

A solid yellow right-angled triangle pointing towards the top-left corner.

BLOGS

Fraud/Misrepresentation

Franchisees Were Not Fraudulently Induced to Enter Into Franchise and Loan Agreements

In *MRW, Inc. v. Big-O Tires, LLC*, 2009 WL 3368438 (E.D. Cal. Oct. 16, 2009), a California federal court granted summary judgment in favor of the franchisor and the franchisees' small business lender, CIT. The plaintiff-franchisees brought suit, claiming that the franchisor, Big-O Tires, violated Section 17200 of California's Unfair Competition Law, which prohibits "unlawful, unfair, or fraudulent business acts or practices." The franchisees alleged that Big-O Tires had acted unfairly and provided misleading information in inducing them to enter into the franchise agreement. The franchisees also sued CIT for allegedly misrepresenting the nature and scope of the loan during the application process.

In granting summary judgment to Big-O Tires, the court noted that the franchisees acknowledged through multiple warnings and waivers contained in the UFOC, franchise agreement, and closing documents, that they had received no guarantees about the profits that would be made at the store. The court then determined that Big-O Tires' alleged oral representations that the franchisees "could make a profit" if they "worked hard and put their time in" constituted "mere puffery" that could not be reasonably relied on and could not support a claim for fraudulent business practices under the statute. The court also found the franchisees' claim involving Big-O Tires' alleged misrepresentations made during initial negotiations about financing the franchise to be barred by the four-year statute of limitations. Noting a lack of evidence to support claims for intentional and negligent misrepresentation, the court rejected the franchisees' fraud claims against CIT and granted summary judgment in its favor.