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BLOGS

Arbitration

Oregon Federal Court Holds Nonsignatory Owners Are Not Subject to Arbitration Provision

In a case involving an unorthodox procedural posture, a federal court in Oregon determined that nonsignatory franchisee owners are not subject to a franchise agreement arbitration provision. *Goergen v. Black Rock Coffee B.*, 2023 WL 1777980 (D. Or. Feb. 6, 2023).

In a case involving an unorthodox procedural posture, a federal court in Oregon determined that nonsignatory franchisee owners are not subject to a franchise agreement arbitration provision. *Goergen v. Black Rock Coffee B.*, 2023 WL 1777980 (D. Or. Feb. 6, 2023). Coffee bar franchisor Black Rock entered into a development agreement and a series of franchise agreements with the franchisees to develop the areas in and around Las Vegas. Disputes arose immediately involving the payment of initial franchise fees and opening expenses. Black Rock initiated arbitration against the franchisees after the relationship broke down and eventually named the owners as arbitration respondents as well. The owners filed suit in federal court to stop the arbitration as it concerned them; while that suit was pending the arbitrator awarded damages against them. Black Rock never asked any court to compel the owners to arbitrate. The owners' lawsuit sought a declaration that they had no obligation to arbitrate in addition to injunctions and/or orders to preclude Black Rock from pursuing arbitration against them.

The court enjoined Black Rock from direct enforcement of the arbitrator's award after determining that it had the authority to determine who was subject to the franchise agreements' arbitration provision. It determined that contractual language binding the franchisees' "controlling principals" did not bind the owners because Black Rock had never designated controlling principals of the franchisees as contemplated by the agreements. The court then rejected Black Rock's arguments that the owners were bound by the agreements as agents of the franchisees or third-party beneficiaries of the agreements. The court declined to ignore the distinction between an owner and an agent and noted that the owners were never designated as beneficiaries in the agreements themselves. The court also rejected Black Rock's argument that the owners should be equitably estopped from denying the applicability of the arbitration provision, citing the lack of evidence that the owners intended to be bound by it.

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