

## CASE STUDY

# Freeing a Rapidly Growing Company from an Unreasonable Service Contract

*“[Yogurtland’s] financial ratios are strong and best in class. We credit this to management’s superior operating model and meticulous growth plans.”*

—The FranchiseHound.com, on its “strong buy” recommendation for Pillsbury’s client



Client:	<b>Yogurtland</b>
Industry:	Retail food and beverage
Area of Law:	Contracts
Venues:	American Arbitration Association and California Superior Court (Los Angeles)
Result:	Won a bet-the-company case for our client, which was facing alleged damages that exceeded all its profits at the time



Yogurtland is among the hottest new franchise chains, having grown from two Southern California stores to more than 150 locations in less than four years. And thanks to Pillsbury, Yogurtland successfully terminated a regional distribution arrangement that threatened to severely limit the company’s burgeoning business.

The five-year agreement allowed for termination of the contract if the distributor failed to provide “reasonable service.” So when Yogurtland saw that its distributor’s service wasn’t keeping up with the franchise’s rapid growth, it switched to a nationwide company.

But the regional distributor sued, claiming damages of up to \$16 million, an amount that exceeded Yogurtland’s profits at that point. So Yogurtland hired Pillsbury to handle what was a bet-the-company case.

The distributor argued that Yogurtland had terminated its contract solely due to pricing, and that the contract provided an exclusive, systemwide relationship. The distributor’s stated strategy was to force Yogurtland back into a business relationship under the threat of annihilating damages. Unable to reach a reasonable resolution through negotiations, Pillsbury took Yogurtland’s case to the arbitration hearing.

Because the contract signed by the parties was ambiguous, there was no way to win the case on summary judgment. Pillsbury focused instead on detailed questioning of the witnesses from both sides, to demonstrate how the contract’s language should be interpreted.

The arbitrator agreed with Pillsbury’s arguments that 1) the contract was limited to Southern California, and 2) was not exclusive. Given this and its admittedly higher pricing structure, the arbitrator held that the distributor had not shown any damages. The arbitrator awarded Yogurtland attorneys’ fees as the prevailing party, resulting in a Superior Court judgment confirming the award.