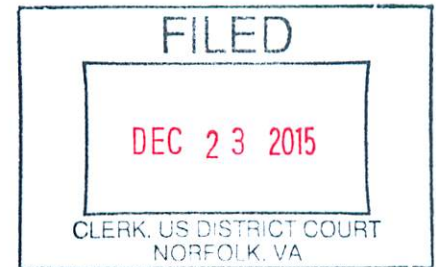


UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION



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

Plaintiff,

Civil No. 2:15 cv 558

v.

CHARLES HINES,

Serve at: 907 Stormont Circle
Halethorpe, MD 21227

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, Charles Hines ("Hines"), 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. Hines is a citizen of the state of Maryland whose last known home address is 907 Stormont Circle, Halethorpe, MD 21227.

Personal Jurisdiction

3. Personal jurisdiction over Hines exists in Virginia because:
 - a. In the process of purchasing and operating a Liberty Tax franchise, Hines had a substantial and continuing relationship with Liberty's headquarters in Virginia Beach, Virginia, including travel to Virginia to attend training class in Virginia Beach, and the 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. Hines's Franchise Agreement with Liberty contain 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. § 1331 because there is a federal trademark issue claimed.

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 Virginia Beach and because Hines's Franchise Agreements contain a forum selection clause specifying venue in this Court. (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 July 3, 2012, Hines entered into a franchise agreement with Liberty for the territory known as MD090. (A copy of the Franchise Agreement is attached as **Exhibit 5**.) Hines signed the Franchise Agreement as a “Sole Proprietor,” and Hines operated his Liberty franchise office located at 1658-B Annapolis Road, Odenton MD 21113.

10. On August 7, 2012, Hines entered into a franchise agreement with Liberty for the territory known as MD014. (A copy of the Franchise Agreement is attached as **Exhibit 6**.) Hines signed the Franchise Agreement as a “Sole Proprietor,” and Hines operated his Liberty franchise office located at 1912 Liberty Toad, Eldersburg, MD 21784.

11. On August 7, 2012, Hines entered into a franchise agreement with Liberty for the territory known as MD117. (A copy of the Franchise Agreement is attached as **Exhibit 7**.) Hines signed the Franchise Agreement as a “Sole Proprietor,” and Hines operated his Liberty franchise office located at 2701 Port Covington, Baltimore, MD 21230.

12. On June 3, 2015, Liberty terminated Hines’s Franchise Agreements based on multiple breaches, including, advertising outside of his franchise territory, and failure to pay amounts owing. (A copy of the Notice of Termination is attached as **Exhibit 8**.)

13. The Franchise Agreements include 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

(Franchise Agreement § 9).

14. The Franchise Agreements include 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.

(Franchise Agreement § 10).

15. Notwithstanding the termination of Hines's Franchise Agreements, Hines has failed to comply with each of the post-termination duties and covenants to Liberty listed in paragraphs 9 and 10, above.

Hines's Breaches of the Post-Termination Obligations

16. Hines has failed to comply fully with the post-termination duties in the Franchise Agreements.

17. On August 4, 2015 and again on November 6, 2015, Liberty sent Cease and Desist letters to Hines demanding that he return customer files and stop violating the non-compete clauses. (Copies of the Cease and Desist letters are attached as **Exhibit 9**.)

18. Hines still is actively operating out of the Eldersburg office located at 2701 Port Covington, Baltimore, MD 21230. (Copies of the photographs demonstrating Hines' continued operations are attached collectively as **Exhibit 10**).

19. In particular, Hines has not removed the Liberty signed 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 customer files, and he has failed to comply with the non-competition and non-solicitation covenants.

20. Hines now operates a competing tax preparation business at his former Liberty office.

21. The signage in front of 2701 Port Covington, Baltimore, MD 21230 address still displays the words “Liberty Tax.”

22. Liberty will be irreparably harmed if Hines is not enjoined from violating the post-termination obligations.

Past Due Accounts Receivable

23. The Franchise Agreement attached includes a provision requiring Hines to make royalty payments in the amount representing 14% of gross receipts with a minimum royalty as set forth in the Franchise Agreement.

24. The Franchise Agreement includes a provision requiring Hines to pay an advertising fee of 5% of his gross receipts for each month.

25. As of June 29, 2015, Hines had \$60,460.66 in accounts receivable for royalty and advertising fees unpaid to Liberty. (A copy of the accounts receivable summary is attached as **Exhibit 11**).

Hines’s Failure to Repay Promissory Note

26. To finance the operation of his franchised office and for operating capital, Hines 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, 2012, Hines executed Promissory Note 6899-UN-01 in the amount of \$32,000.00, which he signed as maker. As of June 29, 2015, \$25,600.00 of the principal and \$2,347.86 of the interest was unpaid. (A copy of the note is attached

as **Exhibit 12**).

- b. On August 7, 2012, Hines executed Promissory Note 6899-UN-02 in the amount of \$32,000.00, which he signed as maker. As of June 29, 2015, \$29,496.33 of the principal and \$4,021.37 of the interest was unpaid. (A copy of the note is attached as **Exhibit 13**).

27. 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.

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

29. 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...”

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

COUNT I

BREACH OF FRANCHISE AGREEMENT

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

32. Hines became subject to the post-termination obligations contained in the Franchise Agreement when the Franchise Agreement was terminated on June 3, 2015.

33. Hines breached the Franchise Agreement by failing to adhere to his post-termination obligations contained in Sections 9 and 10 of the Franchise Agreement in the ways specified above, as well as such other and further breaches as investigation and discovery

may reveal.

34. Liberty has suffered damages and irreparable harm, and will continue to suffer damages and irreparable harm because of such breaches, unless Hines 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

TRADEMARK INFRINGEMENT

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

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

37. Nonetheless, Hines continues to hold out under literally identically "Liberty Tax Service" marks, and he continues to use these marks after his termination.

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

39. Hines'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.

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

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

COUNT III

ACCOUNTS RECEIVABLE

42. Liberty repeats and re-alleges paragraphs 1-41 as if fully set forth herein.

43. Hines was obligated to make payments to Liberty for royalty and advertising fees in the amount of 14% and 5% of the gross receipts respectively.

44. Hines has breached the Franchise Agreement by failing to pay royalty and advertising fees as required under the Franchise Agreement.

45. The total amount past due and owing to Liberty for royalty and advertising fees is \$60,460.66.

COUNT IV

BREACH OF PROMISSORY NOTES

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

47. Hines's breached each of the Promissory Notes by failing to pay all amounts due.

48. Hines's outstanding balance due to the default and acceleration owed to Liberty under Promissory Notes is \$61,465.56.

49. Pursuant to the terms of the Promissory Notes, 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, be granted compelling Hines 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 Hines;
 - 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 any of his former Liberty territories, 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, that Liberty be granted a judgment:
- a. For Hines'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 Hines'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).
3. For Counts III and IV, that Liberty be granted a judgment against Hines in the amount of (a) \$121,926.22 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

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

Dated: December 23, 2015

Respectfully submitted,

By: _____


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