

BLOGS

State Franchise Laws/Violations/Terminations

Citing California Franchise Relations Act, California Federal Court Rejects Franchisor's Attempt to Dismiss Case

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A federal court in California recently denied a franchisor's motion to dismiss litigation, holding that a franchise agreement provision requiring the parties to mediate in Texas prior to instituting litigation or arbitration was void and unenforceable against a California franchisee. *Argus Capital v. Allison*, 2025 WL 1071069 (E.D. Cal. Apr. 9, 2025).

The franchise agreement between Argus and The Grounds Guys, LLC contained a provision requiring mediation in Texas, where The Grounds Guys is based, before any litigation or arbitration. However, the agreement also included a California addendum which provided that certain California laws, including the California Franchise Relations Act (CFRA), governed the agreement. The CFRA precludes enforcement of any provision purporting to restrict venue to a forum outside California for franchises that operate in the state.

Based on the CFRA, the court found that the Texas mediation provision was unenforceable and violated California public policy. The court declined to constrain the CFRA's restrictions on "venue" to the location of litigation. The court concluded that mandatory pre-suit mediation in Texas would impose a procedural barrier obstructing access to California courts, contrary to the intention of the CFRA. In so holding, the court distinguished other cases that had upheld pre-suit mediation requirements that did not mandate an out-of-state forum. Accordingly, the court denied The Ground Guys' motion to dismiss.

Related People

Michael L. Sturm

Partner

Washington, D.C.

202.295.2241

michael.sturm@lathropgpm.com

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