IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF IOWA
DAVENPORT DIVISION

No. 3-99-CV-80073

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Bandag, Incorporated,

Plaintiff,

vs.

Jack's Tire & Oil, Inc.,

Defendant.

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**BANDAG'S MEMORANDUM IN SUPPORT OF ITS MOTION FOR PARTIAL SUMMARY JUDGMENT**

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## INTRODUCTION

Bandag, Incorporated (Bandag) is moving for summary judgment on the affirmative defense and counterclaim of promissory estoppel that Jack's Tire & Oil, Inc. ("Jack's") is asserting against Bandag. Jack's reliance on promissory estoppel is unavailing because Jack's cannot establish two crucial elements of that claim: (1) a clear and definite agreement on Bandag's part not to enforce the non-compete in the 1978 franchise agreement; and (2) reasonable reliance on such an agreement. Bandag seeks summary judgment on Jack's affirmative defense of misrepresentation as it has failed to establish any of the elements necessary for such a defense. Finally, Bandag asks for summary judgment on Jack's affirmative defense of patent misuse. That defense fails because it is inapplicable to Bandag's enforcement of a non-compete and ignores that Bandag granted Jack's a spectrum of rights, not simply a license to use certain patents now expired. Equally important, Bandag has never sought to charge Jack's a royalty for the use of certain now-expired patents.

## FACTUAL BACKGROUND

**<u>Jack's Has Benefitted From the Bandag Franchise System for Many Years</u>**

Jack's became a Bandag franchisee in 1972. The franchise agreement which is the focus of dispute dates from 1978. (Affidavit of Matthew J. Kading, Ex. 3 at 16, 19,) As a Bandag franchisee, Jack's could use Bandag's operating and equipment manuals and had the right to buy Bandag retreading equipment and supplies. Bandag provided Jack's with significant support, including programs for training, merchandising, technical services, advertising and sales development. Jack's also obtained access to Bandag's dealer network and national fleet accounts. (*Id.*, Ex. 3 at 21-23, 116-117, Ex. Y.)

With the 1978 franchise agreement Jack's obtained for an unlimited term the exclusive manufacturing rights in Rich and Cache Counties, Utah. (*Id.*, Ex. 3 at 20-21, Ex. B). In exchange, Jack's agreed to a narrowly drafted one-year post-termination non-compete. (*Id.*, Ex. 3, Exhibit B at ¶ IXE.) The non-compete was limited to Rich and Cache Counties and only prohibits Jack's from activities related to the sale or manufacture of retread tires made by method that used pre-cast or pre-cured rubber – the same method it used at Logan.

**<u>The 1978 Franchise Agreement Involved Far More Than Simply Rights in Three Patents</u>**

In the 1978 franchise agreement, Bandag conveyed to Jack's a sweeping group of rights. As a Bandag franchisee, Jack's had the right to use Bandag's trademark's and logos. Jack's obtained the support of the Bandag franchise system, including access to Bandag's national accounts. (*Id.*, Ex. 3 at Ex. B.)

To be sure, the 1978 franchise agreement granted Jack's the right to use three patents referred to in the agreement by patent number. While these particular patents have expired, Bandag has other, related and still valid patents that Jacks' was entitled to use as a Bandag franchisee. (*Id.*, Ex. 3 at 117; Affidavit of Steven W. Mory dated July 9, 1999 at ¶ ¶6,10.)

The 1978 franchise agreement specified a royalty and service fee of $0.20 per pound of rubber or cushion gum Jack's used. (*Id.*, Ex.3 at Ex. B, ¶II.) This provision was not tied to any specific patent or other Bandag property right; rather the royalty and service fee was part of the overall franchise arrangement created by the 1978 franchise agreement. This provision was also not held only to rubber purchased from Bandag, it applied to rubber purchased from any supplier. More significantly, Bandag has not charged Jack's a royalty or service fee – that provision was simply not enforced. (*Id.,* Ex.3 at 118.)

**Michelin Targets Jack's for Conversion**

In 1997, Michelin, one of the world's largest new tire manufacturers, entered the retreading market in the United States, offering franchises for its own retread shops. (*Id.*, Ex. 4.) Rather than develop its own retreading distribution system from the ground up, Michelin targeted Bandag's system by seeking to convert Bandag's franchisees to Michelin. (*Id.*, Ex. 3 at 113.) Jack's was one the Bandag franchisees Michelin sought to convert.

To entice Jack's from Bandag, Michelin provided very significant incentives. Jack's earnings were guaranteed on all of its business lines, not simply retreading, for three years after conversion. (*Id.*, Ex. 3 at 55, Ex. O at ¶II A, Ex. J at ¶3iv; Ex. 5.) As to Jack's purchase of Michelin equipment, Michelin offered to finance all of the plant and equipment for $1.00 per year for the first five years, to discount the purchase price of the Michelin equipment by 50 percent and to defer any payments until year six of the franchise. (*Id.*, Ex. 3 at 54, 55, Ex. J at ¶3v, Ex. I at ¶5.) Michelin also effectively agreed to pay the costs of converting Jack's retreading facilities to Michelin. (*Id.*, Ex. 3 at 40, 41, Ex. J at ¶3vii, Ex. I at ¶6.)

**Jack's Dance with Michelin Began at least as Far Back as May 1998**

Regardless of Jack's present arguments, its business records tell another story. These documents reveal Jack's intent to convert to Michelin months before this litigation started. Michelin people met with Jack's principals at the Masters golf tournament in Georgia in April 1998. (*Id.*, Ex. 3 at 24, 173.) After this marketing tour de force, Michelin unsurprisingly sent a letter of intent to Jack's regarding it becoming a Michelin retreading franchisee. (*Id.*, Ex. 3 at 38, 39, Ex. E.) After visiting Jack's operations, as further enticement Michelin sent Jack's "shop" models and additional conversion proposals. (*Id.*, Ex. 3 at 39, 40, Ex. G.)

On August 27, 1998, Michelin forwarded to Jack's a new letter of intent with terms on conversion costs and purchase of Jack's existing Bandag equipment. (*Id.*, Ex. 3 at 40, 41, Ex. H.) Jack's was very interested; in September it sent Michelin a list of 10 requested clarifications and asked that the final documents be executed by October 18, 1998. (*Id.*, Ex. 3 at 41-44, Ex. I.) As part of its "clarifications", Jack's demanded full indemnification (including damages and attorneys' fees ) for liability to Bandag. (*Id.,* Ex. 3 at Ex. I, ¶7.) by September 17, Jack's had decided that it wanted a deal with Michelin, so long as Michelin accepted Bowen's "clarifications." (Ex. 3 at 45.)

Michelin sent Jack's a new letter of intent accepting Bowen's "clarifications" on October 16. Jack's executed and returned this letter of intent to Michelin on October 21, along with copies of its various franchise agreements with Bandag. (*Id.*, Ex. 3 at 45-47, 52, Exs. H, I, J and K.) Two weeks later, on November 3, Michelin visited the shops again and sent Jack's a follow-up action plan and a target date for opening Logan on April 12, 1999. Logan was given the code name "Top Gun 4." (*Id.*, Ex. 3 at 47, Ex. L.) Recognizing there were problems in abandoning

Bandag, Jack's had agreed to "manage" the Bandag relationship during the conversion to Michelin. (*Id.*, Ex. 3 at 57, Ex. J at ¶3viii a.)

**At The Key December 8, 1998 Meeting, There Was No Agreement That Bandag Would Not Enforce The Logan Non-compete**

All this activity took place in secret from Bandag. On December 9, Bandag officials flew to Salt Lake City to talk with Jack's principals. (*Id.,* Ex. 3 at 24-25.) While Jack's decision to go over to Michelin had already been made and confirmed when Michelin accepted Jack's terms in mid-October, (Id., Ex. 3 at 45, Ex. H-K), nevertheless at this December 8 meeting Jack's officials proclaimed an open mind as to their true intentions and said they would get back to Bandag with a decision. There was no agreement to any plan proposed by Jack's. J. David Bowen, President and 90 percent owner of Jack's parent, Jack's Tire & Oil Management, Inc., testified concerning the December 8 meeting:

Q. Is it fair to say that the way you left that meeting was that you would get back to them about what you were going to do and how you were planning to do it?
A. Yes. That is exactly the way it was.
Q. And there were no agreements about how it would be done at that meeting?
A. I don't think so.

(*Id.*, Ex. 1 at 110-111.) Likewise, Richard Tolotti, executive and part owner of Jack's parent testified:

Q. So as you left that meeting on December 8th, is it fair to say that from Bandag's standpoint, they were expecting that you would seriously think about it and then get back to them in terms of what your decision was?
A. In one, two or three days, yes.
Q. So there was no final decision as to what would be done –
A. True.
Q. – at that December 8th meeting?
A. Yes.

(*Id.*, Ex. 2 at 144-145.)

There was no discussion or agreement whatsoever regarding Logan at the December 8 meeting, as Bowen admitted:

Q. And did you talk specifically about which shops you would convert to Michelin with in that meeting? I'm just talking about the meeting on the 5th or the 8th.

A. As I recall, we didn't specifically say which shops. As I recall, it was discussed that we would like a friendly separation and that we would give them a schedule in writing of what our intentions were.

(*Id.*, Ex. 1 at 108.)

Bandag's officials have testified that no agreement was reached on December 8. (*Id.,* Ex.3 at 70-71, 120.) They go further, saying that they did not even discuss a separation agreement, much less agree not to enforce the non-compete at Logan. (*Id.* Ex. 3 at 70, 120).

Bowen and Tolotti agreed on December 8 to get back to Bandag (*Id.*, Ex. 3 at 110-111.) They followed through with a less than five minute phone call to Bandag on December 14. (*Id.* Ex. 1 at 111, Ex. 2 at 145.) But there was still no statement on what they would do at Logan or agreement on the specifics of any separation. (*Id.* Ex. 1 at 111.)

Both Bowen and Tolotti knew that the situation at Logan was important. While Jack's parent company had five Bandag locations, the one at Logan was the oldest and was the only agreement where Jack's had an exclusive manufacturing right. (*Id.*, Ex. 1 at 11; Ex. 3 at 20-21, Ex. B.) Thus, it had been able to develop the territory without competition from any other nearby Bandag retreading facility. (*Id.*) Moreover, the 1978 franchise agreement at Logan differed from the others in two other ways. The agreement was for an indefinite term – giving Jack's the unilateral right to pull the plug on short notice. (*Id.*) There was also no arbitration clause, so any dispute could be more protracted. (*Id.* Ex. 3 at B.)

To clarify the situation, on January 7, 1999, Bandag wrote Jack's asking it to tell Bandag what its plans were for Logan and the other affiliated locations and telling Jack's that the terms of its three non-expiring franchises (including Logan) prevented Jack's from converting to Michelin. (*Id.*, Ex. 3 at Ex. C.) Jack's was now unequivocally on notice that Bandag intended to enforce the Logan non-compete. There is, moreover, no evidence that between mid-December and January 7 Jack's relied on any alleged agreement with Bandag regarding Logan.

As promised to Michelin, Jack's continued to "manage" the problem created by its decision to convert in violation of its franchise agreements. On January 12, 1999, after consulting with Michelin's lawyers, Jack's wrote a self serving letter to Bandag regarding its plans. However, even in that letter Jack's confirmed that there were no understandings whatsoever with Bandag as to Logan. Jack's January 12 letter confirms that Bandag never said it would cancel Logan or waive its non-compete and instead asks whether Bandag wanted Jack's to continue operating Logan as a Bandag franchise. The letter says "we have continued to move forward having been told that our Bandag Franchises will be cancelled at all of our locations, <u>except Logan</u>." (emphasis added.) (*Id.*, Ex. 3, Ex. Z.) Soon thereafter, Jack's told Michelin on January 18, 1999, that Jack's was unable to warrant that its conversion to Michelin would not violate Jack's franchise agreements with Bandag. (*Id.*, Ex. 3, Ex. N at ¶ 14.) On January 25, 1999, Jack's acknowledged that Bandag again stated its position that conversion by Jack's of the two expired locations would violate the non-competes at the remaining three locations. (*Id.*, Ex. 2 at 37-38.)

Despite Bandag's clear statement that Jack's was bound by its non-compete, Jack's proceeded with its conversion to Michelin. Though Michelin offered Jack's a financial shield, Jack's made no financial or other contractual commitments at Logan until April 15, when Bowen signed a construction contract with Anderson Construction. (*Id.*, Ex. 1 at 150-152.) Bowen committed Jack's for $250,000 in construction work, to demolish a wall, add an addition to house a steam generator and complete some electrical requirements. (*Id.*). That was the only financial commitment Jack's made for conversion. (*Id.*)

Jack's finally advised Bandag of its plan to convert Logan to Michelin in a letter Jack's counsel sent to Bandag's counsel on March 19, 1999. (*Id.,* Ex. 7.) But the letter failed to say whether the Logan facility would use pre-cure or some other retreading method. Michelin has other retreading systems besides pre-cure, (Ex. 4) but only a facility using pre-cured rubber would violate the specific terms of the Logan non-compete. (*Id.,* Ex. 3, B at ¶IXE.).

To clarify Jack's intentions on this point, on April 13 Bandag asked Jack's to tell it by April 16 whether there was any reason Jack's conversion would not violate the Logan non-compete. (*Id.*, Ex. 8). When Jack's failed to respond, Bandag initiated this action and filed its motion for a temporary restraining order on April 20, 1999. Jack's admits that it is using a pre-cure method of retreading. (*Id.*, Ex. 1 at 158.)

## ARGUMENT

### I. <u>Jack's promissory estoppel defense lacks merit and does not preclude enforcement of the Logan Agreement</u>

Jack's may contend that Bandag's officials agreed to release Jack's from its obligations at Logan. Yet the evidence is otherwise. Bandag's officials deny that they agreed to release Jacks' from the Logan non-compete. The deposition testimony of Jack's officials, coupled with Jack's own January 12 letter, make clear that there never was any conversation, much less a clear and definite agreement by Bandag to release Jack's from its non-compete. Given the Michelin financial shield and Jack's admission that it spent no money on Logan until April 15, there is also no evidence of any detrimental reliance by Jack's. Consequently, Jack's cannot sustain its promissory estoppel claim.

Iowa law, which governs here, has well established elements of promissory estoppel:

> (1) a clear and definite agreement; (2) proof that the party urging the doctrine acted to its detriment in reasonable reliance on the agreement; and (3) a finding that the equities support enforcement of the agreement.

*National Bank of Waterloo v. Moeller*, 434 N.W.2d 887, 889 (Iowa 1989); *accord Estate of Graham v. Fergus*, 295 N.W.2d 414, 418 (Iowa 1980). The party asserting this defense bears the burden of proof and "strict proof of all elements is required." *Moeller*, 434 N.W.2d at 889. Jack's simply cannot meet this burden. *Cf. Jungmann v. St. Regis Paper Co.*, 682 F.2d 195, 197 (8th Cir. 1982)(reversing jury verdict favoring promissory estoppel claimant for failing to show distinct and specific agreement).

### A. There Is No Evidence of the Clear and Definite Agreement Required by Iowa Law

The *Moeller* decision illustrates the high burden Jack's has under Iowa law. In *Moeller*, a bank contended it was entitled on promissory estoppel grounds to seniority over another secured creditor because the bank extended credit after receiving assurances from the other creditor that it was amenable to subordination, provided other collateral could be obtained. 434 N.W.2d at 888. Reversing judgment for the bank, the Iowa Supreme Court concluded that the bank failed to show a "clear and definite agreement," which it defined as "a clear understanding by the promisor that the promissee was seeking an assurance upon which he could rely and without which he would not act." *Id.* at 889. While the bank thought it was getting a subordination, it did not and failed to take steps to see that it did. *Id.* at 889-90.

Applying *Moeller*, the Eighth Circuit in *Simmons Poultry Farms, Inc. v. Dayton Road Dev. Co.*, 82 F.3d 217 (8th Cir. 1996), reversed a jury verdict in favor of a promissory estoppel claim. In *Simmons*, the party asserting promissory estoppel had entered into negotiations with a turkey processor to purchase turkey parts. During negotiations, the proposed packager sent a letter stating it expected the processor to send 50,000 pounds of product per week after startup. *Id.* at 218. The processor eventually failed to supply any significant amount of turkey, and the packager sued to recover its out-of-pocket costs for equipment and lost profits. Rejecting the promissory estoppel claim, the court held there was no evidence to support the jury's finding. The 50,000 pound figure was merely a production goal and not the sort of assurance from the processor upon which the packager could rely and without which it would not act. *Id.* at 221. *Accord Neely v. American Family Mut. Ins. Co.*, 930 F. Supp. 360, 373-75 (N.D. Iowa 1996), *aff'd.*, 123 F.3d 1127 (Iowa 1997) (granting JNOV on promissory estoppel claim; request for insurance coverage on "everyone" not clear and definite or calculated to induce reliance by promisee).

Jack's promissory estoppel defense is premised on an allegation that Bandag agreed orally to allow Jack's to separate from the Bandag system at a meeting on December 8, 1998. What Jack's asserts is that Bandag officials agreed to an amiable separation. But this contention hardly meets the standard of a clear and definite agreement. Bandag denied that any such agreement was ever made. More tellingly, Jack's officials admit that no agreement was reached on December 8 and Jack's more specifically confirmed on January 12, 1999 that no agreement had been reached as to Logan. (Ex. 3, Ex.26 and 69-70, 119-120, 188, 211, 220.) Nor does a willingness to separate amiably truly mean anything. As in *Simmons*, amiability is merely a goal. Likewise, as in *Simmons*, there were specific terms of any agreement left to negotiate. The parties, for example, had to determine what Jack's would get for its Bandag equipment, when Jack's would stop production of Bandag retreads, and whether Jack's had to abide by non-competes, where and for how long. No such terms were discussed, let alone agreed to for any of the shops. Jack's January 12 letter makes clear that as to Logan, no agreements were ever made.

Nothing in the short December 14 telephone call changes these facts. Again, whatever was said, Logan was not discussed and, in any event, on January 7, 1999, Bandag made clear it would expect Jack's to live up to its non-compete. Moreover, because no agreement was ever memorialized in writing terminating Jack's obligations under the non-compete, that understanding would be unenforceable because of the integration clause (¶ XVII) of the Logan

Agreement. *See Carlock v. Pillsbury Co.*, 719 F. Supp. 791, 814-15 (D. Minn. 1989) (integration clause prohibits subsequent oral modification of contract). Given this provision, Jack's was required to obtain such a writing.

What Jack's seeks here is strikingly similar to, although even less compelling than what the bank sought in *Moeller*. Jack's wanted a release of its written non-compete agreement; the bank in *Moeller* wanted a subordination agreement. Knowing that it would be indemnified by Michelin, Jack's went ahead with conversion without a clear and definite agreement. In the case of Logan, Jack's proceeded even though it had confirmed in writing that it had no understanding. The bank in *Moeller* lent money without obtaining subordination. Like the bank in *Moeller*, Jack's simply has no claim.

### B. The Undisputed Evidence Shows Jack's Acted Unilaterally Without Reliance on Any Agreement by Bandag

There is also no evidence of reliance, let alone reasonable reliance, to support a promissory estoppel claim. The undisputed evidence completely belies Jack's defense. Months before Bandag's supposed statement, Jack's had begun planning its move to Michelin. Jack's had serious discussions with Michelin in May 1998, received a letter of intent from Michelin on August 27, 1998, sent it back to Michelin with Jack's entire "wish list," including indemnification from Michelin, in September 1998. (Scoggin Ex. 3 at 40-44, 302-08.) By mid-October 1998, Jack's had received and signed a subsequent letter of intent from Michelin accepting and incorporating all of Jack's requests. Thus, Jack's decision to convert its retreading operations to Michelin was made well before the December 8 meeting and any alleged separation agreement.

The record is also utterly devoid of any actions taken by Jack's during the short time frame after December 8. Soon after the supposed statement, on January 7, 1999, Bandag told

Jack's in writing that it would enforce the non-compete provision in the Logan Agreement. In the face of that clear, written statement, Jack's could not reasonably rely on Bandag's supposed acquiescence to a violation of the non-compete at Logan. And on January 12, Jack's wrote Bandag confirming that no agreement had been made as to Logan and asking Bandag if it wanted Jack's to continue to operate Logan as a Bandag franchise. These statements directly contradict any claimed agreement as to Logan and any reliance by Jack's on such an agreement. Tellingly, on January 18, Jack's refused to warrant to Michelin that conversion would not violate Bandag's non-compete, unequivocal evidence Jack's knew there was a problem. And not until April 15 did Jack's incur any financial commitment at Logan for conversion.

In short, there is no basis for concluding Jack's had a viable promissory estoppel defense. There is no evidence of a clear and definite agreement. There is likewise no evidence that Jack's in fact relied on Bandag's agreement to violation of the Logan non-compete. To the contrary, the evidence shows indisputably Jack's started the process of conversion well before its December meeting with Bandag and continued on that course despite being warned by Bandag of the consequences and despite Jack's own clear understanding of the risk of a claim and preparation for it by way of indemnification. Whatever Jack's did thereafter, it did at its peril, not in reasonable reliance on any oral representation of Bandag. In these circumstances, especially given Jack's strict burden of proof, Jack's cannot sustain a promissory estoppel claim.

## II. Jack's Affirmative Defense of Misrepresentation Should be Dismissed

Jack's asserts misrepresentation as an affirmative defense. Answer at ¶7. Ordinarily misrepresentation is the basis for a claim for damages, not a defense to liability. But no matter, for Jack's has no basis to assert such a claim.

In Iowa, negligent misrepresentation cannot be asserted based on an ordinary commercial transaction. *See*, *e.g.*, *Molo Oil Co. v. River City Ford Truck Sales*, 578 N.W.2d 222, 227 (Iowa 1998) (claim inapplicable to sale of truck). This claim is available only against a person "in the profession or business of supplying information or opinions . . . ." *Molo Oil Co.*, 578 N.W.2d at 227; *see also Meier*, 454 N.W.2d at 581. Such a claim has no applicability here.

A claim of fraud or intentional misrepresentation conceivably could be based on a commercial transaction. However, each of the elements of fraud would have to be met. They include: "(1) representation, (2) falsity, (3) materiality, (4) scienter, (5) intent to deceive, (6) reliance, and (7) resulting injury and damage." *See*, *e.g.*, *Robinson v. Perpetual Servs. Corp.*, 412 N.W.2d 562, 565 (Iowa 1987) (citations omitted). "Each of these seven elements must be established by a preponderance of the clear, satisfactory, and convincing evidence." Id.

Nothing in the conversations that took place between Bandag and Jack's officials indicates that Bandag officials made any false representations to Jack's, much less with any intent to defraud Jack's. The claim makes no logical sense – what could Bandag officials achieve by lying to Jack's, which could terminate unilaterally at Logan? Moreover, Jack's January 12 letter to Bandag indicates that whatever was said in December, Jack's officials were not deceived by anything.

Likewise, Jack's cannot show any reliance on a Bandag representation to make out its fraud claim/defense. On January 7, Bandag told Jack's it would enforce its non-competes; on January 12, Jack's asked Bandag for clarification – which it got in additional confirmations that Bandag expected Jack's to honor the non-compete. Once Jack's knew Bandag did not mean to release it from its non-compete, it could not act as if any prior statements were still factually valid. Following discovery of a misrepresentation, "one cannot . . . enter into a contract and at the same time demand damages for fraud." *Christy v. Heil*, 123 N.W.2d 408, 411 (Iowa 1963) (action by purchasers of land against vendors; rule held inapplicable because "the contract had been signed, down payment made and possession assumed prior to the discovery" of the falsity of the representation). The claim fails here.

## III. Jack's patent misuse defense has no application in this case

In its answer, Jack's contends that the doctrine of patent misuse renders its covenant not to compete unenforceable. (Answer ¶ 2, Docket Entry No. 22.) This defense simply has no application to the claims Bandag is asserting against Jack's. Patent misuse is an equitable defense to a patent infringement claim or to a suit to collect royalties for the use of a patent. *See* Ernest B. Lipscomb, III, 6 Walker on Patents § 22.10 (3d ed. 1987 and Supp. 1998); *Windsurfing Int'l., Inc. v. AMF, Inc.*, 782 F.2d 995, 1001 (Fed. Cir. 1986); Bandag is asserting neither of these claims. Bandag seeks enforcement of a *non-compete*, not enforcement of a patent or collection of royalties. A patent misuse defense is inapplicable here as a matter of law.

The *sine qua non* of patent misuse is an effort by the patentee to extend the scope of a patent beyond the scope of the statutory rights Congress has granted patent holders. *See Blonder-Tongue Labs., Inc. v. University of Ill. Found.*, 402 U.S. 313, 343 (1971)(patentee must impermissibly "broaden the physical or temporal scope" of a patent). Jack's has argued that Bandag committed patent misuse because the franchise agreement sought royalties for the use of three patents explicitly referenced in the franchise agreement, but which have expired. (Memorandum in Opposition to Preliminary Injunction at 22-24, Docket No. 21.) Under such authority as *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), Jack's has argued, Bandag was not allowed to collect a royalty after these patents expired. Its attempt to do so voided not only the royalty, according to Jack's, but also the non-compete.

Jack's defense is not the gold Jack's thinks it is, but merely iron pyrite. Jack's became a Bandag franchisee in 1972 and was content to remain a Bandag franchisee until this year regardless of the continuing validity of three patents. The Logan Agreement is uncontestably a franchise agreement, conveying to Jack's an important bundle of rights that was much larger than the mere use of the three referenced patents. The relationship Jack's had with Bandag was a bona fide franchise relationship, and Jack's patent misuse claim must be examined from that perspective. *Cf. Windsurfing Int'l.*, 782 F.2d at 1001 (court unaware of any authority "for the proposition that patent misuse may be found on the basis of a patent license agreement provision recognizing and forbidding use of the licensor's validly registered trademarks.").

Jack's patent misuse defense founders on two key facts that Jack's cannot refute. Bandag has other valid patents useful and available to franchisees like Jack's. (*Id.*, Ex. 3 at 117; Mory Aff. at ¶¶6-10.) The point of this is simple. The royalty and service fee provision in the Logan Agreement (¶ II) is not tied to any specific patent, or even any patent rights at all, but to the entire bundle of Bandag rights Jack's got to use. If Jack's could use Bandag's existing and valid patents, even one of them, the royalty and service fee provision of the Logan Agreement was not linked separately to the three now expired patents.

Moreover, Bandag has never charged a royalty and service fee to Jack's, for the use of patents or anything else. The significance of this fact is straightforward. Patent misuse is an equitable doctrine and operates to bar enforcement of the patent as long as the misuse occurs. If the misuse stops, the bar to enforcement falls away. *U.S. Gypsum v. National Gypsum* Co., 352 U.S. 457, 465 (1957); *In re Yarn Processing Patent Validity Litigation,* 472 F.Supp. 170,174 (S.D. Fla. 1979). If Bandag did not collect royalty or service fees for any patents, let alone for unexpired patents, then the doctrine simply does not apply. *Cf. Noll v. O. M. Scott & Sons Co.*, 467 F.2d 295, 302 (6th Cir. 1972),(no misuse where patent holder did not knowingly extract royalties for a product not within the scope of the patent).

Jack's defense is an attempt to breathe new life into a discredited doctrine that has been confined to a set of limited per se circumstances. *See USM Corp. v. SPS Technologies, Inc.*, 694 F.2d 505, 510-11 (7th Cir. 1982) *cert. denied*, 462 U.S. 1107 (1983). *See also* IIA Areeda, Hovenkamp & Solow, ANTITRUST LAW ¶ 523 (1995) (patents and other forms of intellectual property do not confer market power by themselves). The Federal Circuit, which is now the primary source of law in this area, has ruled that unless a patentee's conduct falls into one of the historically defined *per se* examples of patent misuse, the patentee's conduct is examined under a rule of reason. *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 869 (Fed. Cir. 1997) *cert. denied*, ___ U.S. ___, 119 S. Ct. 52 (1998); *Cf. Pitney Bowes, Inc. v. Mestre*, 701 F.2d 1365, 1372 n. 12 (11th Cir. 1983) (Supreme Court has never held so-called "hybrid" agreements to be per se misuses.). The rationale for this approach is simple: "Patent owners should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade." *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 708 (Fed. Cir. 1992). Jack's argument would emasculate every franchise agreement in which patent rights were involved, regardless of whether the rights were central to the relationship or whether the franchisor was trying to enforce an obligation in the franchise relationship independent of patent rights.

In the end, Jack's assertion of this defense is simply not credible. It raises a defense that has no application to enforcement of a covenant not to compete following *termination* of a franchise. Bandag is not seeking to enforce or collect royalties on expired patents; indeed, Bandag has never collected any patent royalties from Jack's. Plainly, Jack's willingness to remain a Bandag franchisee until Michelin showed up irrefutably indicates that the franchise relationship with Bandag conferred benefits on Jack's that were greater than the rights conferred on Jack's to use any now expired patents. Having received these benefits, Jack's should not be heard – indeed should be estopped from contesting – the enforceability of the covenant not to compete, not simply on grounds of patent "misuse," but on any grounds.

## CONCLUSION

The court should grant Bandag's motion for summary judgment. Jack's can show no clear and definite agreement nor any reasonable reliance on such an agreement to sustain promissory estoppel. Jack's patent misuse defense likewise has no place in this case – Jack's obtained many rights as a Bandag franchisee, rights that were not linked to any now expired patents. Moreover, there is no evidence Bandag ever collected royalties on expired patents from Jack's, which it must show to sustain this defense.

Respectfully submitted,
BRIGGS AND MORGAN

Dated: July ___, 2003.

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