



BLOGS
Arbitration

Ohio Federal Court Upholds Franchise Agreement Clause Mandating Arbitration in New Jersey

A federal court in Ohio held that an arbitration provision in a franchise agreement was enforceable despite arguments that the agreement was rescinded or that it was contrary to Ohio law. *Scarso Enters., Inc. v. Honor Yoga Mgmt., LLC*, 2020 WL 2496941 (N.D. Ohio May 14, 2020). Plaintiff Scarso is a former franchisee that operated a yoga studio under the trade name of franchisor Honor Yoga. Scarso entered a development agreement with Honor Yoga to develop three studios and a franchise agreement for the first studio. When that studio underperformed, Scarso sought to renegotiate the agreements. When that failed, Scarso purported to rescind the agreements pursuant to Ohio’s Business Opportunity law and sued Honor Yoga and BodeTree, LLC, through which Honor Yoga sold the franchise. Scarso alleged that Honor Yoga and BodeTree had misrepresented the financial viability of the franchise. After removing the case to federal court, Honor Yoga sought to enforce the arbitration provisions of the agreements with Scarso and asked the court to stay the case pending arbitration. Scarso responded that, because it had rescinded the agreements, their arbitration provisions could not be enforced, and that the provisions’ New Jersey venue was void under the provision of the Ohio Business Opportunity law, which barred contract provisions that mandated dispute resolution outside of Ohio.

The court held that Scarso’s purported rescission did not constitute a challenge to the validity of the arbitration provisions, and the issue of the validity of the agreements themselves was reserved to the arbitrator. Scarso did not deny that the parties’ dispute fell within the broad scope of the arbitration clauses, which covered all “disputes and claims” relating to the agreements. The court further held the arbitration provision was enforceable, as there had been no allegations of fraud or duress specific to the clause, nor allegations that the New Jersey forum would be ineffective, unfair, or seriously inconvenient. The court rejected Scarso’s argument that Ohio law voided the venue provision because Scarso had agreed in the contract that New Jersey law, not Ohio law, would control disputes arising out of the contract. However, because the court lacked authority to compel arbitration outside of its district, it ruled only that the action would be stayed pending the outcome of arbitration. Defendant BodeTree was not a party to the agreements between Scarso and Honor Yoga, and therefore was not subject to the arbitration provisions of those agreements. But because

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the arbitration between Scarso and Honor Yoga would necessarily affect the claims against BodeTree, Scarso's suit was stayed as to that defendant as well.