

## Quiznos Sued Over Treatment Of Franchisees

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*Tuesday, March 13, 2007* --- In the latest of a series of suits, dozens of Quiznos restaurant owners have accused their parent company of fraudulently inducing them to purchase franchises and then exploiting them through racketeering and anticompetitive conduct.

According to the proposed class action, filed Feb. 23 before the U.S. District Court in Detroit, Quiznos as a matter of practice misrepresents the financial prospects of its contracts with franchisees.

The Michigan suit cites a document by a Quiznos attorney that states 40% of Quiznos units were not breaking even. "This material fact was never (and has never been) disclosed to any of the plaintiffs despite Quiznos' knowledge of it," the suit says. Additionally, when luring potential franchisees, the company underreports closure rates, does not report turnover rates and does not identify that most of its existing franchisees are single store owners, according to the complaint.

Quiznos also allegedly puts restaurants in the same locations as ones that just went bankrupt and saturates the market with more restaurants than an area can support. Then, once a contract is signed, Quiznos "creates a captive artificial consumer market," the complaint says.

"Basically, what they've done is create a captured consumer, and they call them franchisees," said Justin Klein, an attorney with Marks & Klein LLP who is representing the plaintiffs in the Mich. suit as well as those in class actions in Colo. and Wis. Numerous individual actions have been filed around the country as well, Klein said.

Other franchising companies make their money on royalties and sales to the general public, while "Quiznos has found that its best customer is the franchisee," Klein said.

According to the suits, Quiznos forces franchises to buy goods, such as meat and cheese, from Quiznos-approved vendors. These vendors then allegedly pay Quiznos kickbacks for giving them business. Moreover, the plaintiffs allege that they are forced to buy unneeded goods and services and to accept coupons from customers without reimbursement.

In all the suits, the franchisees seek injunctive relief and undisclosed damages. The illegal fraud has been going on since 2001, the complaints say, when the Schaden family, which owns Quiznos, took the restaurant

chain private.

Overall, Quiznos has 5,000 franchised outlets, up from 1,500 at the beginning of 2003. The fee to open a franchise is \$25,000.

The Michigan case is McDonald et al v. The Quiznos Franchise Company LLC et al, case number 07-cv-10838, in the U.S. District Court for the Eastern District of Michigan.