

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

JTH TAX, INC. d/b/a
LIBERTY TAX SERVICE,

Plaintiff,

Civil No. 2:15 cv 536

v.

THOMAS D'ALTO,

Serve at: 116 Princeton Street
Boston, MA 02128

Defendant.

COMPLAINT

COMES NOW the Plaintiff, JTH Tax, Inc. d/b/a Liberty Tax Service ("Liberty"), by counsel, and for its Complaint against the Defendant, Thomas D'Alto ("D'Alto"), states as follows:

The Parties

1. Liberty is a Delaware corporation with its headquarters and principal place of business at 1716 Corporate Landing Parkway, Virginia Beach, Virginia 23454.
2. D'Alto is a citizen of the state of Massachusetts whose last known home address is 116 Princeton Street, Boston, MA 02128.

Personal Jurisdiction

3. Personal jurisdiction over D'Alto exists in Virginia because:
 - a. In the process of purchasing and operating a Liberty Tax franchise, D'Alto had regular contact with Virginia, including submission of regular reports and other regular contact with Liberty in Virginia Beach, Virginia. *See Burger King Corp. v. Rudzewicz*, 471 U.S. 462 (1984).

b. D'Alto's Franchise Agreement with Liberty contains a consent to jurisdiction clause in favor of Virginia. (Hereafter, the "Franchise Agreement," § 15.b.)

Subject Matter Jurisdiction

4. This Court has subject matter jurisdiction under 28 U.S.C. § 1338(a), in that a portion of this claim is based upon federal Lanham Act, 15 U.S.C. §§ 1114 and 1125.

5. This Court also has subject matter jurisdiction under 28 U.S.C. § 1332, as the parties are diverse and the amount in controversy is greater than \$75,000.

Venue

6. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because a substantial part of the events giving rise to this cause of action arose in this judicial district and because D'Alto's Franchise Agreement contains a forum selection clause specifying venue in this judicial district. (Franchise Agreement § 15.b.)

FACTS

The Liberty Tax Service Franchise System and Trademarks

7. Liberty is engaged in the business of advertising, promoting and licensing a system of tax preparation centers throughout the United States. In connection with this business, Liberty allows its franchisees to operate their business using Liberty's trademarks.

8. As is pertinent to this case, Liberty is the owner of the following federally registered trademarks:

a. "Liberty Tax Service" - registration date February 1, 2000 (reg. no. 2,314,991). (Attached as **Exhibit 1**).

b. "Liberty Tax" – registration date July 3, 2001 (reg. no. 2,465,670). (Attached as **Exhibit 2**).

c. “Liberty Tax Service” and design - registration date August 21, 2001 (reg. no. 2,479,692). (Attached as **Exhibit 3**).

d. Statue of Liberty – registration date January 19, 2010 (reg. no. 3,738,741). (Attached as **Exhibit 4**).

The Franchise Agreement

9. On August 7, 2009, D’Alto entered into a franchise agreement (the “2009 Agreement”) with Liberty for the territory known as MA006. (A copy of the 2009 Agreement is attached as **Exhibit 5**.) D’Alto signed the 2009 Agreement as a “Sole Proprietor,” and D’Alto operated his Liberty franchise office located at 3 Park Street, Attleboro MA 02703.

10. On August 7, 2014, the 2009 Agreement expired on its own terms and D’Alto did not renew the Agreement.

11. On December 21, 2010, D’Alto entered into a franchise agreement (the “2010 Agreement”) with Liberty for the territory known as MA037. (A copy of the 2010 Agreement is attached as **Exhibit 6**.) D’Alto signed the 2010 Agreement as a “Sole Proprietor,” and D’Alto operated his Liberty franchise office located at 14 South Washington Street, North Attleboro, MA 02760.

12. On May 20, 2015, Liberty terminated D’Alto’s 2010 Agreement based on multiple breaches, including, failure to use the software required, failure to use filing source we provide, advertizing outside of his franchise territory, and failure to pay amounts owing. (A copy of the Notice of Termination is attached as **Exhibit 7**.)

13. The 2010 Agreement includes in Sections 9 and 10 the following post-termination duties:

- a. Remove all Liberty signs from all of your offices and other premises; and

- b. Stop identifying yourself as a Liberty Tax franchisee, never hold out as a former Liberty Tax franchisee and cease, and not thereafter commence, use of any of the Marks or any marks which are likely to be confused with the Marks; and
- c. Stop using all literature received from us and other items bearing the Marks; and
- a. Pay to us all amounts owing to us, whether related to the Territory or not; and
- e. Transfer to us all telephone numbers, listings and advertisements used in relation to the Franchised Business and deliver to us copies of such documents of transfer; and
- f. Deliver to us all copies, including electronic copies, of lists and other sources of information containing the names of customers who patronized the Franchised Business; and
- g. Deliver to us all customer tax returns, files, records and all copies thereof; and
- h. Deliver to us the copy of the Operations Manual and any updates which we loaned to you; and
- i. Cancel all fictitious name listings which you have filed for use of any of the Marks; and
- j. Adhere to the provisions of the post-term covenants not to compete and not to solicit and any other covenant herein that requires performance by you after you are no longer a franchisee; and

(2010 Agreement § 9).

14. The 2010 Agreement includes in Section 10 the following covenants not to compete and not to solicit:

10.b. Post-Term Covenant Not to Compete. You agree that for a period of two (2) years following the termination, expiration, transfer or other disposition of the Franchised Business, you agree not to directly or indirectly, for a fee or charge, prepare or electronically file income tax returns, or offer Bank Products, within the Territory or within twenty-five miles of the boundaries of the Territory granted by this Agreement.

10.d. Covenant Not to Solicit. You agree that for a period of two (2) years following the termination, expiration, transfer or other disposition of the Franchised Business, you will not within the Territory or within 25 miles of the boundaries of the Territory, directly or indirectly, solicit the patronage of any person or entity served by any of your prior Liberty offices in the last 12 months that you were a Liberty franchisee, or such shorter time as you were a Liberty franchisee, for the purpose of offering such person or entity, for a fee or charge, income tax preparation, electronic filing of tax returns, or Bank Products.

(2010 Agreement § 10).

Past Due Accounts Receivable

15. The 2010 Agreement includes a provision requiring D'Alto to make royalty payments in the amount representing 14% of gross receipts with a minimum royalty as set forth in the 2010 Agreement.

16. The 2010 Agreement includes a provision requiring D'Alto to pay an advertising fee of 5% of his gross receipts for each month.

17. As of May 29, 2015, D'Alto had \$83,602.56 in accounts receivable for royalty and advertising fees unpaid to Liberty. (A copy of the accounts receivable summary is attached as **Exhibit 8**).

D'Alto's Failure to Repay Promissory Note

18. To finance the operation of his franchised office and for operating capital, D'Alto executed the following promissory notes (collectively, the "Promissory Notes") payable to Liberty, each of which is currently unpaid in whole or part, overdue by more than 30 days, and in default:

a. On August 7, 2009, D'Alto executed Promissory Note 5642-UN-01 and 5642-LI-02 in the amount of \$30,569.25, which he signed as maker. As of May 29, 2015, \$7,642.32 of the principal and \$1,008.77 of the interest was unpaid. (A copy of the note is

attached as **Exhibit 9.**)

b. On December 21, 2010, D'Alto executed Promissory Note 5642-RO-01 and 5642-LI-03 in the amount of \$54,351.32, which he signed as maker. As of May 29, 2015, \$27,175.06 of the principal and \$3,587.20 of the interest was unpaid. (A copy of the note is attached as **Exhibit 10.**)

c. On November 29, 2012, D'Alto executed Promissory Note 5642-AR-2013 in the amount of \$32,222.79, which he signed as maker. As of May 29, 2015, \$32,222.79 of the principal and \$3,860.42 of the interest was unpaid. (A copy of the note is attached as **Exhibit 11.**)

d. On December 6, 2012, D'Alto executed Promissory Note 5642-OP-2013 in the amount of \$18,099.00 which he signed as maker. As of May 29, 2015, \$6,301.35 of the principal and \$94.42 of the interest was unpaid. (A copy of the note is attached as **Exhibit 12.**)

19. By the terms of the Promissory Notes, "any default in the payment of any installment or payment of principal, interest or other amounts due and payable" constitutes a default.

20. The Promissory Notes state that upon default and, at the election of Liberty, "the entire balance of [the] note[s] and all accrued interest shall become immediately due and payable."

21. The Promissory Notes state that a default occurs upon "any default by Obligor in the performance of, or compliance with, any provision in this Note or another agreement, document or instrument to which any Obligor and Liberty are parties..."

22. The Promissory Notes provide for payment of all attorneys' fees, cost, or expenses that Liberty may incur in enforcing the Promissory Notes.

Breach of the Franchise Agreement

23. On May 20, 2015, Liberty terminated D'Alto's 2010 Agreement based on multiple breaches, including, breach of Franchise Agreement, trademark infringement, and failure to pay amounts owed to Liberty.

24. Notwithstanding the termination of D'Alto's 2010 Agreement, D'Alto has failed to comply with each of the post-termination duties and covenants to Liberty listed in paragraphs 13 and 14, above.

25. In particular, D'Alto has not removed the Liberty signs from his office, he continues to identify himself as a Liberty franchisee, he continues to use items from Liberty bearing Liberty's marks, he has retained his former Liberty phone numbers, he has retained all copies of customer information, lists, tax returns, files and records, he has retained the Liberty operations manual, and he has failed to comply with the non-competition and non-solicitation covenants. (Attached as **Exhibit 13** shows the photographs of the trademark infringement of Income Tax Center of North Attleboro along with the Liberty Tax signage.)

Use of Non-provided Software and Non-designated Bank Product Provider

26. In order to allow Liberty to track the number of tax returns processed by a franchisee, the franchise agreement, including the 2010 Agreement, provides in Section 6.g that the franchisee must use the tax-preparation software provided by Liberty and in Section 6.l that the franchisee must use the bank product provider designated by Liberty.

27. The use of Liberty's tax-preparation software and designated bank product provider insures that the franchisee reports to Liberty all tax returns processed by the franchisee, ensuring accuracy of the royalty fees owed to Liberty based on the tax returns processed.

28. D'Alto's return count for processing tax returns in calendar year 2013 was 522,

and in calendar year 2014 was 618. D'Alto's return count suspiciously dropped to 134 for 2015. There was no explanation for this 488 return count drop from the previous year.

29. In 2015, Liberty conducted an audit of D'Alto and discovered that D'Alto was using a competing tax preparation software as well as a competing bank product provider, which meant that D'Alto was processing tax returns pursuant to the separate software and bank product provider without Liberty's knowledge.

COUNT I
BREACH OF FRANCHISE AGREEMENT

30. Liberty repeats and re-alleges paragraphs 1-29 as if fully set forth herein.

31. D'Alto became subject to the post-termination obligations contained in the 2010 Agreement when the 2010 Agreement was terminated on May 20, 2015.

32. D'Alto breached the 2010 Agreement by failing to adhere to his post-termination obligations contained in Sections 9 and 10 of the 2010 Agreement in the ways specified above, as well as such other and further breaches as investigation and discovery may reveal.

33. Liberty has suffered damages and irreparable harm, and will continue to suffer damages and irreparable harm because of such breaches, unless D'Alto and all of his agents, employees and all other persons in active concert or participation with them, are enjoined from further breaches by this Court.

COUNT II
BREACH OF FRANCHISE AGREEMENT BY USE OF NON-PROVIDED
SOFTWARE AND NON-DESIGNATED BANK PRODUCT PROVIDER

34. Liberty repeats and re-alleges paragraphs 1-33 as if fully set forth herein.

35. The 2010 Agreement required D'Alto to use the tax preparation software provided by Liberty and the bank product provider designated by Liberty in order that Liberty could track the tax returns processed by D'Alto.

36. To conceal and to prevent paying royalties and advertising fees to Liberty, D'Alto breached the 2010 Agreement by using software not provided by Liberty and a bank product provider not designated by Liberty.

37. Pursuant to the 2010 Agreement, Liberty is entitled to 19% of the preparation fees earned by D'Alto using the non-provided software and non-designated bank product provider.

COUNT III
TRADEMARK INFRINGEMENT

38. Liberty repeats and re-alleges paragraphs 1-37 as if fully set forth herein.

39. Following the termination of D'Alto's Franchise Agreement, D'Alto no longer has any rights to continue to use Liberty's trademarks.

40. Nonetheless, D'Alto continues to hold out under literally identically "Liberty Tax Service" marks, and he continues to use these marks after his termination.

41. D'Alto's conduct constitutes trademark infringement pursuant to 15 U.S.C. §§ 1114 and 1125(a).

42. D'Alto's infringement of Liberty's marks was willful and malicious because he was familiar with Liberty's marks as a Liberty franchisee and after the termination of his franchises.

43. Pursuant to 15 U.S.C. § 1116 this Court has power to enjoin such infringement.

44. Pursuant to 15 U.S.C. § 1117 Liberty is entitled to an award of all of its damages sustained as a result of D'Alto's acts of infringement, D'Alto's profits, and the costs of this action.

COUNT IV
ACCOUNTS RECEIVABLE

45. Liberty repeats and re-alleges paragraphs 1-44 as if fully set forth herein.

46. D'Alto was obligated to make payments to Liberty for royalty and advertising fees in the amount of 14% and 5% of the gross receipts respectively.

47. D'Alto has breached the Franchise Agreement by failing to pay royalty and advertising fees as required under the Franchise Agreement.

48. The total amount past due and owing to Liberty for royalty and advertising fees is \$83,602.56.

COUNT V
BREACH OF PROMISSORY NOTES

49. Liberty repeats and re-alleges paragraphs 1-48 as if fully set forth herein.

50. D'Alto's breached each of the promissory notes by failing to pay all amounts due.

51. D'Alto's outstanding balance due to the default and acceleration owed to Liberty under Promissory Notes is \$81,893.93.

52. Pursuant to the terms of the Promissory Note, Liberty is entitled to recover the principal amounts, plus interest at 12% per annum, and Liberty's attorneys' fees and costs incurred in enforcing such notes.

WHEREFORE, in consideration of the foregoing, Liberty respectfully prays for the following relief:

1. For Count I, an order granting a temporary injunction, later to be made permanent, compelling D'Alto and all of his agents, employees and all other persons in active concert or participation with him to:

a. Stop identifying himself as a Liberty Tax franchisee, never hold out as a former Liberty Tax franchisee and cease, and not thereafter commence, use of any of the Marks or any marks that are likely to be confused with the Marks;

b. Stop using all literature received from Liberty and other items bearing the Marks;

c. Deliver to Liberty all customer lists and information;

d. Deliver to Liberty all customer tax returns, files, records, and copies;

e. Deliver to Liberty the copy of the Operations Manual and any updates which Liberty loaned to D'Alto;

f. Transfer to Liberty all telephone numbers, listings and advertisements used in the former Liberty offices and deliver to Liberty copies of such documents of transfer;

g. Never divulge or use for the benefit of anyone outside the Liberty system any information concerning customers served by the prior Liberty franchised business;

h. Not directly or indirectly prepare or electronically file income tax returns or offer bank products within Liberty territory MA006, or within 25 miles of the boundaries of these territories, for two years from the date of the entry of an order of this Court entering an injunction; and

2. For Count II, an accounting of all the returns prepared by D'Alto during his time as a Liberty franchisee for which he used non-provided software and a non-designated bank product provider, and that Liberty be granted a judgment of 19% of the preparation fees for those returns.

3. For Count III, that Liberty be granted a judgment:

a. For D'Alto's profits wrongfully gained from his trademark infringement as provided by 15 U.S.C. § 1117; and

b. For treble damages as a result of D'Alto's willful, malicious, and bad faith trademark infringement as provided by 15 U.S.C. § 1117; and

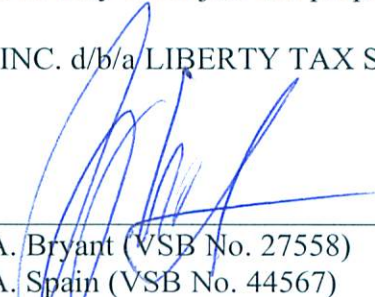
c. For Liberty's costs and attorney's fees, pursuant to 15 U.S.C. §1117(a).

4. For Counts IV and V, that Liberty be granted a judgment against D'Alto in the amount of (a) \$165,495.49 representing amounts due and unpaid under the Accounts Receivable and Promissory Notes, plus costs and attorney's fees for enforcing the terms of the Promissory Notes; and

5. For such other and further relief as this Court may deem just and proper.

Dated: December 9, 2015

JTH TAX, INC. d/b/a LIBERTY TAX SERVICE

By: 

Gary A. Bryant (VSB No. 27558)
Brett A. Spain (VSB No. 44567)
WILLCOX & SAVAGE, P.C.
440 Monticello Avenue
Wells Fargo Center, St. 2200
Norfolk, Virginia 23510
(757) 628-550 Telephone
(757) 628-5566 Facsimile
bgryant@wilsav.com
bspain@wilsav.com