

UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

ELECTRONICALLY FILED

JOHN H. SCHNATTER,

Plaintiff,

v.

**247 GROUP, LLC d/b/a LAUNDRY
SERVICE, and WASSERMAN MEDIA
GROUP, LLC,**

Defendants.

**Civil Action No. 3:20-cv-000003-CHB-
CHL**

AMENDED COMPLAINT

Plaintiff John H. Schnatter, by and through counsel, brings this action against Defendants 247 Group, LLC d/b/a Laundry Service (“Laundry Service”) and Wasserman Media Group, LLC (“Wasserman”) (collectively, “Defendants”) and alleges as follows:

NATURE OF ACTION

1. This is a case about breach of contract and malicious conduct. John Schnatter is the founder and visionary behind Papa John’s International, Inc. (“Papa John’s”), one of the largest pizza delivery restaurants in the world. Mr. Schnatter started the company from humble beginnings in a backroom closet in his father’s tavern in Jeffersonville, Indiana in 1984. In 1993, Mr. Schnatter took the company public and over the following year opened his 500th store. By 2017, Papa John’s had more than 5100 locations in the United States and 44 countries around the world.

2. Mr. Schnatter was not merely the founder and leader of Papa John’s during the period of its meteoric growth. He was also the company’s primary spokesman, appearing in

numerous successful national advertising campaigns. He was, quite literally, the face of the company.

3. In January 2018, Defendant Laundry Service began work as an advertising agency for Papa John's, tasked with enhancing Papa John's and Mr. Schnatter's brand and image. Prior to beginning this work, Laundry Service signed a Master Services Agreement, dated January 1, 2018, which required, among other items, that Laundry Service abide by certain nondisclosure and confidentiality provisions (the "Services Agreement"). On April 9, 2018, Laundry Service also entered into a Confidentiality, Non-Disparagement and Dispute Resolution Agreement (the "Confidentiality & Non-Disparagement Agreement") with Papa John's and Mr. Schnatter which similarly required Laundry Service to abide by certain confidentiality provisions.

4. Early on in the relationship it became apparent that Laundry Service was not equipped to handle a client account as large as Papa John's. By spring of 2018, Defendants were concerned that Laundry Service would soon be fired.

5. On May 22, 2018, Mr. Schnatter was asked to attend a call with Laundry Service from his office in Jeffersontown, Kentucky. He was led to believe the call would concern new marketing initiatives for Papa John's, but Laundry Service instead used the call to ask him questions regarding his views on race. Throughout this call—which Laundry Service recorded without his knowledge—Mr. Schnatter spoke out against the insidious effects of racism in society and relayed some of his own experiences from growing up in Indiana.

6. At the end of the call, Mr. Schnatter criticized a well-known public figure for using a racial slur against African Americans and stated that he himself had "never used that word." He was thus both criticizing the use of the epithet and contrasting that it was something he himself had never done. Nonetheless, immediately after the call—in comments inadvertently

captured by Laundry Service’s own recording—its employees immediately began to discuss how they could use Mr. Schnatter’s comments *against* him.

7. Shortly after the May 22, 2018 call, Laundry Service was fired. This resulted in a dispute between Laundry Service and Papa John’s over payments under the Services Agreement. At this time, in June 2018, Casey Wasserman, the CEO of Laundry Service’s parent company, told Papa John’s then-CEO Steve Ritchie that he would “bury the founder” (i.e., Mr. Schnatter) if Laundry Service was not paid \$6 million dollars.

8. Following this threat to “bury the founder”—and in apparent retaliation for Papa John’s refusing to pay Laundry Service \$6 million—Defendants leaked to Forbes magazine excerpts of their May 22, 2018, call with Mr. Schnatter. But rather than provide the true context of what Mr. Schnatter actually said, Defendants provided information out of context, suggesting he had used a racial slur against African Americans. In short, they created an impression that Mr. Schnatter had communicated something opposite to what he said.

9. On July 11, 2018, Forbes reported that “Papa John’s Founder Used N-Word on Conference Call.” This press report—which was quickly picked up by other media outlets—that Mr. Schnatter had used a racial slur *against* African Americans led to a virtual fire storm around him and the company, ultimately leading to Mr. Schnatter resigning as Chairman of Papa John’s and to his being disassociated from the company he had built and managed for over thirty years.

10. By disclosing information related to the May 22 call to Forbes and/or other third parties, Defendants breached the Services Agreement and the Confidentiality & Non-Disparagement Agreement. And by providing this information maliciously and out of context, Defendants interfered with Mr. Schnatter’s valid business relationships and prospective economic advantages. They are liable for the damages that followed from their actions.

THE PARTIES

11. Plaintiff John Schnatter is the founder and former Chief Executive Officer and Chairman of Papa John's. Mr. Schnatter resides in Naples, Florida. A substantial part of the events or omissions giving rise to Mr. Schnatter's claims occurred in Jefferson County, Kentucky.

12. Defendant Laundry Service is a limited liability company organized under the laws of New York with its principal place of business in New York. It is a wholly owned subsidiary of Defendant Wasserman.

13. Defendant Wasserman is a limited liability company organized under the laws of Delaware and based in Los Angeles, California. It was founded by Casey Wasserman in 1998 and acquired Laundry Service in 2015. Wasserman's sole members are citizens of Arizona, California and Colorado.

JURISDICTION AND VENUE

14. The Court has subject matter jurisdiction pursuant to 28 U.S.C. § 1332(a) because Plaintiff is a citizen of Florida and Defendants are citizens of Arizona, California and Colorado, and the amount in controversy exceeds \$75,000.

15. Venue is proper in this District under 28 U.S.C. § 1391(b) because the actions and conduct of Defendants at issue occurred in whole or in part in Jefferson County, Kentucky, and the injuries complained of herein occurred in whole or in part in Jefferson County, Kentucky.

16. This Court has personal jurisdiction over Defendants because they have conducted business in the Commonwealth of Kentucky and caused tortious injury herein. Defendants traveled to the Commonwealth of Kentucky for business related to the Services

Agreement on numerous occasions and derived substantial revenue from their business activities in this state.

FACTUAL ALLEGATIONS

The Anthem Protests

17. In August 2016, Colin Kaepernick, a player for the San Francisco 49ers of the National Football League (“NFL”), began sitting or kneeling during the playing of the national anthem before NFL games. Mr. Kaepernick expressed that he did this as a statement against racial injustice and police treatment of minorities. This practice of kneeling during the anthem was quickly picked up by several other players around the NFL. Before long, at least some players on virtually every NFL team were kneeling during the anthem before every NFL game.

18. What became known as the “anthem protests” drew an extraordinary amount of media coverage and generated controversy around the NFL. Some groups criticized the act of kneeling, even as a political act, as disrespectful of the American flag and the veterans who had served in the military. These groups also criticized the NFL for allowing the players to continue to protest in this manner each week.

19. Other groups criticized the NFL for not supporting the players who chose to kneel during the anthem and for at least one team threatening to cut any players who did so. The NFL thus faced heavy criticism both from groups who supported the players’ actions in protesting during the anthem and those who strongly opposed them.

20. The controversy surrounding the anthem protests had immediate effects on NFL viewership. There was a measurable decline in television viewership of NFL games, with ratings across the league declining by 8% from 2015 to 2016 and again by 9.7% from 2016 to 2017.

21. During the time of the anthem protests, the NFL was the largest media partner of Papa John's, with over 25% of the company's entire annual advertising budget spent on NFL-related marketing and advertising. Papa John's was the brand consumers most closely associated with the league and was the "official pizza" of the NFL.

22. The steep decline in NFL television viewership meant there was a corresponding decrease in the number of consumers who were seeing Papa John's commercials, thereby negatively impacting sales.

November 2017 Earnings Call

23. Papa John's held a quarterly earnings call with analysts on November 1, 2017. Mr. Schnatter was the CEO and Chairman of the company at that time and addressed the impact of the anthem protests on the company's sales. He said:

Now to the NFL, the NFL is hurting, and more importantly by not resolving the current debacle to the player and owners' satisfaction, NFL leadership has hurt Papa John's shareholders. Let me explain. The NFL has been a long and valued partner over the years, but we are certainly disappointed that [the] NFL and its leadership did not resolve the ongoing situation to the satisfaction of all parties long ago. This should have been nipped in the bud a year and a half ago. Like many sponsors, we are in contact with [the] NFL, and once the issues [are] resolved between the players and the owners, we are optimistic that [the] NFL's best years are ahead, but good or bad, leadership starts at the top. And this is an example of poor leadership.

24. In his comments, Mr. Schnatter did not take a side in the anthem protests and, in fact, twice stated the league should find a resolution that was *to the players' satisfaction*. If anything, these comments should be seen as an endorsement of the players' right to continue to the protest.

25. Nonetheless, media reports following the earnings call stated that Mr. Schnatter was against the players protesting during the anthem. The Associated Press reported on

November 15, 2017, that Mr. Schnatter opposed the players “kneeling during the national anthem.” A later UPI article went as far as to say that Mr. Schnatter was against the players protesting police brutality. These press reports were not merely unsupported by the facts. They were blatantly wrong. Yet they formed the public narrative of Mr. Schnatter’s views on these issues and set in motion many of the events leading to this action.

26. It cannot be overstated how polarizing the issue of the anthem protests had become by 2017, with large numbers of people feeling very strongly—and very emotionally—either in support or against the movement. The incorrect reporting that Mr. Schnatter had spoken out against NFL players protesting thus drew swift denunciations from those supporting the protests.

Relationship with Laundry Service

27. On October 31, 2017, the company announced that Laundry Service had been hired as its creative agency of record with work under the Services Agreement scheduled to begin on January 1, 2018. Laundry Service was initially meant to act as the “agency of record” for Papa John’s and handle all of the company’s advertising and media needs. This was a significant step up for Laundry Service, which had previously been limited mainly to digital or social media advertising campaigns, rather than full “360” responsibility for a client’s advertising efforts.

28. Because of the extremely close relationship between Papa John’s and Mr. Schnatter’s images, part of Laundry Service’s responsibility was to “rebuild” Mr. Schnatter’s reputation and to repair the damage caused by the misinterpretation of his comments regarding the anthem protests. Laundry Service understood that Mr. Schnatter’s image and persona played a substantial role in the company’s brand recognition, advertising, and overall success. Laundry

Service conducted extensive “perception research” on Mr. Schnatter and one of its “key findings” was that any “negative sentiment [toward Mr. Schnatter] bleeds into Papa John’s brand perception.”

29. Laundry Service did not meet expectations. By spring of 2018, its management was afraid that it was going to lose the Papa John’s account, partially because Mr. Schnatter was unhappy with Laundry Service’s approach.

30. On May 14, 2018, Mr. Schnatter attended a meeting at the Laundry Service office in Brooklyn, New York, to discuss a new advertising campaign for the company. At the meeting, the then-CEO of Laundry Service (Jason Stein) strongly advocated for Papa John’s using Kanye West in its new campaign. Mr. Schnatter considered this option for a few days but then expressed discomfort with partnering with Mr. West because of his controversial nature and use of the “n-word” in his lyrics.

31. On May 22, 2018, Mr. Schnatter was on a call with Laundry Service from his office in Jeffersontown, Kentucky. Laundry Service had recently recommended that Mr. Schnatter again appear in Papa John’s commercials, and Mr. Schnatter believed the call was about new marketing and creative initiatives. Laundry Service, however, used the call to ask Mr. Schnatter questions related to his views on race. Throughout the call, Mr. Schnatter expressed his wholesale rejection of racism and how he saw its inherent, insidious effects as a young person in Indiana.

32. At the end of the call, Mr. Schnatter expressed how his comments regarding the NFL were improperly reported and used to paint him as someone he was not. He then said:

“[W]hat bothers me is Colonel Sanders called blacks n-----s. I’m like, I never used that word. And they get away with it. And we used the word ‘debacle’ and we get framed in the same genre.”

33. Mr. Schnatter thus did not use a racial slur against African Americans in the call. On the contrary, he clarified—in this impromptu discussion of race—that it was a term he had *never used*. And, moreover, that it was absurd to draw a moral equivalency between his describing NFL management’s handling of the anthem protests as a “debacle” and statements by a public figure openly disparaging minorities.

34. Unbeknownst to Mr. Schnatter, Laundry Service recorded the call. However, Laundry Service continued recording after Mr. Schnatter hung up, and captured internal discussions between senior Laundry Service employees (including Stein, its CEO at the time) directly after the call ended. Those discussions are shocking. Laundry Service immediately began to discuss how Mr. Schnatter’s statements on the call could be used *against* him to damage his image so “he gets fucking sent out to pasture on this shit” (in Stein’s words). The plan, according to the recorded conversation, was to arrange for Mr. Schnatter to have an hour-long live interview with a hostile media personality and prompt Mr. Schnatter to make damaging statements which need “to be viral.”

35. There was no mistaking Laundry’s Service’s ill-intent. As a former employee present during these discussions has testified: “this did not seem part of the efforts to maintain – to help John’s reputation to do the job that we were paid for to help ... [this seemed like] the opposite of helping John.” When that employee reported the issue to Laundry Service’s human resources department and provided the incriminating recording, he was told to delete the recording.

36. Laundry Service was fired shortly thereafter. In June 2018, Laundry Service claimed Papa John's should pay for work Laundry Service had intended to provide as the company's media buyer. When a dispute arose over whether Laundry Service was entitled to these payments, Casey Wasserman, the CEO of Wasserman Media Group, told Papa John's then-CEO Steve Ritchie that he would "bury the founder" (*i.e.*, Mr. Schnatter) if Laundry Service was not paid \$6 million dollars.

Laundry Service Breaches the Services Agreement and the Confidentiality & Non-Disparagement Agreement

37. On the evening of July 10, 2018, Mr. Schnatter received a call from the General Counsel of Papa John's and was told "[someone] at Laundry Service has been talking to Forbes."

38. The next morning, on July 11, 2018, Forbes published an article titled, "Papa John's Founder Used N-Word on Conference Call." The article characterized Mr. Schnatter's statement as a way of "downplaying the significance of his NFL statement" without providing the context of his comments. The article also stated, incorrectly, that Wasserman had moved to terminate the Services Agreement with the company as a result of Mr. Schnatter's statements during the call. In truth, Papa John's had terminated Laundry Service as the company's media buyer.

39. On July 11, 2018, Mr. Schnatter resigned his position as Chairman of Papa John's.

40. On July 13, 2018—only two days after the Forbes article initially appeared—Papa John's announced that Mr. Schnatter would no longer appear in any advertising or marketing materials for the company. The University of Louisville removed Mr. Schnatter's name from a center at its business school and also removed the "Papa John's" name from Cardinal Stadium. Purdue University, the University of Kentucky, and even Ball State University—Mr. Schnatter's

own alma mater—severed ties with him. In addition, the Board of Directors asked Mr. Schnatter to resign as a director and took actions to remove him. Mr. Schnatter was denied access to Papa John’s headquarters (despite being a director and the company’s largest shareholder) and was prohibited from speaking on behalf of the company.

41. On July 15, 2018, Papa John’s terminated its Agreement for Service as Founder (“Founder Agreement”) with Mr. Schnatter.

42. On July 23, 2018, Papa John’s, Laundry Service, and Wasserman signed a Termination Letter ending the Services Agreement. Among other things, the Termination Letter stipulates that the confidentiality provisions in the Services Agreement survived termination of that agreement.

43. On September 11, 2019, Papa John’s canceled its Licensing Agreement with Mr. Schnatter.

CLAIMS FOR RELIEF

Count 1

(Breach of Contract: Services Agreement and Termination Letter)

44. Plaintiff incorporates by reference paragraphs 1 through 43 above as though fully set forth herein.

45. The Services Agreement imposed confidentiality obligations on Defendants, prohibiting the disclosure of confidential information obtained during the course of Defendants’ work for Papa John’s.

46. The Termination Letter cited the confidentiality provision in the Services Agreement and noted that, pursuant to the Services Agreement, the confidentiality provision would survive termination of the agreement.

47. Mr. Schnatter was an intended third-party beneficiary of the Services Agreement and the Termination Letter because the relationship with Laundry Service and Wasserman was part of an effort to improve Mr. Schnatter's reputation among consumers. The parties recognized this fact when they entered into the Confidentiality & Non-Disparagement Agreement. That agreement expressly noted that, due to the inextricable link between Papa John's and Mr. Schnatter for promotional purposes, Laundry Service was required to enter into the Confidentiality & Non-Disparagement Agreement as a precondition to working for Papa John's. As noted, the Confidentiality & Non-Disparagement Agreement prohibited the disclosure of confidential information regarding Mr. Schnatter.

48. Mr. Schnatter complied with the Services Agreement and Termination Letter, which are valid and enforceable.

49. The confidentiality provision in the Services Agreement covered communications between Mr. Schnatter and Laundry Service, including the May 22, 2018 call.

50. Between May 22, 2018, and July 11, 2018, Defendants leaked selected contents of the call to Forbes magazine.

51. The leak of the May 22 call breached the confidentiality provision of the Services Agreement and the Termination Letter.

52. As a direct result of Defendants' breach of the Services Agreement and Termination Letter, Mr. Schnatter was damaged in an amount to be determined at trial.

Count 2
(Contractual Breach of the Implied Covenant of Good Faith and Fair Dealing)

53. Plaintiff incorporates by reference paragraphs 1 through 52 above as though fully set forth herein.

54. The Services Agreement, like every contract, carried within it an implied covenant of good faith and fair dealing which required the parties to faithfully carry out their contractual obligations. Instead of complying with this duty, Defendants actively engaged in bad faith conduct intended to defeat the benefits the Services Agreement was meant to provide.

55. One of the key services to be provided by Defendants under the Services Agreement was to assist Mr. Schnatter in rehabilitating his image following the unfair characterization of his comments about the NFL anthem protests. Rather than provide such assistance, Defendants decided to do the exact opposite: put Mr. Schnatter in front of a hostile interviewer in front of a live audience and prompt him to make comments that would inevitably be misconstrued and used against him. All so that, as Laundry Service's then-CEO hoped, Mr. Schnatter "gets fucking sent out to pasture on this shit."

56. Defendants' conduct was in bad faith and defeated one of the bargained for benefits of the Service Agreement: the enhancement of Mr. Schnatter's image and brand.

57. Mr. Schnatter suffered damages as a result of Defendants' violations of their duty of good faith and fair dealing in an amount that will be determined at trial.

Count 3
(Breach of Contract: Confidentiality & Non-Disparagement Agreement)

58. Plaintiff incorporates by reference paragraphs 1 through 57 above as though fully set forth herein.

59. The Confidentiality & Non-Disparagement Agreement contained provisions prohibiting both the disclosure of confidential information obtained during the course of Defendants' work for Papa John's and the use of any such information to disparage Mr. Schnatter.

60. These provisions covered communications between Mr. Schnatter and Laundry Service, including the May 22, 2018 call.

61. Between May 22, 2018 and July 11, 2018, Defendants leaked selected contents of the call to Forbes magazine.

62. The leak of the May 22 call breached the confidentiality and non-disparagement provisions of the Confidentiality & Non-Disparagement Agreement.

63. As a direct result of Defendants' breach of the Confidentiality & Non-Disparagement Agreement, Mr. Schnatter was damaged in an amount to be determined at trial.

Count 4
(Tortious Interference with Contract)

64. Plaintiff incorporates by reference paragraphs 1 through 63 above as though fully set forth herein.

65. Papa John's and Mr. Schnatter had a valid Licensing Agreement pertaining to the company's use of intellectual property related to Mr. Schnatter's name, likeness, and image.

66. Papa John's and Mr. Schnatter also had a valid Agreement for Service as Founder related to Mr. Schnatter's duties and responsibilities, stock options, and reimbursable expenses related to his work for the company.

67. As the founder and public face of Papa John's, Mr. Schnatter had a valid business expectancy that his contractual relationship with the company would continue into the future.

68. Laundry Service was aware of the business relationship between Mr. Schnatter and Papa John's and understood that alleged "controversial comments" attributed to Mr. Schnatter would hurt Papa John's brand reputation.

69. Defendants surreptitiously recorded Mr. Schnatter's comments during the call on May 22, 2018, unbeknownst to Mr. Schnatter.

70. In June 2018, as Papa John's and Laundry Service sought to negotiate a settlement related to the end of their business relationship, Casey Wasserman, Chairman and CEO of Laundry Service's parent company, threatened the then-CEO of Papa John's, Steve Ritchie, that he would "bury the founder" of Papa John's if the company did not pay Laundry Service \$6 million.

71. Between May 22, 2018, and July 11, 2018, Defendants leaked to Forbes portions of Mr. Schnatter's comments on the May 22 call, in violation of the confidentiality provisions of the Services Agreement.

72. Defendants' conduct was malicious, intentional, unfair, and unreasonable under the circumstances.

73. On July 15, 2018, Papa John's terminated its Founder Agreement with Mr. Schnatter.

74. On September 11, 2019, Papa John's notified Mr. Schnatter that the company intended to terminate its Licensing Agreement with Mr. Schnatter.

75. Defendants' intentional and improper interference in recording and leaking the call to Forbes prevented Mr. Schnatter from continuing his business relationship with Papa John's.

76. Mr. Schnatter suffered damages as a result of Defendants' tortious interference in an amount that will be determined at trial.

Count 5
(Prima Facie Tort)

77. Mr. Schnatter incorporates by reference paragraphs 1 through 76 above as though fully set forth herein.

78. Defendants' intentional leak of information from the call, in violation of the confidentiality provisions of the Services Agreement and Termination Letter, was motivated solely by malevolence and done with the sole intention of harming Mr. Schnatter, as attested to by their employees' shocking statements directly after the May 22, 2018 call.

79. Defendants' actions were intentionally calculated to damage Mr. Schnatter, and were done with reckless disregard for Mr. Schnatter's welfare and legally protected rights.

80. The Defendants' actions were malicious, intentional, and had no excuse or justification.

81. Mr. Schnatter suffered economic and reputational damages as a result of Defendants' intentional conduct in an amount that will be determined at trial.

PRAYER FOR RELIEF

Plaintiff John H. Schnatter respectfully requests that the Court enter a judgment in his favor and against 247 Group, LLC d/b/a Laundry Service and Wasserman Media Group, LLC, and award him the following relief:

- A. A judgment against Laundry Service and Wasserman, jointly and severally, for compensatory, expectation, punitive, and all other damages available to him in amounts to be determined at trial;
- B. An award of attorneys' fees and costs, as allowed by law;
- C. An award of prejudgment and post-judgment interest, as provided by law; and
- D. Such other relief as may be appropriate under the circumstances.

DEMAND FOR JURY TRIAL

Plaintiff demands a jury trial as to all issues triable by a jury.

Dated: October 1, 2020

Respectfully submitted,

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