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Court: Chamberlain Presented "Overwhelming" Evidence in Win for Franchisees in Contract Dispute

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When a national moving and storage company levied legally unjustified fees on its franchisees, they turned to Chamberlain Hrdlicka shareholder Scott M. Ratchick. The veteran Chamberlain litigator, working with Scott A. Augustine and Jill R. Johnson from the firm's Atlanta office, won summary judgment and attorneys' fees of more than $1.5 million for his clients in U.S. District Court, and the judgment subsequently was affirmed in an emphatic July 8, 2015 opinion by the 11th U.S. Circuit Court of Appeals.

The dispute revolved around interpretation of a contract between PODS Enterprises and four franchisees. PODS is a franchisor of portable storage units that are packed by customers and then picked up by the company, and taken either to a warehouse for storage or to the customer's new home.

The PODS concept was relatively new when the franchisees signed contracts in 2003 and 2004 that set aside between two and five percent of local move net sales revenue as royalties to PODS. Moves between cities, or "cross-country" moves, were a small part of the business at the time and the contract exempted this revenue from being subject to royalties.

As the business grew, however, the cross-country moves became a bigger part of the company's business. The franchisees said a PODS senior executive told them that the contract both had signed "doesn't work for me." The company then began charging them a royalty on the cross-country revenue.

After months of fruitless negotiations, the franchisees sued in federal court, claiming breach of contract. The company responded that the franchisees were reading the contracts incorrectly, and that the confusion was caused by a "scrivener's error," essentially a word-processing mistake by the paralegal who drafted the document. The company also asserted that the franchisees had not given timely notice of their intent to sue, as the contract required.

Dispute Hinged on Poorly Drafted Contract

The key provision in the contract was a poorly worded 139-word sentence fragment that the court would call ambiguous, adding that it "could be exhibit A in a law school class on bad drafting." Under the law, that meant the case rested on which side could

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prove the intent of the parties when they signed the contract.

Hard-fought discovery of key documents by Ratchick and the Chamberlain team carried the day when the court was presented with correspondence that confirmed both sides intended for the contract to exclude cross-country revenue from royalties. In a surprising turn to the case, Ratchick even produced an affidavit supporting the franchisees' understanding of the contract from the paralegal who drafted it. This led to a summary judgment in favor of the franchisees in U.S. District Court.

PODS appealed, and two years later an 11th Circuit panel ruled in favor of the franchisees, saying that the "overwhelming" evidence produced by Chamberlain's discovery made it "clear beyond dispute" that the contract had to be read in a light favorable to Chamberlain's clients. Both courts rejected the argument that the claim was barred by lack of notice. Thus, the 11th Circuit affirmed a complete win for Chamberlain's clients.

Key Takeaways

Ratchick said there are several takeaways from the victory. "Sometimes franchisees don't assert their rights because they don't want to get into a fight against a much bigger franchising company that has greater resources. But this case shows that you can win these disputes when you have the law on your side," he said.

"This also is a textbook case in how important it is to conduct negotiations in writing," Ratchick said. "We were able to show exchanges of correspondence between the parties that clearly supported our clients' understanding of what both parties believed they were signing."

Ratchick also noted the value of a clause in the contract allowing the prevailing party in litigation to recover fees. Including the prevailing party clause in a contract makes it much easier for a smaller business to stand its ground when it is right, Ratchick said.

Finally, Ratchick said if the contract – which was drafted by the defendants – had been written clearly, the entire dispute likely would have been avoided. "Although our client ultimately prevailed in this case, this is a good example of how poorly drafted, ambiguous contracts can lead to problems when the interests of the parties are no longer completely aligned. Both parties should be sure their lawyers vet all contracts – even so-called form contracts – before they sign."