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BLOGS

Damages

Georgia Court Holds Franchisor May Recover Lost Future Royalties

The Georgia Court of Appeals held that a franchisor could claim lost future royalties based on the franchisee's breach of the franchise agreement, but denied the recovery because the franchisor had not established its lost future royalties with sufficient specificity. *Legacy Academy, Inc. v. JLK, Inc.*, 2014 Ga. App. LEXIS 833 (Ga. Ct. App. Nov. 20, 2014). JLK, a franchisee for a Legacy Academy childcare center, informed its franchisor that it intended to terminate the parties' relationship, and then it continued operations under a different name. Legacy Academy sued for past-due royalties through the agreement's 2022 end date. The trial court held that Legacy Academy could not recover future royalties and that it failed to provide sufficient evidence quantifying its future damages.

On appeal, the court noted a split around the country on whether a franchisor may recover lost future royalties, but reversed and held that a franchisor was entitled to such a recovery. The appellate court stated that in order to recover lost future royalties, a franchisor must establish its damages with specificity. Thus, Legacy Academy was required to show the royalty payments that it would have earned, and subtract from that figure the amount that it would save due to the termination of the franchise agreement. Ultimately, the court determined that Legacy Academy did not sufficiently establish the amount of its savings, and therefore affirmed the decision to deny recovery of lost future royalties on the basis of insufficient evidence.

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