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BLOGS

Terminations

Court Holds That Termination of Franchise Agreements Did Not Breach Contracts or Violate California Law

The United States District Court for the Central District of California recently granted summary judgment in favor of H&R Block Tax Services ("Block") in two consolidated cases in which franchisees had claimed that Block's terminations of their franchises had breached their franchise agreements and violated the California Franchise Relations Act. *Devore v. H&R Block Tax Servs. LLC*, No. 16-cv-946 (C.D. Cal. Mar. 29, 2018). Gray Plant Mooty represents Block in both cases. Block terminated the agreements of the two related franchisees after discovering that they were assisting the operation of a competing business, which for a time operated out of one of their franchised offices. The franchisees sued Block for wrongful termination, arguing that they had received no revenue from the competing business and therefore did not breach their in-term noncompetition covenants. However, the court held that their receipt of management services and favorable financing from the operator of the competing business gave the franchisees a sufficient interest in that business to attribute its competitive activities to them. The court also held that Block's terminations were justified because the franchisees had failed to obtain required employment agreements from their tax preparers and managers that would have prohibited those employees from working for the competitor.

In addition, the court found that the franchisees were not relieved of their obligations to cure all of their defaults because Block had not advised them in response to their inquiries which of their defaults remained uncured. The court also granted summary judgment for Block on numerous derivative claims, finding that those claims failed as the result of the failure of the franchisees' breach of contract claims or were prohibited attempts to restate breach of contract claims as torts. Finally, the court found the franchisees liable on Block's counterclaim for damages resulting from their breach of their in-term covenants and ordered an accounting of the amounts owed to Block.

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