRUST

In *Apani Southwest, Inc. v. Coca-Cola Enterprises, Inc.*,¹⁹⁵ the Fifth Circuit upheld a trial court's dismissal of antitrust, tortious interference, and civil conspiracy claims due to the plaintiff's failure to establish essential elements of the claims plead. Apani is a manufacturer of bottled water operating in and around Lubbock, Texas. Apani had a relationship with the city that allowed Apani to sell its product in the facilities owned by the city.¹⁹⁶ In 1999, the city entered into an exclusive contractual agreement with CCE allowing CCE to supply non-alcoholic beverages to facilities owned and operated by the city.¹⁹⁷ Apani sued, asserting claims under the Clayton Act, the Sherman Act, and the Texas Free Enterprise and Antitrust Act of 1983, Texas Business and Commerce Code section 15.01. In addressing the antitrust claims, the court focused on the requirement under all of the acts to define the relevant geographic market.¹⁹⁸ Affirming the district court's dismissal, the court held that Apani failed to allege a relevant geographic market, and the alleged market "did not correspond to the commercial realities of the industry."¹⁹⁹

D. THE TEXAS BUSINESS AND COMMERCE CODE

In *Mathis v. Exxon Corp.*,²⁰⁰ the court analyzed the plaintiffs' claims under the Texas analogue of the Uniform Commercial Code-Sales (UCC).²⁰¹ "The franchisees originally filed Sherman Act, Clayton Act, and [PMPA] claims against Exxon in addition to the breach of contract claim. The antitrust claims were abandoned and the district court granted Exxon judgment as a matter of law on the PMPA claims."²⁰²

Plaintiffs argued that Exxon had set the dealer tank wagon ("DTW") gasoline price at an uncompetitive level to drive them out of business, in order to replace their stores with company owned stores. Exxon argued that, "because it charged its franchisees a DTW price comparable to that charged by its competitors, the breach of contract claim was precluded as

193. *Id.*

194. *Id.* at *7.

195. *Apani Southwest, Inc. v. Coca-Cola Enterp., Inc.*, 300 F.3d 620 (5th Cir. 2002).

196. *Id.* at 623.

197. *Id.* at 624.

198. *Id.* at 625-26.

199. *Id.* at 633.

200. *Mathis v. Exxon Corp.*, 302 F.3d 448, 452 (5th Cir. 2002).

201. *Id.*

202. *Id.*

a matter of law.”²⁰³ The court spent a large portion of its opinion analyzing the meaning of the term “good faith” throughout the UCC,²⁰⁴ even citing the history of comments to the UCC and the background discussions from the editorial board.²⁰⁵ The court determined that it was required to “examine the content of the duty of subjective good faith,” even though no Texas or Fifth Circuit case [had] squarely addressed the meaning of the good faith clause of § 2.305” (the open price provision) of the Texas Business & Commerce Code.²⁰⁶

The court determined that Exxon’s bad faith was shown by the record.²⁰⁷ The court stated that because of “competition of self-service stations that were either selling food and other goods or had bare pumps with no overhead costs incurred in serving vehicles, Exxon decided years ago that retail marketing through franchise dealers was becoming economically unsound.”²⁰⁸ “Although Exxon had decided to move to [company operated retail stores] in Houston and to use jobbers in Corpus Christi, this decision was not communicated to its franchisees.”²⁰⁹ “Because of profit from their other sales, [company operated retail stores] could, and did, sell gas for less than the franchise dealers paid Exxon for their gas.”²¹⁰ And even though “jobbers delivered Exxon gas to their dealers for less than Exxon franchisees were required to pay for their delivered gas, . . . Exxon prohibited franchisees from buying at this lower price from the jobbers.”²¹¹ The court stated that “[t]he loss of competitive position and profit to plaintiff franchisees was inevitable and foreseeable to Exxon.”²¹² The court held that the “jury’s finding that Exxon breached its duty of good faith in setting the DTW price it charged the plaintiffs [was] not without foundation in the law or the evidence” and affirmed the jury verdict.²¹³

VII. REMEDIES: DAMAGES AND INJUNCTIVE RELIEF

A. COMPENSATORY DAMAGES

During the Survey period, the Dallas Court of Appeals reduced an actual damages award from \$7.367 million to \$1.667 million, finding that the evidence was insufficient to support the jury’s award of actual damages.²¹⁴ In *Shell Oil Products Co. v. Main Street Ventures, L.L.C.*,²¹⁵ a

203. *Id.* at 453.

204. *Id.* at 453-59.

205. *Id.*

206. *Id.* at 458.

207. *Id.* at 459.

208. *Id.*

209. *Id.*

210. *Id.*

211. *Id.*

212. *Id.*

213. *Id.*

214. *Shell Oil Prods. Co. v. Main St. Ventures, L.L.C.*, 90 S.W.3d 375 (Tex. App.—Dallas 2002, no pet.).

215. *Id.*

gasoline station development company brought suit against Shell's production and marketing company for breach of contract, negligent misrepresentation, and fraud arising from the parties plans to develop a retail business concept that combined fast-food courts with gas stations. After finding in favor of the plaintiff, Main Street, on its breach of contract, fraud, and negligent misrepresentation claims, the jury further found:

Main Street (1) spent \$1.7 million of its own money in reliance on promises or representations made by Shell, (2) lost \$4 million from turning down opportunities to sell interests in Main Street in reliance on promises or representations made by Shell, and (3) was unable to pay \$1.667 million in debts as a result of Shell's conduct.²¹⁶

Shell challenged the jury's damage award on appeal on four "no evidence" grounds: (1) Main Street was not the appropriate entity to recover damages, as it was formed after some of the alleged losses; (2) Main Street was not entitled to recover the \$1.7 million allegedly spent in reliance on promises, as the funds were expended by other entities and there was insufficient evidence of reliance; (3) the \$4 million loss from turning down the opportunity to sell was not foreseeable and directly traceable to the fraud; and, (4) there was insufficient evidence to support finding that Main Street was unable to pay its debts as a result of Shell's conduct.²¹⁷ First, with regard to Main Street's ability to recover damages, Shell contended that Main Street was not entitled to recover money allegedly spent in reliance on the relationship, as the Main Street entity was not formed until after the funds were spent.²¹⁸ The court disagreed and determined that the fact that Main Street was formed after the money was spent did not necessarily preclude the recovery of damages.²¹⁹ Further, the court found there was evidence that the entities expending funds were "wholly owned subsidiaries of Main Street and that their assets were to be included in the joint venture through Main Street as the holding company."²²⁰

Second, Shell challenged the sufficiency of the evidence that the \$1.7 million was spent in reliance on representations by Shell. The Court of Appeals reversed this award of damages finding that, at best, the evidence showed only the money Main Street claimed was put into the food court/gas station concept as its own contribution to the joint venture and

216. *Id.* at 383. In addition, the jury found "Main Street's lost \$2.2 million as the foreseeable value of its forty percent interest in the joint venture as of September 1, 1997." *Id.* at 380. Main Street elected to recover under its fraud claim but declined the jury's \$2.2 million award under this cause of action to avoid any duplicative recovery." *Id.* at 380-81.

217. *Id.* at 383-86. "When analyzing a legal sufficiency or 'no evidence' issue, we consider the evidence in a light most favorable to the challenged finding, disregarding all evidence and inferences to the contrary." (citing *Bradford v. Vento*, 48 S.W.3d 749, 754 (Tex. 2001)). "If there is more than a scintilla of evidence to support the finding, the evidence is legally sufficient and the no evidence challenge must fail." (citing *Formosa Plastics Corp. USA v. Presidio Eng'rs & Contractors, Inc.*, 960 S.W.2d 41 (Tex. 1998)).

218. *Id.* at 383.

219. *Id.*

220. *Id.*

had no connection to representations by Shell.²²¹

Third, Shell challenged the recovery of consequential damages in the form of a \$4 million loss from turning down opportunities to sell interest in Main Street to others.²²² Under Texas common law, a party is entitled to recover consequential damages when such damages are reasonable and directly traceable to and result from the fraud.²²³ On appeal, Main Street and Shell agreed that \$4 million dollars was the value of the offer to purchase received by Main Street; however, Shell argued that the \$4 million funding offer was not evidence of the value of the damages or loss suffered by Main Street. Based upon an opinion out of the Bankruptcy Court for the Southern District of New York, Main Street argued that it was not required to offer evidence of the "net benefit" it lost by relying upon misrepresentations by Shell.²²⁴ According to Main Street, in *In re Coin Phones, Inc.*,²²⁵ the bankruptcy judge used the exact dollar amount of a proposed capital infusion to determine the company's value, regardless of the fact that a large portion of the infusion would be used to pay the company's outstanding debt. The Dallas Court of Appeals, however, distinguished the *Coin Phones* decision from the present case, as Main Street had failed to present any evidence as to how the \$4 million would have been used. Moreover, the court reasoned that even if it assumed the money would be used for new stores, there was no evidence as to how many stores would be built or what the value of these stores would have been. Thus, the court held that there was no evidence that Main Street suffered \$4 million in damages by merely turning down the funding offer and reversing the jury's award of \$4 million in damages.

In the fourth challenge, Shell argued that there was no evidence to support an award of consequential damages based upon Main Street's inability to pay \$1.667 million in debts.²²⁶ The court found Main Street was only required to prove that its inability to pay its debts was a "natural, probable, and foreseeable consequence of Shell's conduct."²²⁷ Because there was evidence that Main Street was responsible for the debts, and its inability to pay them was caused by Shell's conduct, the award of \$1.667 million in actual damages was upheld. As a result of these rulings and substantial reduction of Main Street's actual damages, the award of exemplary damages was reformed to two times the remaining actual dam-

221. *Id.* at 384. The damages claimed included items such as the seed money and money used to purchase the first location which was bought several months before negotiations with Shell.

222. *Id.*

223. *Id.* (citing *Formosa Plastics Corp.*, 960 S.W.2d at 49 n.1) ("When properly pleaded and proved, consequential damages that are foreseeable and directly traceable to the fraud and result from it might be recoverable.").

224. *Id.* at 385.

225. *In re Coin Phones, Inc.*, 203 B.R. 184 (S.D.N.Y. 1996), *aff'd*, 189 F.3d 460 (2d Cir. 1999).

226. *Shell Oil Prods.*, 90 S.W.3d at 385.

227. *Id.* at 386.

ages for a total of \$3.334 million.²²⁸

Quite often the damages that are recoverable for a cause of action vary depending upon the applicability of certain affirmative defenses. This very issue was addressed by the Texas Supreme Court in *Haase v. Glazner*,²²⁹ when asked to decide “whether a party can maintain a claim based on either fraud or fraudulent inducement when that claim is premised on a contract that the Statute of Frauds makes unenforceable.”²³⁰ In *Haase*, the court held that a plaintiff could not assert a fraudulent inducement claim when the contract that was allegedly induced was unenforceable due to the Statute of Frauds.²³¹ In light of this ruling, the Texas Supreme Court further held that due to the application of the Statute of Frauds, the plaintiff was not entitled to recover “benefit of the bargain” damages on its fraud claim, but that a fraud claim based upon “out-of-pocket” damages may survive.²³²

The dispute in *Haase v. Glazner*, involved a claim by Glazner, a former employee of Haase, who owned the Whataburger franchise for the City of Longview, Texas. More specifically, Glazner alleged that he and Haase had entered into a contract whereby Haase would allow Glazner to build an additional Whataburger in Haase’s franchise area, and upon Haase’s retirement he would sell his restaurants to Glazner.²³³ In addition, Glazner agreed that if he ever decided to sell his future Whataburger restaurant, he would sell it to Haase.²³⁴ During the time period of Glazner’s employment, Whataburger did not grant any new franchises. After Glazner quit working for Haase, Haase opened a new Whataburger location in the area Glazner contended was his. Glazner then brought suit for breach of contract, fraudulent inducement, fraud, and unjust enrichment.²³⁵

Following the affirmation of the trial court’s ruling that Glazner’s claims for breach of contract and fraudulent inducement were barred by the Statute of Frauds, the court addressed whether the surviving fraud claim was still viable under such circumstances.²³⁶ The court then analyzed what, if any, damages may be recovered by Glazner.²³⁷ The court recognized that “although economic losses may be recoverable under either fraud or fraudulent inducement,” its prior holding in *Formosa Plastics* “should not be construed to say that fraud and fraudulent inducement are interchangeable with respect to the measure of damages that would

228. *Id.* (citing TEX. CIV. PRAC. & REM. CODE ANN. § 41.008(b)(1)(A) (Vernon Supp. 2002)).

229. *Haase v. Glazner*, 62 S.W.3d 795 (Tex. 2002).

230. *Id.* at 796.

231. *Id.* at 800.

232. *Id.*

233. *Id.* at 796.

234. *Id.*

235. *Id.* at 796-97.

236. *Id.* at 798.

237. *Id.*

be recoverable.”²³⁸ Thus, the court opined that “nothing in *Formosa Plastics* prevents the Statute of Frauds from precluding a fraud claim that seeks to recover the benefit of an unenforceable bargain.”²³⁹

The court had previously considered a similar issue in *Nagle v. Nagle*²⁴⁰ wherein the court found that enforcing an oral promise to convey land under a fraud claim would render the Statute of Frauds meaningless.²⁴¹ The court found that the same reasoning held true on Glazner’s fraud claim. To the extent that Glazner sought to recover the benefit of the unenforceable bargain, awarding such damages would deprive the Statute of Frauds of any effect.²⁴² The purpose of preventing the enforcement of an agreement, which is not reduced to writing as required, would be frustrated if a party could use a fraud cause of action to enforce the alleged contract. On the other hand, “Glazner’s fraud claim would not contravene the Statute of Frauds to the extent that he seeks out-of-pocket damages incurred in relying upon Haase’s alleged misrepresentations.”²⁴³ The record on appeal showed that Glazner had made efforts concerning demographics, décor, potential profits and location, as well as hired a surveyor and entered into an earnest money contract for a site on which he proposed to build his restaurant.²⁴⁴ The court stated that these kinds of damages are not part of the benefit of any alleged bargain between the parties and may be recovered as out-of-pocket damages.²⁴⁵

Further, in a legal malpractice action by a franchisee against his former attorneys, the Beaumont Court of Appeals re-visited the issue of the franchisee’s alleged damages in the underlying dispute with the franchisor.²⁴⁶ Because the Fifth Circuit in the underlying case concluded that the franchisee,²⁴⁷ Yankee, presented no credible evidence to support the jury’s finding of damages, at issue in the malpractice lawsuit was whether the franchisee had in fact suffered any recoverable damages that his counsel failed to prove.²⁴⁸ The only evidence of damages offered was in the form of an affidavit by the principal of the franchisee. Under Texas law, “an owner of property is qualified to testify about the market value of his property;” however, the testimony must show not only his knowledge of the market value, but also show that it is based on more than his

238. *Id.*

239. *Id.* at 779 (stating that statute of frauds was not at issue in *Formosa Plastics* and thus the court had no occasion to consider its possible effect on a fraud claim premised on an unenforceable contract).

240. *Nagle v. Nagle*, 633 S.W.2d 796 (Tex. 1982).

241. *Haase*, 62 S.W.3d at 799.

242. *Id.*

243. *Id.*

244. *Id.* at 799-800.

245. *Id.* at 800.

246. *Nelson v. Dykeman*, No. 09-01-226CV (Tex. App.—Beaumont April 11, 2002, pet. denied) (not designated for publication), 2002 WL 538811.

247. The underlying opinion by the Fifth Circuit is reported at *Yankee Enters., Inc. v. Dunkin’ Donuts, Inc.*, 121 F.3d 703 (5th Cir. 1997).

248. *Nelson*, 2002 WL 538811, at *1.

own conclusory statements.²⁴⁹ The court concluded that the franchisee's bare assertion that he received no benefit from his franchise agreement with Dunkin' Donuts revealed no underlying fact upon which to support his damage opinion.²⁵⁰ Thus, the court upheld the summary judgment in favor of the law firm.²⁵¹

Finally, in addition to compensatory damages, the award of attorneys' fees and costs to the prevailing party in any litigation involving interpretation of provisions of a franchise agreement are fairly common.²⁵² In the past year, in *Mathis v. Exxon Corp.*,²⁵³ the Fifth Circuit further clarified the applicable law in determining whether to award fees and the reasonableness of such fees.²⁵⁴ It is the general rule that a fee award is governed by the same law that serves as the rule of the decision for the substantive issues in the case.²⁵⁵ Until recently, the Fifth Circuit had reserved the question of whether Texas or federal law governed review of the reasonableness of the award.²⁵⁶ The court in *Mathis* explicitly held that "state law controls both the award of and the reasonableness of fees awarded where state law supplies the rule of decision."²⁵⁷ Thus, in the application of this rule in a federal court suit based upon a breach of contract claim, when a federal court applies state law to the substantive issues of the case, state law rather than federal law controls both the award of and reasonableness of fees awarded.²⁵⁸

Under the Texas Civil Practice and Remedies Code provisions for attorneys' fees, there is a presumption of reasonableness for fees that are "usual" or "customary."²⁵⁹ Further, the judge is permitted "to take judicial notice of the usual and customary fees and the contents of the case file."²⁶⁰ In the *Mathis* case, plaintiffs supported their request for attorneys' fees with an affidavit by lead counsel as well as an affidavit by an attorneys' fees expert.²⁶¹ The Fifth Circuit held that "under Texas law, the two affidavits, combined with the presumption of reasonableness and the court's ability to use judicial notice, . . . [was enough] to conclude that the district court did not abuse its discretion in awarding fees" to the prevailing plaintiff.²⁶²

249. *Id.* at *5 (citing *Porras v. Craig*, 675 S.W.2d 503, 504 (Tex. 1981)).

250. *Id.* at *5-6.

251. *Id.* at *6.

252. Under Texas law, when a prevailing party in a breach of contract suit seeks fees, an award of reasonable attorneys' fees is mandatory, as long as, there is proof of reasonable fees and the plaintiff has been awarded damages. TEX. CIV. PRAC. & REM. CODE ANN. § 38.001(8) (Vernon 2002).

253. *Mathis*, 393 F.3d at 448.

254. *Id.* at 461.

255. *Kona Tech. Corp. v. S. Pac. Transp. Co.*, 225 F.3d 595, 614 (5th Cir. 2000).

256. *Mathis*, 393 F.3d at 461 (citing *Mid-Continent Cas. Co. v. Chevron Pipe Line Co.*, 205 F.3d 222, 232 (5th Cir. 2000)).

257. *Id.*

258. *Id.* at 461-62.

259. Tex. Civ. Prac. & Rem. Code Ann. § 38.003 (Vernon Supp. 2002).

260. *Id.*

261. *Mathis*, 393 F.3d at 462.

262. *Id.*

B. PUNITIVE DAMAGES

In *Investment Partners, L.P. v. Glamour Shots Licensing, Inc.*,²⁶³ the question presented to the Fifth Circuit was “whether an arbitration clause that prevents the award of ‘punitive damages’ proscribes antitrust treble damages and whether, if so, the arbitration clause is void as against public policy.”²⁶⁴ The Fifth Circuit Court of Appeals affirmed the trial court’s decision that statutory treble damages are not equivalent to punitive damages, and the clause was enforceable.²⁶⁵ In distinguishing between punitive damages and statutory treble damages, the court recognized that the purpose of such forms of recovery are different. While punitive damages are intended to punish a wrongdoer, treble statutory damages are intended to compensate an injured party.²⁶⁶ The court recognized a further distinction between the two forms of damages in that “punitive damages are awarded under notoriously open-ended legal standards and a broadly defined constitutional limit concerning the amount awarded, . . . [whereas] treble damages represent a mere mathematical expansion of the actual damages calculated by the [jury, judge or] arbitrator.”²⁶⁷ Because of these distinctions, and even though treble damages may indeed be punitive, the court held such damages were not prohibited under the arbitration provision.²⁶⁸

C. INJUNCTIVE RELIEF

During the Survey period, both Texas federal and state courts issued opinions evaluating requests by franchisors and franchisees for injunctive relief. In *Urgent Gear Inc. v. Savoia*,²⁶⁹ a franchisor brought suit seeking a preliminary injunction preventing a competitor from violating its trade dress rights.²⁷⁰ More specifically, Urgent Gear alleged that Savoia’s attempts to sell look-alike products at a substantial price discount constituted trade dress infringement under the Lanham Act.²⁷¹ The district court granted Urgent Gear’s application for a preliminary injunction preventing Savoia “from selling, marketing, or distributing clothing products that infringe Urgent Gear’s trade dress rights.”²⁷²

263. *Inv. Partners, L.P. v. Glamour Shots Licensing, Inc.*, 298 F.3d 314 (5th Cir. 2002).

264. *Id.* at 315.

265. *Id.* at 318.

266. *Id.* at 317 (relying upon *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc.*, 473 U.S. 614, 635-36 (1985)).

267. *Id.* at 317-18.

268. *Id.* at 318 (finding that simply because treble damages exceed the actual damages that may have been inflicted on a plaintiff they are not “punitive” for the purpose of interpreting the scope of an arbitration clause).

269. *Urgent Gear, Inc. v. Savoia*, No. 3:01-CV-2190-D (N.D. Tex. Dec. 10, 2001) (not designated for publication), 2001 WL 1577395.

270. *Id.* at *1.

271. *Id.* at *2 (citing 15 U.S.C. § 1125(a) (2000)).

272. *Id.* at *5.

In reaching this opinion, the court analyzed the four federal common law elements which must be established in order to obtain a preliminary injunction:

- (1) a substantial likelihood that it will prevail on the merits, (2) a substantial threat that it will suffer irreparable injury if the injunction is not granted, (3) that the threatened injury to it outweighs the threatened harm the injunction may do to the defendants, and (4) that granting the preliminary injunction will not disserve the public interest.²⁷³

In addressing the first element, the court analyzed whether Urgent Gear's product trade dress qualifies for protection under the Lanham Act and, if protected, whether the trade dress is being infringed.²⁷⁴ Urgent Gear showed a likelihood of success on its Lanham Act claim, as the court found that "Urgent Gear's trade dress was arbitrary, not generic, and comprise[d] many unique features such as packaging artwork, a slogan on packaging lettering, and the flag logo."²⁷⁵ Further, the court found that with the exception of the factors of "actual confusion and identity of advertising media," the eight factors evaluated for a finding of a likelihood of confusion were significantly in favor of Urgent Gear; thus, Urgent Gear met its burden of proving a likelihood of success on the merits of its Lanham Act claim.²⁷⁶

With regard to the second element, the likelihood of confusion shown between Urgent Gear's products and Savoia's products was sufficient to show a threat of irreparable injury, particularly during the Christmas holiday season.²⁷⁷ Next, the court found that the potential injury of not providing relief to Urgent Gear outweighed any potential damage to Savoia, as Savoia presented no evidence on this element and Urgent Gear

273. *Id.* at *1. Notably, in the opinion Judge Fitzwater cites many of his own prior opinions as precedents, including the following cited to establish the right to a preliminary injunction: *Jones v. Bush*, 122 F. Supp. 2d 713, 718 (N.D. Tex.) (Fitzwater, J.) (citing *Ruscitto v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 777 F. Supp. 1349, 1353 (N.D. Tex.) (Fitzwater, J.), *aff'd*, 948 F.2d 1286 (5th Cir. 1991) (per curiam)), *aff'd*, 244 F.3d 134 (5th Cir. 2000) (per curiam); *cert. denied*, 531 U.S. 1062 (2001).

274. *Savgia*, 2001 WL 1577395, at *2 (stating that court would consider whether defendants are using the same or similar trade dress that is likely to confuse consumers).

275. *Id.* The court's inquiry encompassed the issues of functionality, distinctiveness, and secondary meaning. (citing *Blue Bell Bio-Med v. Cin-Bad, Inc.*, 864 F.2d 1253, 1256 (5th Cir. 1989)). If the trade dress is non-functional, it qualifies for protection if it is either inherently distinctive or has acquired distinctiveness through secondary meaning. (citing *Two Pesos, Inc. v. Taco Cabana, Inc.*, 505 U.S. 763, 769 (1992)). Because Urgent Gear's trade dress involves artwork and design which are not functional parts of the clothing, the Trade Dress claims of Urgent Gear were treated as non-functional. *Id.*

276. *Id.* at *3.

In *Sunbeam Products*, the Fifth Circuit held the following factors relevant to this inquiry: (1) similarity of the two products; (2) identity of retail outlets and purchasers; (3) identity of advertising media; (4) strength of the mark or trade dress; (5) intent of the alleged infringing parties; (6) similarity of design; (7) actual confusion; and (8) degree of care employed by consumers.

Id. at *3 (citing *Sunbeam Products, Inc. v. West Bend Co.*, 123 F.3d 246, 257 (5th Cir. 1997)).

277. *Urgent Gear*, 2001 WL 1477395, at *4.

showed considerable amounts of money spent marketing its clothing line.²⁷⁸ Finally, the court held that there was no evidence that the entry of a preliminary injunction would disserve the public interest, as the injunction promoted the protection of valuable trademarks and service marks in a capital based economy.²⁷⁹ Therefore, the court issued the requested preliminary injunction.

In a very recent opinion, the district court for the Northern District of Texas, Dallas Division, entered a similar preliminary injunction in favor of the franchisor, Pizza Hut, Inc., against a terminated franchisee.²⁸⁰ Pizza Hut sought injunctive relief to enjoin a recently terminated twenty-year franchisee, White, "from continuing to operate his restaurant using Pizza Hut's trademarks, trade names, logos, designs, and business and merchandising systems" (the Pizza Hut Marks and System).²⁸¹ The court applied the four part test described above in determining whether the requested relief was proper.²⁸²

In addressing the first prerequisite, a likelihood of success on the merits, the court found there was a "substantial likelihood that Pizza Hut will be able to establish that it properly terminated the parties' agreement based on [the franchisee's] failure to satisfy his financial obligations."²⁸³ Despite the termination of the franchise agreement, the franchisee continued to use the Pizza Hut Marks and System without Pizza Hut's consent.²⁸⁴ The court thus determined that such a situation constituted a trademark infringement due to the likelihood of confusion for which the franchisee presented no legitimate defense.²⁸⁵ Accordingly, Pizza Hut was able to establish "a substantial likelihood of success on the merits of its claim for trademark infringement."²⁸⁶

Pizza Hut met the second element required for injunctive relief by establishing that the terminated franchisee's "continued use of the Pizza Hut Marks and System, together with an inability and lack of incentive to meet Pizza Hut's quality control standards, constitute[ed] a substantial threat of irreparable injury to Pizza Hut."²⁸⁷ Next, the court found that the balance of hardships weighed in favor of Pizza Hut. The court con-

278. *Id.* at *5.

279. *Id.*

280. *Pizza Hut, Inc.*, 2002 U.S. Dist. LEXIS 19930, at *1.

281. *Id.*

282. *Id.* at *5 (citing *Canal Authority v. Calloway*, 489 F.2d 567 (5th Cir. 1974) (en banc) (setting forth the Fifth Circuit prerequisites for granting injunctive relief)).

283. *Id.* at *6. Despite the fact that the franchisee contended he did not receive the notice of default giving him a right to cure, the franchisee admitted that he received the termination notice that was sent to the same address.

284. *Id.* at *8.

285. *Id.* at *9 (relying upon *Burger King Corp.*, 710 F.2d at 1492 (holding "common sense compels the conclusion that a strong risk of consumer confusion arises when a terminated franchisee continues to use the former franchisor's trademarks")).

286. *Id.* at *9.

287. *Id.* at *10 (finding that where a likelihood of confusion exists, the lack of control over the quality of the good constitutes immediate and irreparable harm regardless of the actual quality of the defendant's goods).

cluded that the terminated franchisee's twenty years experience with Pizza Hut would allow him to make a livelihood despite the preliminary injunction, and any potential harm was outweighed by the threatened harm to Pizza Hut.²⁸⁸ Finally, the public interest factor weighed in favor of the preliminary injunction by finding that "the public has an interest in knowing when a franchisee is no longer affiliated with or sponsored by a franchisor so that consumers may make informed decisions about the goods and services they purchase."²⁸⁹ Because all four factors weighed in favor of Pizza Hut, the court entered the requested temporary injunction.

In addition to these cases, during the Survey period, the district court for the Southern District of Texas provided some guidance regarding the injunctive remedies available for violations of the PMPA.²⁹⁰ Although the court found that the franchisor's threats not to renew if its franchisees did not agree to terms of its retail facility leases did not violate the PMPA, the court described the available remedies as allowing both a civil action for damages and injunctive relief to stop an attempted termination.²⁹¹ More specifically, under section 2804(a) of the PMPA, "franchisors are required to provide a 90-day notice to a franchisee of termination or non-renewal of the franchise relationship."²⁹² During this ninety-day time period, "the franchisee may seek injunctive relief to stop the termination."²⁹³ Thus, "because a franchisor cannot terminate without providing the requisite notice, threats of termination unaccompanied by explicit notice pursuant to § 2804" does not allow the franchisee to seek an injunction.²⁹⁴ Only after the section 2804 notice is given, does the franchisee have protection under section 2805.²⁹⁵

Texas state common law provides for three specific elements for a temporary injunction: (1) a cause of action against the defendant; (2) a probable right to the relief sought; and (3) a probable imminent and irreparable injury in the interim.²⁹⁶ In *Maples v. Muscletech, Inc.*,²⁹⁷ the enjoined party sought an interlocutory appeal on the trial court's order,

288. *Id.*

289. *Id.* at *12. The court further recognized that in a capital economy, the public has an interest in promoting and protecting valuable trademarks (citing *Ramada Franchise Sys. Inc. v. Jacobcart, Inc.*, No. CIV.A. 3:01-CV-0306-D (N.D. Tex. May 17, 2001) (not designated for publication), U.S. Dist. LEXIS 6650. The *Ramada* opinion is discussed in the 2002 SMU Law Review Franchise Update. Deborah S. Coldwell, Robert A. Lauer, Clay M. Steely & Julia Wommack Mann, *Franchise Law*, 55 SMU L. REV. 1075, 1107-1108 (2002).

290. *Shell v. Shell Oil Co.*, 216 F. Supp. 2d 634 (S.D. Tex. 2002).

291. *Id.* at 639-640.

292. 15 U.S.C. § 2804(a) (2000).

293. *Id.* § 2805(b) (2000).

294. *See Shell*, 216 F. Supp. 2d at 640 (stating that because the legislative history showed that Congress was aware of the use of threats but did not include any language in the statute regarding coercive use of termination by threat, a simple threat to terminate is not enough to invoke the protections afforded a franchisee).

295. *Id.* at 642.

296. *Walling v. Metcalfe*, 863 S.W.2d 56, 57 (Tex. 1993); *Sun Oil Co. v. Whitaker*, 424 S.W.2d 216, 218 (Tex. 1968).

297. *Maples v. Muscletech, Inc.*, 74 S.W.3d 429 (Tex. App.—Amarillo 2002, pet. dism'd).

and asked the appellate court to stay the temporary injunction pending the appeal.²⁹⁸ "The basis of their request [was] that the bond set by the trial court [was] inadequate to protect [Maples] from the potential damage they would suffer if . . . the injunction was improperly granted."²⁹⁹

The dispute involved a licensing agreement between Maples and Muscletech, Inc. whereby Maples was given the right to conduct retail sales business under the name Muscletech; however, the agreement contained a non-competition provision preventing a variety of activities upon termination.³⁰⁰ Following termination, Muscletech sought an injunction to enforce the non-competition provisions of the licensing agreement. The trial court granted the injunction and set a bond of \$5,000.00.³⁰¹ As part of the appeal process, Maples sought relief in the form of a stay against the enforcement of the preliminary injunction, arguing that the minimum amount of the bond should be \$100,000.00.³⁰² The appellate court "granted a temporary stay of enforcement of the injunction pending a hearing on the motion."³⁰³ Thereafter, the court issued an opinion denying the motion to stay, as the court concluded that Maples failed to establish that the potential damage to be suffered due to the injunction exceeded the amount of the bond set by the trial court.³⁰⁴

The first argument addressed by the court was whether Maples had waived the right to seek a stay under Texas Rule of Appellate Procedure 29.2, because the record did not show that Maples first sought a stay in the trial court proceeding.³⁰⁵ The court of appeals held that Texas Rule of Appellate Procedure 29.2 did not contain a mandate requiring such relief to first be sought from the trial court.³⁰⁶

Next, the court considered the issue of the adequacy of the bond. "The determination of the adequacy of the bond set by the trial court . . . is to be made on a case-by-case basis" and is reviewed on an abuse of discretion standard, which prohibits the appellate court from disturbing the rulings of the trial court absent evidence of abuse of discretion.³⁰⁷ The court questioned what evidence must be presented in support of a motion for a temporary stay as the parties failed to present any authority on the is-

298. *Id.* at 429-30.

299. *Id.* at 430.

300. *Id.*

301. *Id.*

302. *Id.* at 431. The determination of the adequacy of the bond set by the trial court in instances such as this one is to be made on a case by case basis based upon the record before the reviewing court. (citing *Stone v. Griffin Communications & Sec. Sys., Inc.*, 53 S.W.3d 687, 696 (Tex. App.—Tyler 2001, no pet. h.)). The bond for a temporary injunction rests in the sound discretion of the trial court and will only be modified upon a showing of abuse of discretion. *Id.* at 431.

303. *Id.* at 430.

304. *Id.* at 432.

305. *Id.* at 431.

306. *Id.* (stating that Rule 29.2 provides only that the appellate court may not act "if the appellant's rights would be adequately protected by supersedeas").

307. *Id.* at 431 (relying upon an analogous case, *Lamar Boilers, Inc. v. Guardian Sav. & Loan Ass'n*, 786 S.W.2d 789, 791 (Tex. App.—Houston [1st Dist.] 1990, no writ)).

sue.³⁰⁸ Thus, the court relied upon an analogous case which also recognized a lack of precedential authority and concluded that to obtain temporary orders under Texas Rule of Appellate Procedure 43, “a movant must make a clear showing that it is entitled to relief . . . by stating the relief sought, the basis for the relief, and setting forth the facts necessary to establish a right to the relief sought.”³⁰⁹

Given this standard set by the court, it then evaluated Maples’ evidence that the bond was insufficient. The court held that Maples’ sole evidence that gross revenues for the store was \$25,000.00 a month was insufficient because it did not take into consideration necessary expenses incident to operating the store.³¹⁰ The court determined that Maples had the burden of proof to produce evidence of the actual anticipated losses, and without proof of such, there was no adequate basis on which to conclude that the trial court abused its discretion.³¹¹ The court reasoned that if a showing of expected gross revenues was deemed sufficient, then the court would have to either ignore common knowledge and assume the store would have no expenses, or wrongfully place the burden of proof on the non-movant.³¹²

As a final note, the opinion of the Texas Supreme Court in one of the cases cited in the 2001 update has been withdrawn with a new opinion issued in its place. On June 27, 2002, the Texas Supreme Court withdrew its prior opinion in *Butnaru v. Ford Motor Co.*³¹³ and issued a new opinion. The change in the opinion was based upon a legislative change to section 3.01(a) of the Code.³¹⁴ This statutory change did not affect the court’s analysis as to the temporary injunction, and therefore the analysis of this case on the issue of the temporary injunction remains the same.³¹⁵

308. *Id.*

309. *Id.* (citing *Lamar Boilers*, 786 S.W.2d at 791).

310. *Id.* at 431-32.

311. *Id.* at 432.

312. *Id.*

313. *Butraru v. Ford Motor Co.*, 84 S.W.3d 198 (Tex. 2002). The prior withdrawn opinion was reported at 44 Tex. Sup. Ct. J. 808 (Tex. 2001).

314. Tex. Rev. Civ. Stat. art. 4413 (36) § 3.01(a) (Vernon 2002).

315. See Coldwell, *supra* note 289, at 1109-10.

