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BLOGS

Jurisdiction and Procedure

Federal Court Finds That Size of Underlying Arbitration Claims Should Be Used to Measure Diversity Jurisdiction in Court Case

The United States District Court for the Eastern District of Pennsylvania held last month that the amount at stake in an underlying arbitration should be used to determine the amount in controversy in a related federal court action for injunctive relief. *Soft Pretzel Franchise Systems Inc. v. Taralli, Inc.*, 2013 U.S. Dist. LEXIS 127242 (E.D. Pa. Sept. 5, 2013). This dispute involved the termination of a franchise agreement for failure to report sales and to pay royalty, advertising, and legal fees. Soft Pretzel initiated an arbitration action to recover the fees owed and to obtain a permanent injunction. It also filed a federal court action to preliminarily enjoin the former franchisee from operating a competing business at the formerly franchised location pending the outcome of the arbitration. Taralli moved to dismiss the injunction action, alleging that the amount in controversy did not exceed the jurisdictional minimum of \$75,000.

The Pennsylvania court reviewed existing Third Circuit case law regarding how to calculate the amount in controversy on a petition to compel arbitration and found it sufficiently analogous. The court then ruled that the amount in controversy at arbitration should be used to establish jurisdiction in federal court on a related case. Because Soft Pretzel's damages claims in the arbitration exceeded \$75,000, the court held that Soft Pretzel met the federal court's jurisdictional threshold and denied Taralli's motion to dismiss.

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