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BLOGS
Settlement

Federal Court Dismisses Franchisee's Claim for Breach of Settlement Agreement

In *Prosperity Systems, Inc. v. Ali*, 2011 U.S. Dist. LEXIS 43884 (D. Md. Apr. 22, 2011), a Maryland federal court granted a franchisor's motion to dismiss a franchisee's counterclaim alleging that the franchisor breached a settlement agreement entered between the franchisor, franchisee, and other unrelated entities. That agreement granted Ali a PIZZA BOLI'S franchise and required franchisor PSI to insert language in the franchise agreement stating that it would treat Ali the same as all other franchisees. The agreement also required its signatories to use their best efforts to sell a competing restaurant called American Pizza. After PSI terminated Ali's franchise rights and sued for trademark infringement, Ali counterclaimed that PSI breached the settlement agreement by: (a) discriminating against him; (b) failing to sell American Pizza; and (c) conspiring with the other signatories to infringe on his exclusive territory.

The court dismissed Ali's claim for breach of the settlement agreement for three reasons. First, the agreement did not itself impose on PSI an obligation not to discriminate against Ali as a franchisee, but simply required PSI to include language in the franchise agreement stating that it would treat Ali the same as it treated its other franchisees, which PSI did. Second, with respect to Ali's claim that PSI failed to sell American Pizza, the court held that PSI had no ownership interest in the restaurant and lacked authority to sell it. Finally, the court held that even if PSI conspired with the other signatories to infringe on Ali's exclusive territory, the settlement agreement did not guarantee Ali an exclusive trade territory. Rather, the agreement simply required PSI to include a trade area provision in the franchise agreement. Thus, the court held that although Ali may have a claim for breach of the franchise agreement, Ali did not state a claim for breach of the settlement agreement.