BLOGS
Arbitration

Arbitrator "Manifestly Disregarded" the Law in Entering Award in Favor of Franchisor

In *Coffee Beanery, Ltd. v. WW, L.L.C.*, 2008 WL 4899478 (6th Cir. Nov. 14, 2008), the United States Court of Appeals for the Sixth Circuit vacated an arbitration award that had been entered in favor of franchisor Coffee Beanery, Ltd., as the appeals court held that the arbitrator manifestly disregarded the law. The court concluded that the United States Supreme Court's recent decision in *Hall Street Assocs., L.L.C. v. Mattel, Inc.*, 128 S. Ct. 1396 (2008), did not limit the review of arbitration awards under the well-established "manifest disregard" standard. That standard provides a court the ability to review an arbitration award if an arbitrator manifestly disregards the law.

The franchisee sued claiming that, among other things, Coffee Beanery intentionally misrepresented its franchise business and violated the Maryland Franchise Registration and Disclosure Law in not disclosing in its prospectus the grand larceny felony conviction of one of its principals. Although Coffee Beanery admitted that it had not disclosed this information, it contended that it was not required to do so under the Maryland Act. The Maryland Act requires a franchisor to disclose "'whether any person identified in the prospectus has been convicted of a felony . . . if the felony or civil action involved fraud, embezzlement, fraudulent conversion, or misappropriation of property.'" The arbitrator concluded that the grand larceny conviction did not fall within the disclosure requirements of the statute, and found that the non-disclosure did not cause any harm to the franchisee. The arbitrator found in favor of Coffee Beanery on all of the franchisee's claims, and a federal district court affirmed the arbitration award.

The Sixth Circuit reversed the district court, on the grounds that the arbitrator's decision was a manifest disregard of the Maryland law. The Sixth Circuit found that grand larceny in Maryland constitutes a misappropriation of property, and as such the franchise statute explicitly required disclosure of the conviction. The court vacated the arbitrator's award, and the franchisee may now pursue its claims in court rather than arbitration.