BLOGS

Damages

Tennessee Federal Court Rules That Franchisor is Entitled to More Than $700,000 in Liquidated Damages

In *Captain D's, LLC v. Arif Enterprises, Inc.*, 2010 U.S. Dist. LEXIS 129242 (M.D. Tenn. Dec. 6, 2010), Captain D's moved for summary judgment on its claim for past due fees and liquidated damages. Arif Enterprises breached its franchise agreements by failing to comply with the franchisor's quality standards. Captain D's then terminated those agreements and sought to recover both past due fees and liquidated damages to compensate it for fees that would have been payable for the agreements' remaining terms. The court granted Captain D's motion for summary judgment and awarded it more than $700,000 in liquidated damages.

The court rejected the franchisee's argument that Captain D's caused its own damages by terminating the franchise agreements, and further rejected the defendant's claim that the liquidated damages clause at issue constituted an unenforceable penalty. Citing franchise cases from across the country in which liquidated damages have been awarded, the court found the provision at issue to be reasonable—and thus enforceable. The defendants' bare argument, unsupported by evidence, that the liquidated damages amounted to a penalty was insufficient to defeat the motion for summary judgment.