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BLOGS

State Franchise and Dealer Laws

New Jersey Federal Court Grants Franchisor's Motion for Summary Judgment on Franchisee's Counterclaims

A federal court in New Jersey granted 7-Eleven's motion for summary judgment on a franchisee's four counterclaims that 7-Eleven: (1) violated the New Jersey Franchise Practices Act ("NJFPA"); (2) breached the implied covenant of good faith and fair dealing; (3) violated the federal Fair Labor Standards Act ("FLSA"); and (4) violated the New Jersey Law Against Discrimination ("NJLAD"). *7-Eleven, Inc. v. Sodhi*, 2016 WL 3085897 (D.N.J. May 31, 2016). After identifying accounting discrepancies in the records of Sodhi, its franchisee, 7-Eleven terminated the parties' franchise agreements and subsequently filed suit due to Sodhi's breach. Sodhi counterclaimed, and 7-Eleven sought both summary judgment and a declaratory judgment that the franchise agreements were properly terminated.

Examining the first counterclaim, the court rejected Sodhi's argument that termination was improper because it was based on racial or other animus. Given that Sodhi had, indeed, breached the franchise agreement, and that 7-Eleven complied with the requisite cure period under the NJFPA, the court held that animus was irrelevant. Moreover, the court rejected Sodhi's third and fourth counterclaims that 7-Eleven violated the FLSA and NJLAD. Noting that Sodhi did not maintain a regular work schedule at the stores, received a share of profits, spent millions of dollars on licenses and other goods or services related to the stores, and had invested his own entrepreneurial acumen into the businesses, the court found insufficient indicia of an employment relationship. Since the court determined that Sodhi was not an "employee"—and "employee" status was necessary for a violation of either statute—the FLSA and NJLAD claims failed as a matter of law. After otherwise finding in favor of 7-Eleven on every claim, the court granted 7-Eleven the relief sought.

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