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BLOGS
Employment

District Court Allows Franchisees' Claim for "Employee" Protection Under the Fair Labor Standards Act

Last month, a federal court in New Jersey held that a group of 7-Eleven franchisees alleged sufficient facts in their amended complaint to withstand a motion to dismiss their claim that they were employees of 7-Eleven under the Fair Labor Standards Act (FLSA). *NAIK v. 7-Eleven, Inc.*, 2014 U.S. Dist. LEXIS 107139 (D.N.J. Aug. 5, 2014). In denying 7-Eleven's motion, the court held that the facts, as alleged by the franchisees, weighed in favor of finding an employment relationship when considering the six-factor test articulated by the Third Circuit and the economic reality of the relationship. The court further denied 7-Eleven's motion to dismiss as it related to the franchisees' New Jersey Wage and Hour Law claims, violation of the covenant of good faith and fair dealing, and claim that 7-Eleven engaged in unreasonable standards in violation of the New Jersey Franchise Practice Act. The court did, however, grant 7-Eleven's motion to dismiss the franchisees' New Jersey Law Against Discrimination claims and constructive termination claim under the New Jersey Franchise Practices Act.

The court categorized the 7-Eleven franchisees as employees under the FLSA, first citing 7-Eleven's extensive control over the franchisees' day-to-day activities, including that 7- Eleven controlled product pricing, processed the franchisees' payroll, monitored the franchisees' daily activities through a security system, controlled the stores' radio and television volume levels and heat and air conditioning systems, required franchisees to obtain approval before withdrawing money, and imposed fines as a means of regulating franchisee activity. The court also determined that the initial and renewal lease terms, coupled with the noncompetition provisions contained in the franchise agreement, created permanency to the parties' working relationship which weighed in favor of finding an employment relationship. Moreover, the court held that the franchisees are an integral part of 7-Eleven's business, noting that 7-Eleven could not run its business without its franchisees, and supporting an employee classification. The court concluded its analysis by finding that as a matter of economic reality, the franchisees were dependent upon 7-Eleven. In particular, the court reasoned that 7- Eleven's control went beyond mere enforcement of uniformity standards and instead undercut the franchisees' ability to control the financial condition of their businesses or to exercise any discretion over the operation of their franchises.

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