



BLOGS
Contracts

Federal Court Grants Summary Judgment in Breach of Contract Claim Based Upon Franchisees' Unilateral Decision to Raise Prices

A federal district court in Colorado recently granted a franchisor's motion for summary judgment on claims of breach of contract, trademark infringement, unfair competition, and injunctive relief against two terminated franchisees, while rejecting the franchisees' counterclaims for breach of contract and fraud. *Steak 'n Shake Enters., Inc. v. Globex Co.*, 2015 WL 3883590 (D. Colo. June 23, 2015). The franchisor, Steak 'n Shake, alleged that franchisees Globex and Springfield Downs, LLC, had breached the franchise agreement by charging more than allowed for certain food and beverage items, failing to participate in required promotions, and altering menus and marketing materials. The franchisees alleged that Steak 'n Shake's decision to terminate their franchise agreements was a material breach of contract, and that Steak 'n Shake had fraudulently induced them to invest in franchises through several inflated and improper statements.

In granting summary judgment on the breach of contract claims, the court concluded that there was plain and uncontroverted evidence establishing that the franchisees had failed to participate in Steak 'n Shake promotions and marketing campaigns and had charged more than the franchise agreement allowed for menu items. According to the court, the record amply demonstrated that the franchisees were well aware that their actions were in contravention of the franchise agreement, and thus were committed "knowingly" for purposes of the termination. With regard to the franchisees' counterclaim for fraud, the court agreed with Steak 'n Shake that the claim failed as a matter of law because the franchise agreement contained an integration clause that preempted any claim based on statements made prior to the agreement. As an alternative ground for its decision, the court took the position the alleged misrepresentations were "mere puffery" regarding future events, and thus were not actionable. Finally, the court held that the franchisees had presented insufficient evidence to show that the franchisor's projections in the FDD were false or misleading or that the franchisees had justifiably relied on the financial representations in Item 19.

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