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BLOGS

Terminations

Missouri District Court Upholds Termination of Franchise Based on Fraud

The United States District Court for the Eastern District of Missouri recently upheld a franchisor's decision to terminate a group of franchisees that fraudulently concealed the true ownership of their operating company when entering into their franchise agreement. *Dunkin' Donuts Franchising LLC v. Sai Food & Hospitality, LLC*, 2013 U.S. Dist. LEXIS 181752 (E.D. Mo. Dec. 31, 2013). Gray Plant Moity represents the franchisor in this case. Dunkin' terminated the parties' franchise agreements and their related development agreement and sublease after an investigation revealed that the franchisees had falsely represented that certain unapproved individuals would be removed as members of their operating entity. Dunkin' brought suit to enforce the termination, and the franchisees raised counterclaims for, among other things, wrongful termination, violation of the Missouri Franchise Act, and promissory estoppel. Following a bench trial, the franchisees moved for judgment on partial findings, arguing that the evidence failed to demonstrate that they intended to defraud Dunkin' and that Dunkin' impermissibly allowed them to develop a second franchise location when it intended to terminate their contracts.

The court denied the franchisees' motion, granted Dunkin' judgment on all claims in the case, and enjoined the franchisees from continuing to use Dunkin's trademarks and trade dress. Finding that the true ownership structure of the corporate franchisee was a material matter in Dunkin's decision to enter into the initial franchise agreement, the court concluded that the franchisees' misrepresentations constituted fraud justifying immediate termination under the terms of the contract. In light of cross-default provisions contained in the parties' development agreement and sublease, the court held that Dunkin' was also justified in terminating those contracts. The court further determined that the franchisees were not entitled to any extended notice period under the Franchise Act because the statute exempts terminations based on fraud from its requirements. Finally, the court declined to award the franchisees any relief on their promissory estoppel counterclaim for the expenditures they made in developing their second store, reasoning that Dunkin' was entitled to a reasonable amount of time after completing its investigation to make a decision regarding termination.

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