



BLOGS

State Franchise and Dealer Laws

Michigan Precedent on Michigan Franchise Investment Law Held to Trump Inconsistent Sixth Circuit Precedent on Private Right of Action

A federal court in Michigan recently granted several related franchisors' motions to dismiss a franchisee's claims for violations of the Michigan Franchise Investment law. *Benjamin Franklin Franchising SPE LLC v. David Michael Plumbing Inc.*, 2024 WL 3997056 (E.D. Mich. Aug. 29, 2024). The franchisors (including Benjamin Franklin Franchising, One Hour Air Conditioning Franchising, and Mister Sparky Franchising) alleged their franchisee David Michael Plumbing Inc. (DMP) abandoned its franchises and sued to enforce the agreements' noncompete covenants. DMP counterclaimed alleging violations of the Michigan Franchise Investment Law (MFIL), promissory estoppel, and breach of contract.

The court dismissed DMP's MFIL claims after resolving an apparent conflict between earlier Sixth Circuit precedent, a later Michigan Court of Appeals decision, and the plain language of the MFIL. In 1990, the Sixth Circuit implied a private right of action for certain violations of the MFIL despite statutory language to the contrary. Seven years later, the Michigan Court of Appeals held that the relevant provisions of the MFIL implied no private right of action. The Michigan Supreme Court denied leave to appeal the Court of Appeals' decision. DMP argued that the federal district court was bound by *stare decisis* to follow the 1990 Sixth Circuit opinion. Because it was sitting in diversity, the court disagreed. In conducting an *Erie* analysis, the court concluded that it was not bound by *stare decisis* on a question of state law so clearly contradicted by a state court's subsequent decision. Accordingly, the court dismissed DMP's MFIL claims for failure to state a claim, as there was no available private right of action. The court also dismissed DMP's promissory estoppel claim, ruling that DMP could not assert a promissory estoppel claim when valid contracts—the franchise agreements—governed the parties' relationships.

Lathrop GPM represented the franchisors in this matter.

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