

Clear Terms of Franchise Agreement Are Enforced Against Franchisee

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A recent federal court decision in *T&T Management, Inc. v. Choice Hotels, Inc.* underscores key contractual and operational considerations for franchisors. T&T filed suit in U.S. District Court for the District of Minnesota against Choice Hotels alleging that Choice Hotels breached a geographic exclusivity agreement and misappropriated trade secrets. However, on February 27, 2025, the court granted a motion to dismiss, emphasizing the importance of clear contractual terms.

Background

T&T Management entered a franchise agreement with Country Inn & Suites by Carlson in 2011, which granted them exclusivity within a defined area for that brand. Over the years, Country Inn & Suites changed ownership twice—first acquired by Radisson and later by Choice Hotels. Choice subsequently issued a franchise license to Sunshine Fund Port Orange, LLC to operate a WoodSpring Suites hotel near T&T's location. T&T argued that this action violated its exclusive territorial rights and also alleged that Choice misused proprietary guest data.

Holding

The court dismissed all claims against Choice Hotels and its co-defendants, holding:

- **No breach of contract:** The exclusivity clause only applied to *Country Inn & Suites* properties, not other brands under Choice's growing portfolio. The agreement explicitly allowed Choice to license other hotel brands within the protected area.
- **No tortious interference:** Since there was no breach of contract, Sunshine's entry into the market was lawful and did not constitute improper interference.
- **No trade secret misappropriation:** The agreement designated the franchisor as a co-owner of guest data, permitting Choice to use and share it without violating the Defend Trade Secrets Act.

Key Takeaways

- **Precise Contract Drafting is Crucial:** Franchisors should ensure that exclusivity clauses

explicitly define their scope. This case demonstrates that a narrowly tailored exclusivity provision can limit disputes when a franchisor expands its brand portfolio.

- **Ownership of Guest Data Should Be Clearly Defined:** Franchise agreements should specify data ownership and usage rights. Here, the court upheld the franchisor's right to use and share guest data, reinforcing the need for clear contractual language.
- **Successor Franchisors Must Understand Their Obligations:** When acquiring a franchise system, due diligence is essential to ensure compliance with existing agreements. Franchisors should verify whether existing exclusivity or operational restrictions carry over post-acquisition.

This case serves as a reminder that well-drafted franchise agreements can protect franchisors while limiting liability in the face of legal challenges.

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