KFC CORP. v. MARION-KAY CO.

620 F. Supp. 1160 (1985) | Cited 0 times | S.D. Indiana | October 18, 1985

FINDINGS OF FACT AND CONCLUSIONS OF LAW

This matter comes before the Court on the November 10, 1983motion of plaintiff KFC Corporation ("KFC") for summary judgmentas to defendant Marion-Kay Company, Inc.'s ("Marion-Kay")counterclaim. Marion-Kay's response to KFC's motion was filed onDecember 13, 1983. KFC's reply brief was filed on January 30,1984. Also before the Court is KFC's July 6, 1984 supplementalmemorandum of law in support of its motion for summary judgment.On September 5, 1984, Marion-Kay filed its response to KFC'ssupplemental motion.

KFC's summary judgment originally went to Marion-Kay's March19, 1982 counterclaim. However, on May 23, 1984 Marion-Kay filedan amended answer and counterclaim and included a third-partycomplaint against John W. Sexton Co., Inc. ("Sexton") and StangeCo. ("Stange"). The counterclaim against KFC is identical to thethird-party complaint against Sexton and Stange. As indicated inits supplemental memorandum of law, KFC's motion for summaryjudgment goes to Marion-Kay's counterclaim as well as itsthird-party complaint.

The Court, being duly advised in the premises, now GRANTS KFC'smotion for summary judgment on Marion-Kay's amended counterclaimand third-party complaint for the reasons set forth below. Insupport thereof, the Court enters the following Findings of Factand Conclusions of Law and Memorandum Decision.

Findings of Fact

1. KFC initiated this action with the filing of its complainton December 9, 1981, alleging that Marion-Kay violated § 43(a) ofthe Lanham Act, 15 U.S.C. § 1125(a), through falsedescriptions and representation of Marion-Kay seasoning productsto KFC franchisees of "Kentucky Fried Chicken" restaurants andthat Marion-Kay tortiously interfered with KFC's contractualrelations with its franchisees. In its amended counterclaim andthird-party complaint, Marion-Kay claims that KFC, Sexton, andStange entered into a contract, combination, and conspiracy tounlawfully restrain trade in violation of § 1 of the Sherman Act,15 U.S.C. § 1.

2. KFC is a Delaware corporation with its principal place ofbusiness at 1441 Gardiner Lane, Louisville, Kentucky, and is thefranchisor of "Kentucky Fried Chicken" restaurants.

3. Marion-Kay is an Indiana corporation with its principalplace of business at U.S. Highway 50 West,

Brownstown, Indiana,and is engaged in the manufacturing of chicken seasoning knownvariously as "Marion-Kay Seasoning" or "99X Chicken Seasoning."

4. Sexton is a corporation allegedly having a place of businessat 222 Riverside Plaza, Chicago, Illinois.

5. Stange is alleged to be a Delaware corporation having aplace of business at 342 Northwestern Avenue, Chicago, Illinois.

6. As the franchisor of "Kentucky Fried Chicken" restaurants,KFC has developed and registered certain trademarks andservicemarks used in connection with its business. KFC'sregistered service marks and trademarks are as follows:

Registration Date of Mark Number Registration

Cartoon caricature of Colonel 757,835 10/1/63 with Cane and Chef's Cap (Trademark)

It's Finger Lickin' Good 759,776 11/5/63 (Trademark)

It's Finger Lickin' Good 801,095 12/28/65 (Trademark)

Colonel Sanders' Recipe 805,773 3/15/66 (Service Mark)

Design of Colonel Sanders' 806,104 3/22/66 Head (Service Mark)

Cartoon Caricature of 807,043 4/12/66 Colonel Sanders with Cane and Chef's Cap (Service Mark)

North America's Hospitality 808,595 5/17/66 Dish (Trademark)

Design of Colonel Sanders' 810,835 7/5/66 Head (Trademark)

North American's Hospitality 811,497 7/19/66 Dish (Service Mark)

Col. Sanders Recipe Kentucky 813,559 8/23/66 Fried Chicken (Trademark)

Col. Sanders Recipe 814,610 9/6/66 (Trademark)

Kentucky Fried Chicken 815,167 9/13/66 (Service Mark)

Colonel Sanders' Recipe 838,062 10/31/67 Kentucky Fried Chicken (Service Mark)

Kentucky Fried Chicken 838,895 11/14/67 (Trademark)

We Fix Sunday Dinner Seven 841,000 12/19/67 Days A Week (Service Mark)

Representation of Colonel 846,026 3/12/68 Sanders in White Suit Holding Menu (Service Mark)

Picturization of Colonel 886,050 2/10/70 Sanders' Head with Chef's Cap (Service Mark)

Striped Roof Design and 889,169 4/7/70 Kentucky Fried Chicken (Service Mark)

America Loves What the Colonel 991,605 8/20/74 Cooks (Service Mark)

Have a Barrel of Fun 1,005,464 2/25/75 (Service Mark)

Visit the Colonel 1,063,585 4/12/77 (Service Mark)

KFC grants eeach of its franchisees a license to use thesetrademarks and service-marks in connection with the preparationand sale of "Original Recipe Kentucky Fried Chicken."

7. Original Recipe Kentucky Fried Chicken is sold only by KFCand its franchisees, and is prepared by a special cooking processfeaturing the use of a "secret recipe" seasoning known as "KFCSeasoning." This blend of seasoning was developed by KFC'sfounder, Colonel Harlan Sanders.

8. KFC Seasoning, its blending system, and the method ofpreparing Original Recipe Kentucky Fried Chicken are subject toprotection as trade secrets.

9. As a condition of each franchise contract, KFC requires thatits franchisees use only KFC Seasoning in connection with thepreparation and sale of Kentucky Fried Chicken.

10. To protect the secrecy of the composition of KFC Seasoning,KFC has designed a blending system for making the seasoning. Withpermission from KFC, one part of KFC Seasoning recipe is blendedby Sexton and another part is blended by Stange. Neither companyhas knowledge of the complete formulation of KFC Seasoning nor ofthe other's specific activities in the production of the other'spart of the product. Both companies have entered into secrecyagreements with KFC, binding them to maintain the confidentialityof that portion of the KFC Seasoning formula to which each isprivy. KFC's relationship with both Sexton and Stange has existedfor more than 25 years. No other companies are licensed to blendKFC Seasoning.

11. After KFC Seasoning is blended by Sexton and Stange, it isthen mixed together and sold directly by Stange to all KFC retailoperators and to distributors acting on behalf of KFC retailoperators.

12. KFC neither manufactures nor sells KFC Seasoning to itsfranchisees and does not receive a royalty or other economicbenefit from the sale of KFC Seasoning by Sexton and Stange.

13. Marion-Kay has never been licensed by KFC to manufacture ordistribute seasoning to be used in preparing Original RecipeKentucky Fried Chicken.

14. In early 1973, Marion-Kay requested permission to marketits seasoning products to KFC franchisees. By letter dated March15, 1973, Edward E. Ellis, General Counsel for KFC, advisedMarion K. Summers ("Summers"), President of Marion-Kay, that KFCwould not grant Marion-Kay permission to sell its seasoning toKFC franchisees for use in the preparation of Original RecipeKentucky Fried Chicken. The letter provides in relevant part asfollows:

"We did explore a number of possibilities here for a mutually beneficial relationship of some kind with you, and I am sorry to say that the conclusion was that we should continue with our present arrangements.

Having come to that conclusion, based on the best information available to us, I should perhaps point out again that an essential element of our contractual relationships with our franchisees is that they use in their operations the spice formula, process and recipe which are the exclusive property of Kentucky Fried Chicken Corporation. Using any other spice formula, process or recipe would be a serious violation of their franchise agreements and a matter of grave concern to KFC is our desire to vigorously protect our trademarks, trade secrets and standards of national uniformity and quality in the preparation and sale of Kentucky Fried Chicken. I well understand that it is not your desire to interfere in any way with our contractual relationships with our franchisees and I solicit your continued cooperation in that regard. This is of course well within the boundaries of business ethics which I believe, after my conversation with you, you have practiced these many years.

* * *"

15. On February 3, 1977, KFC's General Counsel, Michael J.McGraw ("McGraw"), sent a telegram to Summers advising him thatKFC had learned that Marion-Kay was supplying KFC franchiseeswith a Marion-Kay blend of seasoning. McGraw insisted thatMarion-Kay cease supplying KFC franchisees with its seasoningproduct. The telegram reads in its entirety as follows:

"We have just been advised that Marion-Kay is supplying KFC franchisees with a seasoning blend for use in preparing chicken sold as Kentucky Fried Chicken. This comes as quite a surprise since we have raised this issue with you in the past and received assurances that you would not make such sales. As you were advised in March, 1973, an essential element of our contractual relationship with our franchisees is that they use only seasoning prepared from the formula, process and recipe which are the exclusive property of KFC. Your continued sale of Marion-Kay's seasoning product constitutes an intentional interference with our contractual relationship with our franchisees. It also has a substantial impact on KFC's right and obligation to control the quality of products sold under our trademarks.

We must again insist that you immediately discontinue supplying any Kentucky Fried Chicken franchisees with Marion-Kay's seasoning product. Because of the importance of this matter to KFC and the Kentucky Fried Chicken system, we ask that you give us your prompt written assurance that you will comply with this request.

Michael J. McGraw, General Counsel, KFC Corporation"

16. On February 10, 1977, McGraw sent a second telegram toSummers, demanding that Marion-Kay discontinue selling itsseasoning product to KFC's franchisees. That telegram reads infull text as follows:

"We have just received additional information concerning your sale of a seasoning blend to Kentucky Fried Chicken franchisees. One of our franchisees in Tennessee has advised KFC that you are supplying as many as 200 Kentucky Fried Chicken stores with Marion-Kay seasoning products.

When I sent you the February 3 telegram I had hoped your sale of seasoning to our franchisee in Buffalo and Kansas was just an isolated incident. With this new information we are even more concerned with the impact on the Kentucky Fried Chicken system of your continued sale of seasoning to our franchisees. We are particularly concerned that our franchisees are purchasing Marion-Kay seasoning based on your representations that it will produce Kentucky Fried Chicken. If our information is not correct, I am sure you will let me know. Otherwise, we will assume that you are supplying as many as 200 Kentucky Fried Chicken outlets with Marion-Kay seasoning blend despite our previous warnings.

Michael J. McGraw, General Counsel KFC Corporation"

17. In a letter dated February 21, 1977, McGraw again madeknown KFC's continuing objection to the sale of Marion-Kayseasoning to KFC franchisees and stated that Summers' actionsconstituted intentional interference with KFC's contractualrelationship with its franchisees:

"Dear Mr. Summers:

I am disappointed that you have elected to ignore my telegrams of February 3 and February 10. Your failure to respond is further evidence that your sale of seasoning to our franchisees is designed to intentionally interfere with our contractual relationship with those franchisees. Such a wanton disregard for the concerns we have expressed will only lead to further damage to KFC and the KFC system.

Very truly yours, Michael J. McGraw"

18. On February 10, 1977, a KFC franchisee sought KFC'sapproval of the use of Marion-Kay

seasoning in connection withthe preparation of Original Recipe Kentucky Fried Chicken. Thisrequest was rejected by KFC by letter dated February 22, 1977.

19. Any conclusion of law stated below, to the extent that itconstitutes a finding of fact, is herein incorporated byreference as an additional finding of fact by the Court.

Conclusions of Law

1. This Court has jurisdiction over the complaint pursuant to28 U.S.C. § 1331 and 1332 and 15 U.S.C. § 1121. The Court hasjurisdiction over Marion-Kay's counterclaim and third-partycomplaint pursuant to 28 U.S.C. § 1332 and 15 U.S.C. § 15.

2. Marion-Kay's counterclaim and third-party complaint fordamages are not time-barred by the four-year statute oflimitations contained in Section 4B of the Clayton Act, 15 U.S.C. § 15b,for the reasons that KFC has maintained a continuous andexclusive contractual relationship with Sexton and Stange for themanufacture and sale of KFC Seasoning to KFC franchisees. Thisallegedly unlawful activity falls within the "continuingviolation" exception to the general rule under Section 4B that anaction accrues at the time of the initial violation, and thusMarion-Kay may lawfully challenge KFC's activities with regard tothe sale and distribution of KFC Seasoning. See National SouvenirCenter v. Historic Figures, Inc., 728 F.2d 503 (D.C.Cir. 1984).

3. Marion-Kay's claims for injunctive relief are not timebarred by the doctrine of laches for the reason that KFCmaintained an exclusive and continuous contractual relationshipwith Sexton and Stange for the sale and distribution of KFCSeasoning. Because KFC's allegedly unlawful activity was ongoing,Marion-Kay did not delay in bringing its counterclaim.

4. In a situation involving the sale of franchise items, therecan be no unlawful tying arrangement absent some proof that therehas been a sale of two separate products. Krehl v. Baskin-RobbinsIce Cream Co., 664 F.2d 1348, 1352 (9th Cir. 1982). See alsoTimes-Picayune Publishing Co. v. United States, 345 U.S. 594,613-14, 73 S.Ct. 872, 883, 97 L.Ed. 1277 (1953). A determinationas to whether a franchise may appropriately be regarded as aseparate product requires an inquiry into the relationshipbetween the franchise itself and the products allegedly beingtied to its sale. Id. at 1353.

5. In a situation where the "tied products" are commonplacearticles, such as paper products, See, e.g., Kentucky FriedChicken v. Diversified Packaging, 549 F.2d 368 (5th Cir. 1977),and there is generally only a remote connection between thetrademark and the tied products the franchisee is required topurchase, the trademark simply reflects the good will and qualitystandards of the enterprise itself. Id. As such, as long as thefranchisee maintains those quality standards, the source of thetied products is not actually related to the value of thetrademark itself. Because the franchisor could easily maintainits quality standards through means other than the coercedpurchase of the tied product, such a tying arrangement impedescompetition and is violative of the Sherman Act. Id.

6. Where, as here, however, the tied product is manufacturedpursuant to a secret formula, "the franchised outlets servemerely as conduits through which the trademarked goods of thefranchisor flow to the ultimate consumer." Id. In thissituation

"the trademark actually serves as a representation of the end product marketed by the [franchise] system. `It is to the system and the end product that the public looks with the confidence that the established goodwill has created.'"

Id. at 1354 (citing Siegal v. Chicken Delight, Inc., 448 F.2d 43,49 (9th Cir. 1971)). In these citations, the Court is precludedfrom finding that the trademark is a separate product from theallegedly tied item because the trademark itself and the qualityof the end product are identified as a single item. Id.

7. The Court finds that the use of the KFC trademarks andservicemarks by the KFC franchisees is so interrelated with KFCSeasoning, that no reasonable person could find that thefranchise (trademarks) and KFC Seasoning are two separateproducts for tying arrangement purposes. Therefore, therequirement that KFC franchisees purchase KFC Seasoning throughSexton and Stange is not an unlawful tying arrangement inviolation of Section 1 of the Sherman Act.

8. The Court further finds as a matter of law that KFC may, inorder to protect its trade secrets and quality of its goods,choose any manufacturer it pleases to reproduce and distributeKFC Seasoning to the franchisees. The fact that Marion-Kay isprecluded from manufacturing and distributing KFC Seasoning isnot a violation of the anti-trust laws.

9. Any finding of fact stated above, to the extent that itconstitutes a conclusion of law, is herein incorporated byreference as an additional conclusion of law by the Court.

Memorandum

This is an action brought by the plaintiff KFC Corporation, afranchisor of Kentucky Fried Chicken Restaurants, againstMarion-Kay for alleged tortious interference with KFC'scontractual relations with its franchisees. Marion-Kay is amanufacturer of seasoning products and has filed a counterclaimagainst KFC and a third-party complaint against Sexton and Stangealleging that the restrictive agreement between KFC and Sextonand Stange for the production and distribution of KFC seasoning,also known as Colonel Harlan Sander's "secret recipe," is anunlawful restraint of trade in violation of § 1 of theSherman Act. This matter is before the Court on KFC's motion forpartial summary judgment on Marion-Kay's amended counterclaim andthird-party complaint.

KFC and Sexton and Stange have entered into an agreementwhereby KFC has permitted both Sexton and Stange to produce aseparate part of the secret recipe, which is a blend of spicesused in making Original Recipe Kentucky Fried Chicken. Under thecontract, Sexton and Stange are obligated not to divulge therecipe for that portion of the formula which they manufacture andneither company knows the specific activity of the other. Oncethe formulais blended by Sexton and Stange, it is mixed together and soldby Stange to KFC franchisees. All of KFC's franchisees areobligated to purchase and use KFC seasoning in the preparationand sale of Original Recipe Kentucky Fried Chicken.

In its counterclaim and third-party complaint, Marion-Kayalleges that KFC has violated § 1 of the Sherman Act in tworespects. First, Marion-Kay claims that KFC has unlawfully tiedthe sale of a KFC franchise (tying product) to the sale of KFCseasoning (tied product). Second, Marion-Kay alleges that KFChas wrongfully refused to approve Marion-Kay as an additionalsupplier of KFC seasoning. Marion-Kay maintains that therecipes and formulas for the making of KFC seasoning are notunique and that Marion-Kay is capable, both financially andtechnically, of producing KFC seasoning. Marion-Kay claims thatthe agreement between KFC and Sexton and Stange for theblending of KFC seasoning, and KFC's refusal to deal withMarion-Kay and other spice blenders, is an unlawful restrainton commerce because KFC has foreclosed competition in the saleof seasoning products used by KFC franchises.[1]

KFC has moved for summary judgment on the counterclaim on thefollowing grounds: (1) that Marion-Kay's claims are barred bythe statute of limitations and by the doctrine of laches; (2)that the requirement that KFC franchisees purchase only KFCseasoning from Stange is not an unlawful tying arrangement and(3) that it is not unlawful for KFC to refuse to makeMarion-Kay a distributor of KFC seasoning. There are no genuineissues of material facts in dispute surrounding these issues;therefore, summary judgment on these claims is appropriate.

I. Marion-Kay's Claims Are Not Barred By The Statute of Limitations

KFC Corporation argues that the four-year statute oflimitations (15 U.S.C. § 15b) began to run on March 15, 1973,when Marion-Kay was advised by Mr. Edward Ellis, GeneralCounsel for KFC, that KFC would not permit Marion-Kay to sellits products to KFC franchisees. KFC contends that Marion-Kay'scause of action accrued at this time and that the filing of thecounterclaim and third-party complaint almost ten years lateris time-barred.

Generally, a cause of action "accrues" for purposes of astatute of limitations when the plaintiff first suffers an injuryfrom an unlawful contract or conspiracy. National Souvenir Centerv. Historic Figures, Inc., 728 F.2d 503, 509 (D.C.Cir. 1984).There is, however, a "continuing violation" exception to thisgeneral rule which becomes applicable where the allegedconspiracy has been ongoing. In Zenith Radio Corp. v. Hazeltine,Inc., 401 U.S. 321, 338, 91 S.Ct. 795, 806, 28 L.Ed.2d 77 (1971),the Supreme Court stated the exception in these terms:

"[i]n the context of a conspiracy to violate the anti-trust laws, . . . each time a plaintiff is injured by an act of the defendants a cause of action accrues to him to recover the damages caused by that act and that, as to those damages, the statute of limitations runs from the commission of the act."

Thus, to survive a dismissal, a plaintiff must show that an"overt act" has been committed pursuant to the unlawfulcontract, combination, or conspiracy within the limitationperiod. In the context of a tying arrangement, the "overt act"requirement "may be satisfied merely by the parties continuingto maintain contractual relationships that directly affectcompetition in the tied product market." National SouvenirCenter, supra, at 510 (citations omitted).

In the present case, Marion-Kay was first injured in early1973 when KFC informedits president that Marion-Kay would not be permitted todistribute its seasoning products to KFC franchisees. At firstglance, it might appear that Marion-Kay's cause of actionaccrued then, and that it has thus failed to satisfy thestatute of limitations requirement. However, KFC has continuedto require its franchisees to purchase KFC seasoning fromSexton and Stange. It has not allowed Marion-Kay, or anyoneelse, an opportunity to sell its seasoning products to KFCfranchisees. Thus, there has been a continuing agreementbetween KFC and KFC franchisees that the franchisees purchaseKFC seasoning from Sexton and Stange. This continuingarrangement, dating back to 1973, has excluded Marion-Kay fromthe KFC seasoning market in two respects: (1) Marion-Kay hasnot been permitted to sell its seasoning to KFC franchiseesbecause those franchisees are obligated to purchase KFCseasoning by virtue of the franchise agreement, and (2)Marion-Kay has never been allowed to manufacture KFC seasoningwith permission from KFC because of the exclusive agreementwith Sexton and Stange for the blending of the secret recipe.

Because the alleged contract, combination, and conspiracyprevented Marion-Kay from selling any seasoning product to KFCfranchisees, the Court finds that this case falls within the"continuing violation" exception to the general rule that acause of action accrues when the plaintiff is first injured bythe unlawful agreement, and that Marion-Kay has satisfied therelevant statute of limitations and may bring a cause of actionfor alleged anti-trust violations occurring during the fouryears immediately preceding the initial filing of thecounterclaim.

KFC also argues that Marion-Kay unreasonably delayed inbringing its claims for injunctive relief and that those claimsare barred by the doctrine of laches. In determining whatconstitutes an unreasonable delay, courts have turned to thefour-year statute-of-limitations requirement for damage claimsunder the Clayton Act. See, e.g., International Telephone andTelegraph Corp. v. General Telephone & Electronics Corp.,518 F.2d 913, 928 (9th Cir. 1975). The Court finds that, for thesame reasons, this case is not barred by the statute oflimitations, it is also not barred by laches. Because thealleged violation was continuing, the defendant did notunreasonably delay in bringing its counterclaim and third-partycomplaint for the violations occurring within the last fouryears, and Marion-Kay may bring its action for the allegedviolation occurring during that period.

Accordingly, KFC's motion for partial summary judgment on thegrounds that Marion-Kay has failed to satisfy the limitationsperiod and that this case is barred by the doctrine of lachesis DENIED.

II. No Unlawful Tying Arrangement

In its counterclaim and third-party complaint, Marion-Kaycontends that KFC has unlawfully tied the sale of itsfranchises to the purchase of KFC seasoning from Sexton andStange. In its motion for summary judgment, KFC argues thatthere is no unlawful tying arrangement for the sale of KFCseasoning because (1) the seasoning is such an integral part ofa KFC franchise that it cannot be considered a separate productfor tie-in purposes, and (2) KFC receives no economic benefitfrom the sale of KFC seasoning to its franchisees. In response,Marion-Kay argues that the question of whether the sale of aKFC franchise is tied to the sale of KFC seasoning is an issueof fact that must be resolved by the jury rather than by amotion for summary judgment.

In the present case, the parties do not take issue with theunderlying facts. It is not disputed that KFC is a franchisorof Kentucky Fried Chicken Restaurants or that it requires itsfranchisees to purchase KFC seasoning from Sexton and Stange.It is also not disputed that Sexton and Stange are theexclusive distributors of KFC seasoning. The parties also agreethat Marion-Kay sought KFC's approval tosell its product to KFC franchisees and that KFC rejected thatrequest in early 1973 and on several other occasions. In thecontext of KFC's motion, the question for this Court, then, iswhether there is sufficient evidence in the record to support afinding that as a matter of law the sale of KFC seasoning and aKFC franchise is actually the sale of one product. The Courtfinds that there is sufficient evidence to allow it to concludethat a sale of only one product has occurred and that there isno unlawful tying arrangement surrounding the sale of KFCseasoning.

Section 1 of the Sherman Act provides, in relevant part, that"[e]very contract, combination in the form of trust orotherwise, or conspiracy, in restraint of trade or commerceamong the several states, . . . is declared to be illegal . . ."15 U.S.C. § 1. The Supreme Court has interpreted thisprovision to prohibit only those contracts or actions which thecommon law had deemed to be undue restraints of trade or whichmight be unreasonable after considering the changing times andeconomic conditions. Cincinnati Riverfront Coliseum, Inc. v.Cincinnati, 556 F. Supp. 664, 666 (S.D.Ohio 1983) (citingStandard Oil Company v. United States, 221 U.S. 1, 31 S.Ct.502, 55 L.Ed. 619 (1911)). Activities such as tyingarrangements have been held to constitute per se violations ofthe Sherman Act, if such activities are proven to haveoccurred. See United States v. Socony-Vacuum Oil Co.,310 U.S. 150, 210-18, 60 S.Ct. 811, 838, 84 L.Ed. 1129, 1162-63 (1940);Klors v. Broadway-Hale Stores, Inc., 359 U.S. 207, 79 S.Ct.705, 3 L.Ed.2d 741 (1959). Under a per se rule analysis, aplaintiff is not required to prove any anti-competitiveconsequences of a defendant's activity because those anti-trustacts are considered so typically and traditionallyanti-competitive that the courts have found it appropriate to"short-circuit" the usual analysis of competitive effects toallow a presumption of anti-competitive effects, which thecourts dub a per se violation of the anti-trust laws. In ReYarn Processing Patent Validity Litigation, 541 F.2d 1127, 1134(5th Cir. 1976), cert. denied 433 U.S. 910, 97 S.Ct. 2976, 53L.Ed.2d 1094 (1977).

A tying arrangement occurs when a buyer is permitted topurchase a desired product (tying product) only if he agrees tobuy a second, generally unwanted, item ("tied product") from theseller. See, e.g., U.S. Steel Corp. v. Fortner Enterprises, Inc.,(Fortner II) 429 U.S. 610, 97 S.Ct. 861, 51 L.Ed.2d 80

(1977). Itis well-settled that there can be no illegal tie-in under Section1 of the Sherman Act unless the seller is in fact selling twodistinct and separate products. See Lupia v. Stella D'Oro BiscuitCompany, Inc., 586 F.2d 1163, 1173 (7th Cir. 1978), cert. denied440 U.S. 982, 99 S.Ct. 1791, 60 L.Ed.2d 242 (1979). The questionof whether there has actually been a sale of two separateproducts is generally an issue of fact that must be resolved bythe trier of fact. However, where, as here, the underlying factsare not in dispute and there are other relevant uncontrovertedfacts, summary judgment is appropriate.

The facts in the present case are very similar to those inKrehl v. Baskin-Robbins Ice Cream Co., 664 F.2d 1348 (9th Cir.1982), and the Court finds this case controlling in disposing ofMarion-Kay's tying arrangement claim. In Krehl, the plaintiffsargued that Baskin-Robbins illegally tied the purchase ofBaskin-Robbins' ice cream products to the sale of Baskin-Robbins'franchise and trademark licenses. Under the franchise agreement,Baskin-Robbins' franchisees were required to purchase ice creamproducts from a designated third-party licensee. At the close ofplaintiffs' case-in-chief, the district court grantedBaskin-Robbins' motion to dismiss, pursuant to Rule 41(b) of theFederal Rules of Civil Procedure, finding that the plaintiff hadnot established that the Baskin-Robbins' trademark was a separateproduct from Baskin-Robbins ice cream. 664 F.2d at 1350-1351.

On appeal, the Ninth Circuit Court of Appeals affirmed thedistrict court's ruling, holding that plaintiffs had failed toshowthat the franchise (trademark) itself served merely torepresent the end product (ice cream). The Court of Appealsconcluded that the two products were so interrelated in themind of the consumer that they were not separate items fortie-in purposes. Id. at 1354. In reaching this conclusion, thecourt reasoned that under the distribution type systemimplemented by Baskin-Robbins, the franchisees served merely asconduits through which the trademarked goods flowed to theultimate consumer. Id. at 1353.[2] In these situations thegoods are generally manufactured pursuant to a specific orsecret formula, and an alternative product of similar qualityis not available.[3] The trademark

''in a distribution franchise system serves merely as a representation of the end product marketed by the system. `It is to the system and the end product that the public looks with the confidence that the established goodwill has created.' Consequently, sale of substandard products under the mark would dissipate this goodwill and reduce the value of the trademark. The desirability of the trademark is therefore utterly dependent upon the perceived quality of the product it represents.''

Id. at 1354. Again, the Court of Appeals concluded that thetying arrangement doctrine has no application under thesecircumstances because the trademark serves only to identify theallegedly tied product, and the two items become sointerrelated as to preclude a finding that the trademark is aseparate item. Id.

In the present case the undisputed evidence shows that KFC,as a franchisor of Kentucky Fried Chicken Restaurants, hasdeveloped and registered trademarks and service marks with theUnited

States Patent and Trademark Office. Its franchisees arelicensed to use these trademarks and service/marks inconnection with the preparation and sale of Kentucky FriedChicken. In addition, KFC has developed certain trade secretsincluding the complete formula for KFC seasoning, which is aseasoning formula KFC franchisees are required to use inpreparing Original Recipe Kentucky Fried Chicken. KFC seasoningwas developed by KFC's founder, Colonel Harlan Sanders.Although KFC does not manufacture the seasoning itself, it hasentered into agreements with Sexton and Stange for theproduction and distribution of KFC seasoning to itsfranchisees. The question before this Court, then, is whetherthe sale of a KFC franchise, which involves the right to useKFC's trademarks and service marks, is so closely identifiedwith KFC seasoning that both the franchise and seasoning cannotbe considered separate products for anti-trust purposes.

KFC has several registered trademarks and service marks thatactually identify KFC seasoning, as Colonel Harlan Sanders"Recipe." For example, KFC's trademarks and service marksinclude the following:

Mark Registration Date of Number Registration

"Colonel Sanders Recipe" 757,835 10/1/63 (Service Mark)

"Col. Sanders Recipe 813,559 8/23/66 Kentucky Fried Chicken" (Trademark)

"Col. Sanders Recipe" 814,610 9/6/66 (Trademark)

"Colonel Sanders' Recipe 838,062 10/31/67 Kentucky Fried Chicken" (Service Mark)

"America Loves What 991,605 8/20/74 the Colonel Cooks" (Service Mark)

As in Krehl, KFC's franchise system is a distribution-typesystem, where the franchised outlets merely serve as conduitsthrough which Original Recipe Kentucky Fried Chicken is sold.Also, the KFC seasoning is made pursuant to detailedspecifications and is not available except through Sexton andStange, KFC's licensees. As such, the franchise merely servesas a representative of Original Recipe Kentucky Fried Chicken,and the desirability of the franchise itself depends upon thequality of the product it represents as KFC seasoning. Thetie-in doctrine has no application where the trademark(franchise in this case) serves only to identify the allegedlytied product. Krehl, 664 F.2d at 1354. Marion-Kay has presentednothing in opposition to KFC's statement that KFC seasoning isan essential and inseparable part of the product that isidentified by the consuming public as Original Recipe KentuckyFried Chicken.

Based on this evidence, the Court finds that the use of theKFC trademarks and service marks is so interrelated with KFCseasoning that no person could reasonably find that thefranchise and KFC seasoning are two separate products. For allof these reasons, the Court GRANTS KFC's summary judgment onthis tie-in issue of Marion-Kay's counterclaim and third-partycomplaint.

III. Marion-Kay Has No Right To Become A Distributor Of KFC Seasoning

In the counterclaim, Marion-Kay also contends that it isentitled to become a distributor of KFC seasoning. Specifically,Marion-Kay claims that KFC's exclusive arrangement with Sextonand Stange for the production and distribution of KFC seasoningis a restraint of trade in violation of § 1 of the Sherman Act.Marion-Kay maintains that KFC seasoning can be easily duplicatedby any competent spice blender and that the rationale of KentuckyFried Chicken v. Diversified Packaging Corp., 549 F.2d 368 (5thCir. 1977), compels a ruling requiring KFC to open the KFCseasoning market and approve such competent seasoning blenders.KFC, on the other hand, argues that because KFC seasoning is atrade secret, central to the success of its business, the Courtcannot require it to disclose its recipe secret to any supplierclaiming it is worthy to produce seasoning.

In Kentucky Fried Chicken v. Diversified Packaging, supra, thecase relied on by Marion-Kay, KFC brought an action claiming thatthe defendants were infringing its trademarks and engaging inunfair competition by selling boxes and other supplies to KFCfranchisees. 549 F.2d at 372. Defendants had placed KFCtrademarks on the supplies without KFC's consent and hadallegedly misled the franchisees as to the source and quality ofthe supplies. Defendants counterclaimed, alleging that KFC'sfranchise agreements, which required that all franchiseespurchase supplies from sources approved by KFC, constituted anunlawful tying arrangement. Specifically, KFC required that itsfranchisees purchased various supplies from KFC or from approvedsources. The franchise agreements provided that the approval"shall not be unreasonable." Id. at 373. KFC had approved nineindependent suppliers and had maintained its own subsidiarysupplier strictly for purposes of supplying these products. KFChad never refused a request for approval by any independentsupplier. Id. The District Court ruled in KFC's favor on everyissue and the Fifth Circuit Court of Appeals affirmed. Id. at372.

On appeal, the Fifth Circuit Court of Appeals stated that afranchisor who requires its franchisees to purchase

"trademarked supplies does not escape the impact of tying principles to any extent. The franchisor's right to prevent others from selling supplies bearing its trademarks must yield to the anti-trust laws' command to open the tied market to competitors." (citations omitted).

Id. at 376. The Court recognized, however, that as a defense tothe tie-in claim a franchisor could demonstrate that the tiedproduct was necessary to maintain the quality of the endproduct being sold to the consumer. As a part of this defense,the Court held that it was incumbent upon thefranchisor to show that the "tie constituted the method ofmaintaining quality that imposes the least burden on commerce."Id. The Court of Appeals also held that KFC's approval system didnot constitute a tie, stating that the principal evil associatedwith tying arrangements, i.e., the foreclosure of competition inthe tied market, was not present under this system. Id. at 378.In addition, the Court held the approved-source system was not anunlawful tying arrangement because the franchisees had the optionof shopping around for the supplies:

"The option is limited to approved suppliers, but there are ten such suppliers of cartons, and franchisees are free to nominate additional suppliers whenever they can be found. . . . Franchisees might fare better if fifty or a hundred suppliers competed for their business, but a market with ten suppliers and unrestrained entry surely poses a far different problem than a market available to the victim of a traditional tie: one supplier and no entry."

Id.

Marion-Kay argues that based on Kentucky Fried Chicken v.Diversified Packaging, KFC cannot preclude other spice blendersfrom supplying KFC seasoning to its franchisees as long as theseasoning meets KFC specifications. As mentioned previously, KFCseasoning is manufactured and distributed solely through Sextonand Stange. Unlike the situation in Diversified Packaging, KFChas no method of approving other blenders who wish to distributeKFC seasoning.

The facts before the Court in the present case are easilydistinguished from the situation in Diversified Packaging. KFCseasoning is a trade secret, which this Court has already heldconstitutes the franchise itself. To require KFC to open up itsseasoning market to any spice supplier wanting to supply itsfranchisees would require KFC to divulge its trade secrets. NoCourt has ever forced a supplier or manufacturer to disclose atrade secret to a distributor wanting to manufacture anddistribute that product. See, e.g., Susser v. Carvel Corporation,332 F.2d 505, 517 (2d Cir.), cert. granted 379 U.S. 885, 85 S.Ct.158, 13 L.Ed.2d 91 (1964) and cert. dismissed, 381 U.S. 125, 85S.Ct. 1364, 14 L.Ed.2d 284 (1965). Diversified Packaging did notinvolve trade secrets. Rather, in that opinion the Courtscrutinized the KFC's approval policies for the distribution ofcommonplace supplies such as cartons, containers, and napkinsbearing KFC's trademark, all of which were available from severalsources.

Finally, Marion-Kay alleges that the contractual arrangementbetween KFC and Sexton and Stange for the distribution of KFCseasoning is evidence of a conspiracy to exclude Marion-Kay asa supplier of the seasoning. Marion-Kay also seems to argue,albeit erroneously, that because KFC has disclosed the tradesecret to Sexton and Stange it is estopped from denyingsupplier status to other spice blenders.

Under these contracts, neither Sexton and Stange is given thecomplete specifications for the production of KFC seasoning.Rather, each supplier is given only a portion of the "recipe,"and each has agreed to maintain the secrecy of the formula towhich it has privy. Sexton and Stange have no input whatsoeverin KFC's exercise of control over the production, sale, and useof the trade secret. In other words, KFC has maintainedunilateral and complete control over KFC seasoning. KFC canterminate the contracts with Sexton and Stange with 120-daysfrom the notice of termination and can select another supplierto distribute KFC seasoning without violating the contract.Thus, in effect, KFC has not disclosed its trade secrets toanyone, which fact disputes Marion-Kay's claims and defeatsMarion-Kay's argument that KFC should be estopped from denyingdisclosure of its trade secrets to other suppliers. This Courtwill not require KFC to disclose its trade secrets toMarion-Kay, and the fact that KFC has entered into an agreementwith Sexton and Stange, for the distribution of KFC seasoning,to the exclusion of Marion-Kay, does not constitute aconspiracy to violate theanti-trust laws. KFC has an absolute right to choose who willdistribute KFC seasoning without violating Section 1 of theSherman Act.

Accordingly, for all the foregoing reasons, KFC's motion forpartial summary judgment on Marion-Kay's counterclaim isGRANTED.

1. In its original counterclaim, Marion-Kay claimed that the §1, Sherman Act, violation resulted from the fact thatMarion-Kay was precluded from selling its seasoning products toKFC franchisees. It appears that this claim has been abandonedand that Marion-Kay is now contending that KFC has unlawfullyforeclosed Marion-Kay from selling KFC seasoning to KFCfranchises.

2. In a business format franchising system, the franchisormerely provides a trademark and some supplies to be used in theoperation of the business. Id. See also Siegel v. ChickenDelight, Inc., 448 F.2d 43 (9th Cir. 1972). In these situationsthe tied products are generally commonplace articles and areonly remotely connected with the trademark itself. Id.

3. In a business format system a franchisor can easily maintainits quality standards through less intrusive means other thanrequiring its franchisees to purchase those items from thefranchisor. As a result, the coerced purchase of those tiedproducts is nothing "more than an effort to impede competitionon the merits in the market for the tied products." Id.(citations omitted).