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BLOGS

Franchise Sales/Transactions

Maryland Federal Court Examines Fraud and Antitrust Claims

A federal court recently dismissed a franchisee's antitrust claims but permitted its fraud claims to proceed. In *Ohio Learning Ctrs., LLC v. Sylvan Learning, Inc.*, 2012 U.S. Dist. LEXIS 102784 (D. Md. July 24, 2012), a Maryland federal court considered claims for fraud and antitrust violations arising out of plaintiffs' purchase of a Sylvan Learning Center franchise. The plaintiffs' fraud claims alleged that, in connection with the sale of the center at issue, the defendants made numerous misrepresentations and material omissions as to the true financial condition of the center in order to effect a quick sale. The franchisor brought a motion to dismiss, arguing that the plaintiffs were fully aware of the financial condition of the center and that there was no fiduciary duty requiring the defendants to disclose certain financial information. The court disagreed, however, noting that the Maryland Franchise Act subjects franchisors to civil liability for failure to disclose a material fact to a prospective franchisee. The defendants also argued that the parties' license agreement precluded any of the plaintiffs' misrepresentation claims based on statements not contained in the agreement, as the instrument included an integration clause. The court again disagreed, holding that an integration clause will not preclude a plaintiff from bringing a tort action for fraud based on false pre-contract promises. The court thus refused to dismiss the plaintiffs' fraud claims.

The plaintiffs also alleged violations of the federal Sherman Act and state Valentine Act, which prohibit conspiracies in restraint of trade. Specifically, the plaintiffs argued that the defendants favored another party by allowing that party to purchase territories surrounding the plaintiffs, thus forcing them out of business. In considering the defendants' motion to dismiss those claims, the court noted that mere allegations of parallel business conduct are not sufficient to state an antitrust claim. Finding that the plaintiffs did not allege any additional facts that would demonstrate the existence of an actual agreement to conspire, or at least eliminate independent, self-interested conduct as an explanation for defendants' parallel behavior, the court granted the defendants' motion to dismiss with regard to the antitrust claims.