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**BLOGS**  
Contracts

## **“Unclean Hands” Defense Does Not Help Franchisee Who Continued to Accept Benefits Under Its Franchise Agreement**

A federal district court in New Jersey granted summary judgment to Ramada Worldwide on several counts of a breach of contract claim against a franchisee, despite the franchisee’s equitable challenge to enforcement of the parties’ franchise agreement. *Ramada Worldwide Inc. v. Southport, LLC*, 2013 U.S. Dist. LEXIS 91719 (D.N.J. June 27, 2013). Ramada brought a claim against Southport and other individuals for breach of a license agreement, development incentive note, and guaranty, because Southport had failed to make periodic payments required by the agreements. Ramada sought, and the court granted, summary judgment for outstanding recurring fees, interest, liquidated damages, unpaid principal, and attorneys’ fees in connection with the breach.

Southport took an unusual approach to defending the case: it did not dispute the validity of any of the contractual provisions, but claimed that the equitable doctrine of unclean hands applied. “Unclean hands” is a defense to breach of contract when there is inequitable conduct such as fraud, unconscionability, or bad faith on the part of the plaintiff. The court, however, found that nothing in the record supported Southport’s allegations. Further, even if the defense applied, the court determined that it would not excuse the breaches because unclean hands cannot be invoked by a party that stops performance but continues to take advantage of the contract’s benefits. Because Southport failed to make payments while continuing to operate under the contract, the doctrine did not preclude summary judgment for Ramada.

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