

Medicine Shoppe, Medicap franchisees sue Cardinal Health

A group of franchisees running stores under [w](#) **Cardinal Health Inc.**'s Medicine Shoppe and Medicap brands are suing the Dublin company, alleging it strong-armed and defrauded some stores as it worked to renegotiate franchise deals amid a restructuring.

The franchisees filed suit Tuesday in U.S. District Court in Columbus against Cardinal (NYSE:CAH), Medicine Shoppe Inc. and Medicap Pharmacies Inc. The lawsuit claims that Cardinal in March 2009 moved to renegotiate franchise agreements with the dwindling network of fewer than 700 pharmacies that would give franchisees more favorable terms, including reduced royalty requirements, and fix what the franchisees described as “an unworkable and oppressive regime.”

Stores, the suit said, were given three options. The first was to become part of the revamped system by paying an early termination penalty based on more than half of estimated future royalties and agree to purchase pharmaceuticals only from Cardinal for a set time period, sometimes in excess of a dozen years. Franchisees also had the option to leave the network but pay all estimated future royalties or take no action.

Cardinal, the suit said, told stores their decisions would be honored only if 95 percent of them opted for the first choice. Little more than half of the franchisees did, the suit alleged, but the company accepted tens of millions of dollars in prepaid fees and went on to cut services.

Stan Winters, owner of a Medicine Shoppe franchise in California and a lead plaintiff in the class-action suit, said in a statement that the suit is intended to “clear the slate with Cardinal Health, put an end to their heavy-handed ways and roll back the predatory pricing on pharmaceuticals that many stores are forced to accept.”

The franchisees are seeking to have their agreements rescinded or terminated and receive damages for fraud and breach of contract.

A message seeking comment was left with a Cardinal spokesman Tuesday afternoon.