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## MESSAGE FROM THE CHAIR

With all of the changes recently seen in the economy, the financial system, the Michigan economy and our political leaders, you may have missed several recent and prominent articles regarding the changes in antitrust enforcement announced by the Obama administration, and accompanying the selection of and first months of service by Christine Varney, the new head the Antitrust Division at the Department of Justice. The recent May 11, 2009 article from the New York Times left little doubt about the nature of that change: "Administration Plans to Strengthen Antitrust Rules." We hope that the newsletter, newly initiated this past year, has helped you to keep up with these changes.

The coming year promises to be important, challenging and interesting for the members of our section and those we serve. We invite you to share those times with your fellow-section members. We had a recent opportunity to discuss and reflect on these changes at the Detroit Institute of Arts on May 21st where members were treated to a private showing of the Norman Rockwell exhibit. Last fall, our members were treated to a special wine tasting and private dinner at the Bella Ciao in Ann Arbor. Our fall social events are currently being planned, so watch for our announcements.

Also, this year our section will participate in the newly formed Great Lakes Antitrust Institute which will bring together practitioners from several surrounding states for a day-long program that promises to provide great insight into the current administration and other recent developments. The date is currently set for November 6th in Columbus Ohio – watch for details in your next newsletter and your email box.

And mark your calendars for the section's half-day Franchising Seminar, scheduled for October 31, 2009, which will cover developments in franchising law and related antitrust issues facing franchisors and franchisees.

With all of the changes and developments happening in the world today, it is undeniable that we live in very interesting times. Our members are likewise, among the most interesting practitioners in the state. We look forward to seeing you at these events, and hope to hear from you regarding suggestions as to how the section can serve you. Please feel free to contact me directly.

Best regards,

Rick Juckniess
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## IN THIS ISSUE:



## SECTION NEWS

### The Section e-Newsletter Will Be Back in the Fall

The Antitrust, Franchising, and Trade Regulation Section's e-Newsletter will be on a brief recess over the Summer, but look for the next edition in September.

### Upcoming Franchising Seminar

The Section will be putting on a Franchising Seminar in October or November of this covering a variety of franchising law topics. The seminar will be held at the Hotel Baronette in Novi. The section is in the process of finalizing the details, and we will post them on the Section's website as well as communicate them to members via email.

### Section Get Together at the Detroit Institute of the Arts

The Section social event at the DIA was a resounding success. Members in attendance were treated to hors d'oevres and a private showing of the museums recent exhibition: The Works of Norman Rockwell.

### Missed the Last E-Newsletter?

If you missed the February e-Newsletter, be sure to check out the archives at the State Bar of Michigan Website, accessible here.

## MICHIGAN NEWS

### *Valassis v. News America Marketing* Trial begins

The multi-week trial against News America Marketing for antitrust violations has begun in Wayne County Circuit Court in front of Judge Michael F. Sapala. The claims allege unlawful bundling, attempted monopolization and other trade practices that were designed to force Valassis from the market for Free Standing Inserts – coupons and special offers found in the Sunday Paper. The trial is expected to last through the month of June.

### Interim Lead Counsel Appointed in *Packaged Ice Litigation*

Kohn, Swift, & Graf, PC was appointed interim lead counsel for the direct purchaser class in the *Packaged Ice* litigation against Reddy Ice, Co., Arctic Glacier, Inc., and Home City Ice, Co. Judge Borman also appointed Levitt & Kaizer, the Law Offices of Max Wild, and The Perrin Law Firm's as co-lead counsel for the indirect purchaser class. There were 86 cases filed on behalf of plaintiffs, and 11 firms vying for lead counsel status.

### Opinion Issued in *Warrior Sports Inc. v. NCAA*

Judge Marianne O. Battani granted the NCAA's motion for dismissal on the pleadings in March. Warrior Sports brought an action against the NCAA under the Sherman Act alleging that a requirement on the type of lacrosse sticks that may be used in NCAA play was an anticompetitive agreement in violation of section one. The Court held that the regulations on lacrosse sticks were noncommercial and not subject to antitrust scrutiny. Warrior has filed a Notice of Appeal. The opinion is available at: *Warrior Sports v. NCAA*, No. 08-14812, 2009 WL 646633, 2009-1 Trade Cases P 76,552 (E.D.Mich., Mar. 11, 2009)

### Class Action Against CMS Energy

## DEAL LOG:

CLS
&
Talecris Biotherapeutics

The FTC authorized its staff to seek a preliminary injunction to stop CLS's acquisition of Talecris Biotherapeutics. The Commission alleged that the acquisition would reduce competition in the plasma-derivative protein therapy market.
FTC Press Release; FTC Docket.

Have We Missed Something?

Do you know of a recent case that you don't see in the newsletter? Please email the editor with recently resolved or newly pending cases that we have missed.

Wisconsin Plaintiffs have brought a class action against CMS Energy Corp. and other related and subsidiary companies claiming they were harmed by a conspiracy to restrain trade in the natural gas industry. The Plaintiffs claim the conspiracy violated Wisconsin antitrust law. The case is docked in the Eastern District of Michigan, No. 09-11114

## NATIONAL NEWS

### Judge Sotomayor and Antitrust

Of the shortlist candidates for the SCOTUS nod, Diane Wood is likely the name with which antitrust attorneys will be most familiar, but Judge Sonia Sotomayor has authored several notable opinions in her ten years at the Second Circuit. The Antitrust Review links those decisions and has provided brief summaries.
Antitrust Review Post.

### FTC Joins SG to Recommend Denial of Cert in *American Needle*

The only people who don't want certiorari granted in *American Needle v. NFL*, are the Solicitor General and the FTC. The Supreme Court asked the SG to file a brief weighing in at the cert. stage after Respondent NFL (Defendant below) agreed with Petitioner American Needle (Plaintiff below) that certiorari should be granted so that the Court can resolve the question of whether a professional sports league can function as a single entity for antitrust purposes. The NFL's position—that it does function as a single entity—relies on Seventh Circuit case law that has found little traction elsewhere.
SCOTUSBlog Full Coverage; SG's Brief Recommending Against Cert; FTC Press Release.

### FTC Abandons Prosecution in *FTC v. Rambus*

The FTC formally dismissed its complaint in its action against Rambus, Inc. The Commission alleged that Rambus deceived a standard setting organization ("SSO") and the trial court held that the deception enabled Rambus to attain monopoly power, or in the alternative, to avoid licensing fee limits imposed by the SSO. The D.C. Circuit recently overturned the FTC's victory at the District Court level and remanded the case; the Supreme Court has since denied certiorari. The Court of Appeals had also strongly suggested that the case might have been more appropriately brought as an FTC Act Section 5 case, rather than under the Sherman Act. The FTC alleged that Rambus had
FTC Order; FTC Statement; FTC Docket; Federal Court Docket.

### AAI Calls for an Investigation of the Express Scripts Wellpoint Merger

The American Antitrust Institute issued a white paper calling for an in depth investigation into the merger between Wellpoint's Pharmacy Benefit Manager (PBM) subsidiary, Next RX, and Express Scripts, Inc. The merger is currently in early stages of review before the FTC.
Press Release; White Paper.

### DOJ Withdraws Section Two Report

In one of the first official signals of what antitrust enforcement will look like under the Obama administration, DOJ Antirust Division Assistant Attorney General Christine Varney announced the DOJ's withdrawal of its Section Two report. The withdrawal was highlighted

in speeches given by Varney before the Center for American Progress and the Chamber of Commerce.
Chamber of Commerce Remarks; Center for American Progress: Remarks/Video; DOJ Statement; DOJ §2 report; FTC Responses.

### DOJ Doesn't Endorse Antitrust Exemptions for Newspapers

In a hearing before the House Judiciary's Subcommittee on the Courts and Competition Policy and the Internet, the DOJ eschewed the idea of an antitrust exemption for newspapers. The news comes in light of a backdrop of difficulties at newspapers nationwide and announcements of more rigorous antitrust enforcement at the DOJ.
San Francisco Gate & Washington Post via Antitrust Review.

## ENFORCEMENT ACTIONS

### Defense Contractor Pleads Guilty of Wire Fraud

The DOJ announced Diana Baki Demilita pleaded guilty to one count of wire fraud in connection with obtaining a Bullet-Proof Vest contract. Demilita is the President of Global-Link Distribution, LLC, a defense contractor with offices in Baghdad. While the charge was wire fraud, the Antitrust Division handled the case as it involved subverting "the competitive bidding process used by the Department of Defense . . . for a bullet-proof vest contract by submitting multiple sham bids from about September 2004 until about March 2005."
Press Release.

### DOJ Reaches a Settlement with the Consolidated Multiple Listing Service

The DOJ reached a settlement with the Consolidated Multiple Listing Service requiring the service to alter its rules and allow low cost brokers access. The case is docketed in South Carolina, and will affect customers choices in that area.
Press Release; DOJ Docket.

### DOJ Obtains Guilty Plea in Connection with a Conspiracy to Defraud the US Navy

A Virginia resident, Todd Mosiman, pleaded guilty for his role in a conspiracy to defraud the US Navy by steering competitive bids to his company. Mosiman worked with a co-conspirator who would recommends Mosiman's company, in which the co-conspirator held an interest, for certain Navy contracts.
Press Release.

### FTC Reaches Settlement with Bristol-Myers Squibb

The FTC reached a consent agreement with Bristol-Myers resolving a suit brought by the Commission that alleged that Bristol's failure to file settlements reached with competitors regarding the sale of the generic version of Plavix with the Commission violated both a 2003 FTC Order and the Medicare Modernization Act. The settlement requires Bristol to pay the maximum allowable fine of $2.1M.
Stipulation to Final Judgment; Press Release; FTC Docket; Federal Court Docket.

### Criminal Fines Levied in Marine Products Conspiracy

Eleven million dollars in criminal fines have been levied as part of a plea agreement with an American and a French subsidiary of Trelleborg AB, based in Sweden. The pleas come in connection with criminal charges filed for bid rigging and customer allocation in various marine product markets.
Press Release; Criminal Information (VHS); Criminal Information (Trelleborg).

### Criminal Fines Levied in an Airline Cargo Conspiracy

The DOJ announced that $214M in criminal fines in connection with a conspiracy to fix air cargo rates that lasted from as early as 2001 to 2006. Cargolux Airlines International S.A., Nippon Cargo Airlines Co. Ltd., and Asiana Airlines Inc. all pleaded guilty and paid a portion of the $214M total for their role in the conspiracy.
Press Release; Criminal Information (VHS); Criminal Information (Trelleborg).

## FRANCHISEE "BORROWING" OF FRANCHISOR INTELLECTUAL PROPERTY: A TOTAL DISASTER

*by: Howard Yale Lederman*[†]

Intellectual property is at the heart of the franchise relationship. While the relationship is contractual, intellectual property issues between franchisor and franchisee can arise suddenly, especially when the relationship has "gone south" or terminated. In certain industries, these issues have arisen as part of a terminated franchisee's efforts to stay in business. Given our present severe recession and resulting desperation, franchisees' "borrowing" of franchisors' intellectual property to stay in business can only appear more attractive. But the negative impact is severe. Thus, attorneys representing franchisors and franchisees must be familiar with intellectual property law and educate their clients about it. Failure to do so can be disastrous or expensive.

In Michigan, the Michigan Franchise Investment Law ("MFIL")[1] includes intellectual property as a defining quality distinguishing a franchise from a dealership, a distributorship, or a license relation. A franchise exists, when"[a] franchisee is granted the right to engage in the business of offering, selling, or distributing goods or services substantially associated with the franchisor's trademark, service mark, trade name, logotype, advertising, or other commercial symbol designating the franchisor or its affiliate."[2]

*Two Men And A Truck/Int'l. v. Two Men And A Truck, Kalamazoo*[3] illustrates the destructive impact of a franchisee's decision to use its former franchisee's intellectual property to stay in business.[4] There, the franchisor was Two Men and a Truck/International. The franchisee was Two Men and a Truck, Kalamazoo. A second entity, Two Men and a Truck/Northern Indiana, received the plaintiff's permission to use the mark, but never signed a franchise agreement with the plaintiff. Though a licensee, this entity acted as a de facto franchisee. The plaintiff franchisor owned the trademark, 'Two Men and a Truck.'[5] The plaintiff signed franchise agreements with franchisees, one defendant included, permitting them "to use the name 'Two Men and a Truck.'"[6] Agreement provisions gave the franchisees the right to use the name only as long as the agreements continued in force. But the franchisee defendant claimed other MFIL violations, stopped paying royalties, and rescinded the franchise agreements. In response, the plaintiff terminated the franchise agreement. Nevertheless, the franchisee continued using the

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[1] Mich. Comp. Laws 445.1501 *et seq.*

[2] Mich.Comp.Laws 445.1502(3)(b); a*ccord,* Jerome-Duncan, Inc. v. Auto-By-Tel, LLC, 989 F. Supp. 838, 843, 844 (E.D. Mich. 1997) (quoting and applying this definitional requirement); s*ee also* Burger King Corp. v. Rudziewicz, 471 U.S. 462, 464 (1985) (referring to franchise operations, where the franchisor licenses franchisees to use its service marks and trademarks).

[3] 1995 U.S. Dist. Lexis 11295 (W.D. Mich. 1995).

[4] *See also* Molly Maid, Inc. v. Chaput, 2008 U.S. Dist. Lexis 50544 (July 1, 2008).

[5] *Two Men And A Truck/Int'l.*, 1995 U.S. Dist. Lexis 11295 at *1.

[6] *Id.*

name 'Two Men and a Truck.'[7] It claimed a continued "right to use the name[,] because the words in the name are descriptive or generic."[8]

The plaintiff sued the defendants for trademark infringement, unfair competition, business defamation, breach of contract, and related claims. The plaintiff moved for a preliminary injunction barring them from unauthorized use of trademarks, service marks, and logos and compelling them to transfer their telephone number to the plaintiff. The plaintiff claimed that the defendants' continued use of the intellectual property, especially the name "Two Men and a Truck" caused confusion among the general public.

The Lanham Act defines the relevant legal standard. The relevant provisions read:

> (1) Any person who shall, without the consent of the [trademark or service mark] registrant—
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> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising or any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant . . . .[9]
>
> * * *
>
> (a)(1) Any person who, on or in connection with any goods or services . . . uses in commerce any word, term, name, symbol, or device . . . which--
>
> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection . . . or as to the origin, sponsorship, or approval of his or her goods, service, or commercial activities by another person . . . ,
>
> shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.[10]

At the hearing, the plaintiff had claimed that it had provided "uniform lettering" for "the franchisees' trucks," and that "its mark has acquired a good reputation and has a secondary meaning within the trade. Gross sales of the franchisees have grown from about 2 million to over 10 million dollars from 1991 to 1995."[11]

In a companion case before the U.S. District Court for the Eastern District of Michigan, that Court issued a preliminary injunction commanding one defendant to stop using the name "Two Men and a Truck" and to assign its telephone number to the plaintiff. The U.S Court of

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[7] *Id.*
[8] *Id.* at *5.
[9] 15 U.S.C. § 1114.
[10] 15 U.S.C. § 1125(a).
[11] *Two Men And A Truck/Int'l.*, 1995 U.S. Dist. Lexis 11295 at *6-7.

Appeals for the Sixth Circuit denied that defendant's motion for a stay. These two decisions put that defendant out of business.

In the instant case, the Court issued a preliminary injunction against all the defendants. Both courts found probable plaintiff success on the merits. Both courts recognized that "[t]he law is well settled that `continuing to use a franchise mark after the franchise relationship has been terminated is a violation of the Lanham Act.'"[12] Both courts rejected the notion that a terminated franchisee could keep using the franchisor's name without continuing to pay the franchisor royalties. The franchisees paid royalties not to buy the name, but to use it until termination of the franchises. Further, the courts found the rescission invalid and the termination valid. Both courts also rejected the defendants' contention that their rescission of the franchise agreements permitted them to keep using the trademark without paying for it. Finally, the courts found that the defendants' MFIL violation claims were separate issues from the intellectual property issues and thus offered no good reason to block the preliminary injunctions.

Regarding irreparable injury, the Court cited case law holding that "a showing of `likelihood of confusion' is sufficient to obtain preliminary injunctive relief under…the Lanham Act," that "a franchisor seeking injunctive relief against a terminated franchisee has a lesser burden in establishing the likelihood of confusion," and that "[t]he most critical factor in determining confusion is the similarity between the two marks."[13] Regarding the last, most critical factor, the defendants wanted to keep using the plaintiff's trademark to advertise in the same media as the plaintiff and to offer the same services as the plaintiff. Accordingly, the Court found a high probability of consumer confusion and plaintiff irreparable injury.

In concluding that that a preliminary injunction would further the public interest, the Court's language was persuasive: "The public is entitled to expect a consistent standard of service from those using the mark and mutual assistance from a network of franchisees. If [the] defendants are permitted to continue using the mark, the public will become confused about where to go for the consistent standard and for assistance in the event of problems."[14] After citing the franchise agreements' "unequivocal language requiring [the] defendants to cease using the name upon termination" and termination arising from their "non-payment of royalties," the Court declared that failure to enforce consequences "of such a material breach" of contracts would make "entering into a contract . . . meaningless."[15]

Lastly, the Court held that the balance of harms from a preliminary injunction strongly supported the plaintiff. The Court explained: "Plaintiff is a small business. This is a critical time for [the] plaintiff[,] because [it] appears to be on the verge of major growth. Plaintiff's main asset is the name `Two Men and a Truck,' and the marketing of moving services under that name. The use of the mark is growing and spreading."[16] Letting the defendants continue using the mark could cause the plaintiff and its franchisees "major and irreparable injury . . . . [T]he mark will soon lose all value in the marketplace. Plaintiff's business would be destroyed. Defendants

[12] *Id.* at *12-13.
[13] *Id.* at *15-16
[14] *Id.* at *17.
[15] *Id.*
[16] *Id.* at *17-18.

would immediately become 'Two Men and a Truck' in the[ir] marketing areas."[17] Other franchisees would "ignore their franchise duties and build their businesses on the plaintiff's mark," and non-franchisees would probably "start using the mark for their own businesses."[18]

In contrast, the defendants rested their position on the fact that most of their business has come not from the name 'Two Men and a Truck,' but from their service quality and resulting word-of-mouth advertising. "[The] defendants argue that the name does not have much value to them."[19] As a fallback position, the defendants asked the Court to permit them "to keep their telephone numbers and . . . to inform people that they were 'formerly known as Two Men and a Truck.'"[20]

The combined strong support for the plaintiff's position and the defendants' fallback position provided the solution. The Court barred the defendants from using the name "Two Men and a Truck and compelled them to assign their telephone numbers. But the Court delayed the assignment for 21 days to permit the defendants to notify their former customers of their new names, telephone numbers, and company status.

In other cases, misbranding of goods has destroyed franchises. *Aoude v. Mobil Oil Corp.*[21] illustrates how.[22] For some years, Aoude had been a Mobil petroleum franchisee. On February 6, 1992, "somewhere between 200 and 300 gallons of non-Mobil gasoline were diverted from another nearby station (controlled by Aoude and managed by his brother) and deposited in [a tank] at Aoude's Mobil station. "The gasoline in the tank was subsequently offered for sale through Mobil-labeled facilities."[23]

"[O]n February 6[, 1992], Mobil was tipped off by a telephone call from an Aoude competitor (located across the street from Aoude's station) that a delivery had been made to Aoude Mobil from a non-Mobil tank truck."[24] Mobil representatives "visited Aoude later that same day and told him that they had information indicating that he had received the improper delivery."[25] They sampled Auode's tanks, and the fuel did not show any "insufficient concentration of Mobil additives."[26]

Mobil sued Aoude to terminate the franchise agreement. Mobil moved for summary judgment. The district court granted the motion.

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[17] *Id.* at *18.
[18] *Id.*
[19] *Id.*
[20] *Id.* at *19.
[21] 1995 U.S. App. Lexis 12594 (1st Cir. 1995).
[22] *See also* Dandy Oil Co. v. Knight Enterprises, Inc., 654 F. Supp. 1265 (E.D. Mich. 1987).
[23] *Aoude*, 1995 U.S. App. Lexis 12594 at *2.
[24] *Id.* at *5.
[25] *Id.*
[26] *Id.* at *3.

Under the Petroleum Marketing Practices Act,[27] Mobil could terminate a franchisee for "'wilful' mislabeling or misbranding of motor fuel."[28] "'Misbranding occurs[,] when a franchisee passes off other gasoline as that of the franchisor's[,] by dispensing the gasoline through pumps and at stations bearing the franchisor's logo.'"[29]

Affirming, the Court held that Aoude had failed to present genuine issues of material fact on willful misbranding. The Court cited all the above facts. Though claiming that he had told an employee to make some inquiries that same day, "he did little to investigate the matter seriously or to halt sales when, on the following day, his own measurements confirmed that a significant amount of unaccounted for gasoline was contained in his station tank. He could easily have investigated[,] since he knew the name of the company that had dispatched the tanker and apparently knew that it had made its main delivery at his own non-Mobil station down the road."[30] Thus, he did not show sufficient evidence for a reasonable jury to find non-wilful misbranding or mislabeling.

Moreover, "[t]he driver[,] who delivered the gasoline gave uncontradicted testimony that he had deposited the gasoline in the Aoude Mobil tank….two eyewitnesses…saw the truck parked at the Mobil station apparently unloading . . . ." In addition, "Aoude's own tank measurements…showed that on February 7[, 1992], one of his tanks had an unexplained surplus of about 275 gallons."[31] Therefore, Mobil could terminate Aoude's franchise for willful misbranding.

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[27] 15 U.S.C. sec. 2801 *et seq.*
[28] *Id.* at *2.
[29] *Id.* at *4 (quoting *Dandy Oil Co. v. Knight Enterprises, Inc.*, 654 F. Supp. 1265, 1270 (E.D. Mich. 1987), *app. dis.* 830 F.2d 193 (6th Cir. 1987)).
[30] *Id.* at *5-6.
[31] *Id.* at *2-3.