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BLOGS Settlement

Federal Court Enforces Settlement Terms Sheet

A federal court in the Northern District of Illinois ruled that a signed terms sheet between a settling franchisor and franchisee was an enforceable agreement under Illinois state law. *Pinnacle Performance, Inc. v. Garbis*, 2013 U.S. Dist. LEXIS 24433 (N.D. Ill. Feb. 21, 2013). This lawsuit began when the franchisor, Pinnacle Performance, filed suit against its former franchisees to enforce the covenant not to compete in the parties' franchise separation agreement. Months into the litigation, the parties negotiated and signed a settlement terms sheet in a settlement conference conducted by the court. A dispute later arose over the parties' obligations under the terms sheet.

On the former franchisees' motion, the court held that the terms sheet agreement was enforceable. Under Illinois law, a settlement agreement is enforceable if the parties expressed "an intent to be bound" and the agreement's terms are "sufficiently definite." The franchisor argued there was no intent to be bound by the terms sheet because the parties intended to memorialize the settlement terms with a formal agreement. Rejecting this argument, the court noted that the parties exchanged and negotiated multiple draft terms sheets and ultimately signed the final version without indicating that the deal was conditioned on future documentation. The court also observed that the agreement contained language suggesting its finality, for example the phrase "for 24 months from today." Finally, the court found that the terms were sufficiently definite to create a binding agreement because the parties' obligations were clear and any ambiguities could be resolved through ordinary contract construction.

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