



## **CONTINENTAL FRANCHISE REVIEW**

Published 26 Times a Year by Sparks Publishing and Reporting Corporation  
7009 S. Potomac, Suite 109, Englewood, CO 80112 (303) 799-1112/FAX (303) 799-1115

JANET L. SPARKS  
PUBLISHER

THOMAS H. MURPHY  
ASSOCIATE PUBLISHER

NANCY WEINGARTNER  
EDITOR

Vol. 26, No. 22

November 22, 1996

### ***7-Eleven Franchisees Lawsuit Given Class-Action Status***

CHICAGO -- A \$1 billion class-action lawsuit filed by a group of 7-Eleven franchisees alleging fraud against Southland Corporation and its principals has been certified in the Federal District Court for the Northern District of Illinois (*CFR, Vol. 24, No. 7*).

The class action status is estimated to reach 2,000 franchisees nationwide, according to their attorney, Robert Zarco of Zarco & Pardo.

The lawsuit, originally filed in 1994 in federal court in Chicago, charges Southland and its principals, Clark Mathews II, John Thompson and Jere Thompson, with misrepresenting the viability and financial stability of the company following the \$4.9 billion leveraged buyout of Southland in late 1987 by its principals.

Convincing the court to give the case class-action status was no small feat, Zarco said, adding that more than a few of his counterparts told him it would be impossible. Having the principals named in a class-action suit is also unusual, he said.

The suit alleges that following the leveraged buy-out, Southland ceased all advertising, reduced capital expenditures and sold and/or closed 1,400 stores in an attempt to raise the cash needed to service its debt. During this time, the suit claims, company officials continued to represent the company as being in sound financial health and able to meet its obligations to franchisees.

Southland filed for bankruptcy in October of 1990 and then adopted a reorganization plan in March of 1991, Zarco's release states.

Southland's position from the beginning has been that the claims have no merits. "The judge has agreed with almost all of Southland's arguments: He has issued a series of rulings in which he has dismissed all claims against the company's majority owners, all claims against four of the seven officers and directors, and all but two of the claims against Southland," the company said in a statement.

"In an order issued on Nov. 13, 1996, the court ... ruled that the central claim -- the breach of contract claim -- could not proceed as a class action. The only claim that was permitted to go forward as a class action was the collateral claim that Southland and three of its officers and directors fraudulently misrepresented the company's financial condition to the franchisees after the LBO," the release said.