BLOGS

Damages

Georgia Supreme Court Reverses Favorable Franchisee Award of Rescission and Damages

In a case involving claims for rescission of the franchise agreement and damages related to a franchisee's purchase of a day care franchise, the Georgia Supreme Court recently reversed the franchisee's favorable jury verdict and remanded the case for a new trial. *Legacy Acad., Inc., v. Mamilove, LLC*, 2015 Ga. LEXIS 233 (Ga. Apr. 20, 2015). Mamilove and its owners alleged that the franchisor, Legacy Academy, made improper earnings claims, and that they were fraudulently induced to sign the franchise agreement with false information from historical earnings of existing franchisees. Evidence at trial revealed that Legacy Academy first made the earnings claims and then later delivered the FDD and the franchise agreement on the day the franchisee signed them. The franchisee signed the documents without reading them. The jury awarded the franchisee $750,000 in compensatory damages, $375,000 in additional Georgia RICO statute damages, and $30,000 in costs of litigation.

Legacy Academy claimed that the trial court erred in denying its motion for a directed verdict on Mamilove's claims for rescission, fraud, negligent misrepresentation, and violation of Georgia RICO statute, and the court of appeals erred in affirming this denial. The Georgia Supreme Court agreed, indicating that a party who has the capacity and opportunity to read a written contract cannot later claim fraud in the procurement of his or her signature to the contract based on differing extra-contractual representations. The court determined that because the precontractual earnings claim upon which Mamilove and its owners allege they relied expressly contradicted the disclaimer and acknowledgment provisions of the franchise agreement, Mamilove's reliance on the earnings claims was unreasonable as a matter of law. Absent any evidence of fraud that prevented Mamilove from reading the agreement, the franchisor should have prevailed on the rescission claim. In addition, the RICO claims, which depended on allegations of precontractual representations, should have been barred by the merger clause.

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