

E-ALERT RE IAG v. SANDERS

“MulcahyReeves took a very serious claim against us and completely turned the tables,” said It’s A Grind CEO Steve Shoeman. “We could not be happier with the result.”

A recent arbitration proceeding litigated by MulcahyReeves on behalf of one of its franchisor clients demonstrates the value of “holding firm” when facing claims of fraud by a failed franchisee.

When It’s A Grind coffeehouse franchisor IAG Coffee Franchise LLC, tried to help a franchisee who had been unable to find a location by identifying to the franchisee an existing store that was available for purchase, IAG found itself accused of fraud regarding the store’s past profitability, violations of the California Franchise Investment Law, and price fixing in violation of the Cartwright Act. The failed franchisee claimed damages in excess of \$700,000.

IAG retained MulcahyReeves, who immediately initiated a binding arbitration seeking damages for the franchisee’s abandonment of their business in violation of their franchise agreement, and a ruling that the franchisee’s threatened claims lacked merit. The franchisee responded by filing claims against IAG in the arbitration proceeding and in Placer County Superior Court. After MulcahyReeves successfully petitioned the Superior Court to order that all claims be heard in the arbitration, the firm tried the matter before an arbitrator with the American Arbitration Association in Orange County.

After “considerable discovery” (to quote the arbitrator), nine days of arbitration, and the filing of voluminous post-arbitration briefs, the arbitrator issued a ruling that not only entirely vindicated IAG, but also rewarded IAG for not capitulating to the franchisee’s demands. First, he denied the claims asserted by the franchisee against the company in their entirety. As for IAG’s claims against the franchisee, he ordered the franchisee to pay IAG damages for the lost royalties the franchisee should have paid to IAG had it not abandoned the coffeehouse. Finally, the arbitrator ordered the franchisee to pay IAG’s attorneys’ fees and costs, pay all expenses of the arbitrator, and pay all AAA filing and case service fees, for a total award in IAG’s favor of more than \$390,000.