

**BLOGS**

Terminations

Tennessee Federal Court Upholds Franchisor's Termination of Franchise Agreement Based Upon Customer Complaints

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Based on evidence of numerous customer complaints regarding the franchisee's business practices, a federal court in Tennessee recently granted a franchisor summary judgment, rejecting the franchisee's improper termination claims. *Servepro Industries, Inc. v. Woloski*, 2020 WL 5629452 (M.D. Tenn. Sept. 21, 2020). Operating as a Servepro franchisee for approximately two years, Woloski serviced national and regional accounts, as well as local customers. Recurring business from national and regional accounts is a key component of Servepro's source of work and revenue. Servepro produced evidence of numerous detailed customer and insurance company complaints that Woloski had engaged in price gouging, excessive work, charging for services not performed, and unprofessional behavior and business practices. The franchise agreement granted Servepro the right to terminate if Woloski engaged in conduct that reflects materially unfavorably upon Woloski and the reputation of the Servepro system, and Servepro terminated the agreement on such grounds. The parties brought various claims against each other, including Woloski's claim that Servepro improperly terminated the agreement because Servepro could not prove that Woloski actually engaged in such conduct.

The court granted summary judgment in favor of Servepro on Woloski's breach of contract claim, holding that Servepro was not required to prove the validity of each customer complaint. Instead, the court found that Servepro met its burden of showing reputational damage, which was supported by evidence of accumulating serious customer complaints and/or Woloski's failure to promptly resolve them. The court observed that failure to resolve customer complaints, even if the customer is in the wrong, may result in damage to a franchisor's reputation. Despite Woloski challenging the complaints themselves, the court stated that Woloski offered no evidence indicating that Servepro's concern about its reputation was not a valid one, thereby entitling Servepro to summary judgment on Woloski's claim of improper termination.

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