BLOGS

Arbitration

Oregon Federal Court Compels Arbitration over Objections of Fraud

A federal court in Oregon compelled arbitration over the objections of franchisees who claimed they were fraudulently induced to enter franchise agreements because of false representations made by the franchisor's counsel. *Black Rock Coffee Bar, LLC v. BR Coffee, LLC*, 2020 WL 4728877 (D. Or. Aug. 14, 2020). Black Rock, a coffee shop franchisor, became embroiled in a dispute over initial franchise fees with a company that had opened three franchised Black Rock coffee shops. In response, Black Rock exercised its option under the territory and franchise agreements to purportedly purchase the franchises. The franchisees then discovered that the purchase provisions in the executed agreements were more favorable to Black Rock than those contained in the FDD form agreements the franchisees initially received. The franchisees rescinded the agreements and sued Black Rock in California state court; Black Rock petitioned an Oregon federal court to compel arbitration. The franchisees urged the federal court to abstain in favor of the state court litigation, citing the first-to-file rule and *Colorado River* abstention doctrine. Alleging that Black Rock's counsel has falsely represented to them that the franchise agreements were the same as the FDD form agreements, the franchisees also argued that Black Rock's "fraud in the execution" rendered the agreements void.

The court did not abstain, finding that the first-to-file rule does not apply to concurrent federal-state proceedings, and that none of the extraordinary circumstances of Colorado River abstention were applicable. The court then granted Black Rock's petition to compel arbitration. The court held that Black Rock potentially committed fraud in the inducement (inducing a party to agree to something it otherwise would not have agreed to), but not fraud in the execution (inducing a party to believe the agreement was something other than what it was). Although proof of fraud in the execution could void an agreement — including its arbitration clause — fraud in the inducement still required resolution by the arbitrator. The court concluded that fraud in the execution was not present because the franchisees had a reasonable opportunity to review the essential terms of the agreements when they had days to review the documents prior to signing. The court also found that the purchase option discrepancy was not such an "essential term" that changing it would fundamentally change the nature of the agreements. As a result, there was no fraud in the execution, and no barrier to the court's enforcement of the arbitration provision.

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