

California Appellate Court Finds No Breach in the Renewal of Franchise Agreements

The California Court of Appeals, Second Appellate District, affirmed a trial court’s ruling that a franchisor did not breach the franchise agreements with its former franchisees by refusing to renew their franchises on the same terms found in their original franchise agreements. *G.I. McDougal, Inc. v. Mail Boxes Etc., Inc.*, 2012 Cal. App. Unpub. LEXIS 243 (Cal. Jan. 12, 2012). As described earlier in this memorandum, MBE was the franchisor of packaging and shipping businesses that was acquired by United Parcel Service, which changed the franchise name to “The UPS Store.” Converting from an MBE to The UPS Store was required upon a franchisee’s renewal. This plaintiff refused to convert its MBE franchises to The UPS Store and alleged that UPS breached the MBE franchise agreements by refusing to renew its franchises. The plaintiff filed suit against MBE and UPS, alleging that the franchise agreements gave it the right to renew those agreements and that MBE breached the agreements by refusing to permit renewal on the same material terms and conditions found in its existing agreements. The trial court found in favor of the franchisor, and the plaintiff appealed.

On appeal, in affirming the trial court’s judgment, the court of appeals noted that the franchise agreements’ renewal provision specifically stated that “[s]uch renewal shall be effected by the execution of an appropriate document extending the term of this Agreement on the same terms and conditions as are contained in the then current Franchise Agreement for the sale of new MBE Centers.” Thus, the court found that this language refuted any argument that the franchise agreements required MBE to renew the agreements intact and without change. The court held that the franchise agreements gave MBE the right to change the name and trademarks of the franchises and that by requiring plaintiff to sign franchise agreements for The UPS Store upon renewal, MBE was not in breach of plaintiff’s original franchise agreements.