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Quiznos to face several major franchisee lawsuits

by [Fred Minnick](#) * • 21 Nov 2006

The Toasted Subs Association, made up of Quiznos franchisees, will be suing its franchisor in district courts across the country, the association's president said.

The sub chain is already facing class-action litigation from its franchisees in New Jersey.

In the first of many lawsuits to come, the group filed a class-action lawsuit yesterday in U.S. District Court for the Eastern District of Wisconsin. The suit claims Quiznos has systematically defrauded its franchisees in a scheme designed to build the brand at the expense of its operators in the field. Chris Bray, president of Toasted Subs, said the group will file lawsuits in several states.

The defendants in the Wisconsin lawsuit — Quiznos Franchise LLC; Richard E. Schaden and Richard F. Schaden, the father-son owners of Quiznos; and Cervantes Capital LLC — could not be immediately reached for comment.

When the franchisees attempted to talk to Quiznos, Bray said the franchisor sued the Toasted Subs organization for defamation.

"This is a long time in coming," Bray said. "We have tried to negotiate with our franchisor on all these issues. And in all cases, Quiznos has shut the door in our face."

The lawsuit says Quiznos forces franchisees to buy food and supplies from Quiznos or its affiliates at inflated prices while concurrently setting artificially low retail prices for its products, making the stores unprofitable for the franchisees. In addition, the franchisees allege that Quiznos unlawfully participates in a scheme to sell the franchises by omitting or otherwise misrepresenting key facts about Quiznos' business operations in an effort to induce potential franchisees to buy a franchise.

"This is a matter of life and death for struggling franchisees who are losing their homes," Bray said.

Seeking damages for lost investments as well as injunctive relief, the suit alleges, among other things, statutory and common law fraud, violations of federal and state antitrust laws, violations of the Racketeer Influenced and Corrupt Organizations (RICO)

Act, breach of contract, and violations of the Wisconsin Fair Dealership Law.

The 28 plaintiffs in the class action are all operators of Quiznos franchises in Wisconsin.

Bray, who owns two locations in Texas and has been a franchisee for nine years, said Quiznos "has slowly, methodically and deliberately modified the business model, year over year, to make it economically favorable to them, to the detriment of the franchisees. It is time to put a stop to this."

Quiznos, once a publicly held company, was taken private in 2001. A subsequent dissenters rights lawsuit by shareholders alleged that the Schadens undervalued the share price in the takeover. That lawsuit was settled in 2004 when the company agreed to pay each shareholder an additional amount per share. During that time, Klein said, Quiznos expanded its number of franchises significantly.

In late 2005, the Schadens unsuccessfully tried to sell their stake in Quiznos with a price tag of \$2 billion. In April 2006, Quiznos announced that J.P. Morgan Partners, the private-equity division of J.P. Morgan Chase & Co (JPM) would acquire a significant share of Quiznos pursuant to undisclosed terms.

Bray said he wrote J.P. Morgan Chase about the current problems, but said the company followed up with a lawsuit.

"Quiznos has been trying to silence their critics and cover up the mess," Bray said.

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