

Court Invalidates Choice-of-Law Provision in 7-Eleven Franchise Dispute, Preserves California Franchisee Protections

Abstract

The United States District Court for the Central District of California issued a ruling in a franchise termination dispute between 7-Eleven, Inc. and two California franchisees, SSS Realm Corporation and S.S.S. Atwal, Inc. The court held that California law, not Texas law, governs the franchise agreements despite choice-of-law provisions selecting Texas law, because applying Texas law would diminish franchisee protections under the California Franchise Relations Act and violate a fundamental California policy. The court rejected the franchisor's motion to dismiss the franchisees' CFRA claims, their breach of implied covenant of good faith and fair dealing claims, and their accounting claims, but granted the motion to dismiss breach of fiduciary duty claims without leave to amend. This decision may reinforce California's strong public policy protecting franchisees and may limit the enforceability of out-of-state choice-of-law provisions in franchise agreements when those provisions would waive statutory protections.

Case Identification and Parties

This case, *7-Eleven, Inc. v. Sandhu*, 2026 U.S. Dist. LEXIS 177181, was decided on August 6, 2026, by the United States District Court for the Central District of California, with Judge John W. Holcomb presiding. The cases were brought as two related actions — Case No. 8:24-cv-00490 and Case No. 8:24-cv-00506 — and the motions to dismiss were decided together. The plaintiff and counterdefendant was 7-Eleven, Inc., a Texas-based franchisor that operates and licenses one of the largest convenience store franchise systems in the United States. The defendants and counterclaimants were SSS Realm Corporation, a California entity that operated three 7-Eleven stores in the Carson and Los Angeles area, and Gurtar Sandhu, its individual defendant, together

with S.S.S. Atwal, Inc., a California entity that operated three 7-Eleven stores in the Fullerton and Brea area, and Rajwinder Atwal, its individual defendant.

7-Eleven initiated both actions in March 2024, alleging the franchisees committed fraud in violation of their franchise agreements. The franchisees filed amended counterclaims asserting that 7-Eleven wrongfully terminated their agreements in violation of the California Franchise Relations Act, among other claims. The court granted 7-Eleven's motions in part and denied them in part, invalidating the Texas choice-of-law provisions in four of the six franchise agreements and allowing the CFRA, implied covenant, and accounting claims to proceed, while dismissing the breach of fiduciary duty claims without leave to amend.

Factual Background

SSS Realm Corporation operated three 7-Eleven stores in Southern California: Store No. 24132 located at 17920 S. Avalon Boulevard in Carson, Store No. 34535 located at 8600 S. Central Avenue in Los Angeles, and Store No. 35639 located at 1800 E. Slauson Avenue in Los Angeles. S.S.S. Atwal, Inc. operated three additional 7-Eleven stores in the region: Store 19988 located at 1621 N. Placentia in Fullerton, Store No. 24506 located at 295 West Central in Brea, and Store No. 13999 located at 2850 Brea Boulevard in Fullerton. Each franchisee entered into franchise agreements with 7-Eleven governing the operation of their respective stores.

In March 2024, 7-Eleven commenced two separate but related actions against the franchisees, asserting that the defendants had violated their franchise agreements by engaging in fraudulent conduct. The franchisor sought preliminary injunctions to reclaim possession of all six stores operated by the franchisees. The franchisees filed cross-motions for preliminary injunctions seeking to continue operating their stores during the litigation. In July 2024, the court

granted 7-Eleven's preliminary injunction motions and denied the franchisees' cross-motions, entering a preliminary injunction order in favor of the franchisor.

In May 2024, both SSS Realm and S.S.S. Atwal filed amended counterclaims against 7-Eleven. SSS Realm asserted eleven claims for relief, including three claims for breach of the CFRA (one for each store), three breach of contract claims, three claims for breach of the implied covenant of good faith and fair dealing, one breach of fiduciary duty claim, and one accounting claim. S.S.S. Atwal similarly asserted eleven claims for relief following the same pattern. The franchisees alleged that 7-Eleven wrongfully terminated their franchise agreements in violation of California statutory protections and contractual obligations.

The franchise agreements for four of the six stores—Store 24132, Store 34535, Store 35639, and Store 13999—contained substantially similar terms and included choice-of-law provisions selecting Texas law as the governing law. The remaining two stores, Store 19988 and Store 24506, operated under franchise agreements that already designated California law as applicable. 7-Eleven moved to dismiss the franchisees' CFRA claims for the four stores with Texas choice-of-law provisions, arguing that Texas law should govern and preclude the CFRA claims. The franchisor also sought dismissal of the franchisees' breach of implied covenant claims, breach of fiduciary duty claims, and accounting claims.

Procedural Posture and Holdings

In June 2024, 7-Eleven filed motions to partially dismiss the amended counterclaims in both the Sandhu and Atwal actions. The motions were fully briefed by the parties and decided without oral argument. The court analyzed the enforceability of the Texas choice-of-law provisions under California's choice-of-law framework and evaluated whether the franchisees

had sufficiently pleaded their various counterclaims. The court ruled that the choice-of-law provisions selecting Texas law were invalid because applying Texas law would diminish the franchisees' rights under the CFRA and violate California's fundamental public policy of protecting franchisees.

The court granted 7-Eleven's motions in part and denied them in part. Specifically, the court denied the motions with respect to the CFRA claims, holding that California law applies despite the contractual choice-of-law provisions. The court also denied the motions regarding the breach of implied covenant of good faith and fair dealing claims and the accounting claims, finding that the franchisees had sufficiently pleaded both sets of claims. However, the court granted the motions with respect to the breach of fiduciary duty claims and dismissed those claims without leave to amend, concluding that the franchise agreements did not create a fiduciary relationship and that the franchisees could not possibly cure the deficiencies in their pleadings.

The Parties' Positions on Each Issue

7-Eleven contended that the franchise agreements' choice-of-law provisions selecting Texas law should be enforced, thereby precluding the franchisees from asserting claims under the CFRA. The franchisor argued that Texas has a substantial relationship to the parties because 7-Eleven is based in Texas, and that applying Texas law would not diminish the franchisees' rights because certain termination provisions in the franchise agreements paralleled CFRA provisions. 7-Eleven specifically pointed to Paragraph 26(a)(7), which allowed immediate termination for conduct materially and adversely affecting goodwill, and Paragraph 26(a)(10), which permitted immediate termination following four or more compliance failures within twenty-four months,

arguing these mirrored corresponding CFRA provisions. The franchisor maintained that it needed only one valid ground for immediate termination matching a CFRA provision to satisfy California's fundamental policy concerns.

The franchisees countered that enforcing the Texas choice-of-law provisions would strip them of critical protections afforded by the CFRA and violate California's strong public policy of protecting franchisees from franchisor overreach. SSS Realm and S.S.S. Atwal argued that Paragraph 26(a)(1) of the franchise agreements conflicted with the CFRA by allowing termination without opportunity to cure for material omissions, a ground that has no equivalent in California's statutory framework. They asserted that California law must apply because the franchise agreements operated California businesses, the franchisees were California residents, and California has a materially greater interest in protecting its franchisees than Texas has in applying its law.

On the implied covenant claims, 7-Eleven argued that the franchisees failed to state a claim, while the franchisees argued they had sufficiently pleaded a violation by alleging that 7-Eleven blocked their access to funds held under the franchise relationship. On the breach of fiduciary duty claims, the franchisees argued that 7-Eleven's level of operational control and oversight created a fiduciary relationship, while 7-Eleven relied on the express contractual language disclaiming any fiduciary relationship and on controlling Ninth Circuit authority holding that franchise relationships are arm's length commercial arrangements. On accounting, the franchisees contended that 7-Eleven's unilateral and arbitrary application of credits and debits through open accounts made it impossible to determine their losses through ordinary discovery, while 7-Eleven challenged the sufficiency of these allegations.

Franchise Agreement Provisions in Dispute

The franchise agreements at the center of the dispute contained detailed termination provisions that differed in key respects from the protections guaranteed by the CFRA. Paragraph 26(a)(1) of the franchise agreements permitted 7-Eleven to immediately terminate the agreements without opportunity to cure if the franchisee made a material omission in connection with their application for and acquisition of the franchise, execution of the agreement, or operation of the store. This provision had no direct equivalent in the CFRA's termination framework. Paragraph 26(a)(7) allowed for immediate termination without opportunity to cure if 7-Eleven had evidence that the franchisee engaged in any dishonest, unethical, immoral, or similar conduct that could, in 7-Eleven's sole opinion, have a material adverse effect on the goodwill associated with the 7-Eleven system or marks. This provision paralleled the CFRA's allowance for immediate termination when a franchisee engages in conduct that reflects materially and unfavorably upon the operation and reputation of the franchise business or system.

Paragraph 26(a)(10) of the franchise agreements permitted immediate termination without opportunity to cure if the franchisee failed on four or more separate occasions within any twenty-four consecutive month period to comply with the terms of the agreement, whether or not the franchisee corrected the failures after receiving notice. This provision similarly paralleled the CFRA's provision allowing immediate termination when a franchisee repeatedly fails to comply with one or more requirements of the franchise, whether or not corrected after notice. Additionally, Paragraph 30(a) of the franchise agreements for the four disputed stores contained the choice-of-law provisions selecting Texas law as the governing law for all disputes arising under the agreements. The franchise agreements also expressly stated in Paragraph 2 that they

created an arm's length business relationship and did not create any fiduciary, special, or other similar relationship between the parties.

The Court's Analysis and Resolution of the Choice-of-Law Issue

The court began its analysis by articulating the legal framework governing choice-of-law provisions in California. The court noted that California strongly favors enforcement of choice-of-law provisions, but that California courts apply the parties' chosen law only unless the analytical approach set forth in Section 187(2) of the Restatement (Second) of Conflict of Laws dictates a different result. Under this framework, the court must first determine whether the chosen state has a substantial relationship to the parties or their transaction, or whether there is any other reasonable basis for the parties' choice of law. If either test is met, the court must next determine whether the chosen state's law is contrary to a fundamental policy of California, and if so, whether California has a materially greater interest than the chosen state in the determination of the particular issue.

The court quickly concluded that Texas has a substantial relationship to the parties because 7-Eleven is based in Texas. The critical inquiry therefore became whether enforcement of the Texas law provision would diminish the rights that SSS Realm and S.S.S. Atwal would otherwise have under the CFRA. The court explained that the CFRA serves to protect California franchisees, typically small business owners and entrepreneurs, from abuses by franchisors in connection with the nonrenewal and termination of franchises. The court emphasized that California's legislature created an antiwaiver provision stating that any condition, stipulation, or provision purporting to bind any person to waive compliance with any provision of the CFRA is contrary to public policy and void.

The court rejected 7-Eleven's argument that the franchise agreements did not diminish franchisee rights merely because Paragraphs 26(a)(7) and 26(a)(10) paralleled certain CFRA provisions. The court found that although these two paragraphs in many ways mirrored CFRA provisions allowing immediate termination without opportunity to cure under specific circumstances, there was no CFRA equivalent to Paragraph 26(a)(1) of the franchise agreements, which allowed termination for material omissions. The court was unpersuaded by 7-Eleven's assertion, made without supporting authority, that the franchisor only needed one valid ground for immediate termination matching a CFRA provision. The court concluded that the franchise agreements did not clearly incorporate the statutory protections encompassed in the CFRA and that applying Texas law would diminish SSS Realm and S.S.S. Atwal's rights and conflict with a fundamental policy of California.

Having determined that Texas law was contrary to a fundamental policy of California, the court proceeded to decide whether California has a materially greater interest in the determination of the particular issue. The court reasoned that California enacted the CFRA to protect California franchisees such as SSS Realm and S.S.S. Atwal, and that applying Texas law would deprive the franchisees of protections specifically designed for franchise investors and small business owners. The court concluded that California has a materially greater interest in the enforcement of its fundamental policy than Texas, rendering the choice-of-law provision invalid and establishing that California law applies to all claims in the case. The court further concluded that SSS Realm and S.S.S. Atwal had sufficiently pleaded breach of CFRA claims against 7-Eleven and accordingly denied 7-Eleven's motions with respect to those claims.

The Court's Resolution of the Breach of Implied Covenant Claims

The court addressed 7-Eleven's challenge to the franchisees' breach of implied covenant of good faith and fair dealing claims by first stating the applicable legal standard. The court explained that there is an implied covenant of good faith and fair dealing in every contract that neither party will do anything which will injure the right of the other to receive the benefits of the agreement. Applying this standard, the court concluded that SSS Realm and S.S.S. Atwal had sufficiently pleaded their breach of implied covenant claims by alleging that 7-Eleven blocked access to the franchisees' money. The court found this allegation sufficient to state a plausible claim that 7-Eleven injured the franchisees' right to receive the benefits of the franchise agreements.

The court accepted the franchisees' theory because blocking access to funds held under the franchise relationship could constitute conduct that undermines the franchisees' ability to enjoy the benefits of their bargain, which is precisely the type of harm the implied covenant is designed to prevent. The court rejected 7-Eleven's position that the franchisees had failed to state a claim, finding that the allegations, if proven, would support a conclusion that 7-Eleven acted in bad faith by interfering with the franchisees' contractual rights. Accordingly, the court denied 7-Eleven's motions with respect to the breach of implied covenant claims.

The Court's Resolution of the Breach of Fiduciary Duty Claims

The court applied a different analysis to the franchisees' breach of fiduciary duty claims, beginning with the elements required to state such a claim: the existence of a fiduciary relationship, its breach, and damage proximately caused by that breach. The court noted that the CFRA has not imposed additional fiduciary duties on franchisors and that the relation between a

franchisor and a franchisee is not that of a fiduciary to a beneficiary. The court observed that the franchise agreements plainly stated that they created an arm's length business relationship and did not create any fiduciary, special, or other similar relationship.

The court found that SSS Realm and S.S.S. Atwal failed to plead the existence of a fiduciary relationship, citing controlling authority holding that a franchisor owed no fiduciary duty to its franchisee even when the franchisor gave detailed instructions to the franchisee and required the franchisee to purchase the franchisor's merchandise. The court also cited authority holding that a franchisor owed no fiduciary relationship to its franchisee even when the franchisor had sole discretion to set pricing and delivery, selected vendors for goods and services, and was obligated to act on the franchisee's behalf. In view of these authorities and the express contractual language disclaiming a fiduciary relationship, the court concluded that the franchisees could not possibly amend their pleadings to state valid breach of fiduciary duty claims.

The court rejected the franchisees' position because the franchise relationship, even with the detailed operational control and oversight inherent in franchise systems, does not rise to the level of a fiduciary relationship under controlling law. The court found that permitting amendment would be an exercise in futility given the clear contractual language and the weight of authority establishing that franchise relationships are arm's length commercial arrangements. Accordingly, the court granted 7-Eleven's motions with respect to the breach of fiduciary duty claims and dismissed those claims without leave to amend.

The Court's Resolution of the Accounting Claims

The court addressed the franchisees' accounting claims by first articulating the legal standard for such claims. The court explained that an accounting cause of action is equitable and may be sought where the accounts are so complicated that an ordinary legal action demanding a fixed sum is impracticable. The franchisees alleged that it was not possible to obtain their losses through normal discovery methods because 7-Eleven unilaterally and arbitrarily decided when and how credits and debits were applied through the franchisees' open accounts. The court concluded that these allegations were sufficient to state a claim for accounting.

The court accepted the franchisees' position because the allegations suggested a level of complexity and unilateral control over the accounting relationship that could make an ordinary legal action for damages impracticable. The court rejected 7-Eleven's challenge to these claims, finding that the franchisees had adequately alleged circumstances warranting the equitable remedy of accounting rather than a simple action at law. Accordingly, the court denied 7-Eleven's motions with respect to the accounting claims.

Potential Significance for Franchisees and Franchisors

This decision may carry substantial implications for both franchisees and franchisors operating in California and other states with strong franchise protection laws. For franchisees, the ruling appears to reinforce that California courts will scrutinize choice-of-law provisions in franchise agreements and invalidate them when their enforcement would strip franchisees of statutory protections designed to prevent franchisor overreach. The decision may signal that franchisees need not accept termination provisions that fall short of CFRA requirements merely because they agreed to apply out-of-state law, particularly when the franchisees are California

residents operating California businesses. This may provide franchisees with greater bargaining power and legal protection when negotiating and litigating franchise disputes.

For franchisors, the decision may present a significant challenge to standard practices of including choice-of-law provisions selecting the franchisor's home state law in franchise agreements. Franchisors appear to no longer be able to assume that such provisions will be enforced when the franchisee operates in a state with protective franchise legislation. The ruling seems to require franchisors to ensure that their franchise agreements either explicitly incorporate all protective provisions of the franchisee's state law or accept that the franchisee's state law will govern key termination and relationship issues. Franchisors may need to create state-specific franchise agreements or addenda that clearly incorporate local statutory protections to avoid the risk of having their choice-of-law provisions invalidated in litigation.

However, the court's approach may also carry efficiency costs that bear consideration. Invalidating contractual choice-of-law provisions increases legal uncertainty for franchisors operating across multiple states, as franchisors may be unable to predict with confidence which state's law will govern their agreements when franchisees bring claims in their home jurisdictions. This uncertainty may increase the cost of structuring and administering franchise systems, particularly for large national franchisors like 7-Eleven that operate thousands of locations across jurisdictions with varying protective legislation. Some commentators argue that permitting franchisees to invoke home-state statutory protections despite contrary contractual provisions reduces the value of the parties' ex ante bargain and may discourage franchise investment in heavily regulated states by increasing franchisors' exposure to liability they did not price into the original agreement. From this perspective, a rule requiring strict compliance with the most protective applicable state law in every jurisdiction where a franchisee operates could,

at the margin, reduce the supply of franchise opportunities available to prospective franchisee-investors in those markets.

Comparison with Other Jurisdictions

The court's analysis seems to align with established precedent from other courts addressing the intersection of choice-of-law provisions and franchise protection statutes. In *Dollar Systems, Inc. v. Avcar Leasing Systems, Inc.*, the court appears to have held that California Franchise Investment Law governed a franchise transaction because negotiation, execution, and payment occurred in California, and the franchise agreement's choice-of-law clause was inapplicable to statutory compliance with franchise law. Similarly, in *Bridge Fund Capital Corp. v. Fastbucks Franchise Corp.*, the court seemingly applied California's choice-of-law framework under Section 187(2) of the Restatement, examining whether the chosen state had a substantial relationship to the parties and whether the chosen state's law was contrary to a fundamental policy of California. These cases appear to demonstrate a consistent judicial approach of prioritizing protective franchise legislation over contractual choice-of-law provisions when the two conflict.

However, the decision may contrast with some courts' application of choice-of-law provisions in other contexts. In *Hoffman v. Citibank, N.A.*, the court remanded for proper choice-of-law analysis when the district court failed to apply California's choice-of-law framework explicitly, seemingly relying instead on conclusory statements from other district court decisions. The opinion in the present case appears to have distinguished itself by conducting a thorough analysis under the *Nedlloyd* framework rather than relying solely on precedent. Additionally, in *Servpro Industries, Inc. v. Woloski*, the court found that a California Addendum to a franchise agreement did not modify the choice-of-law provision selecting Tennessee law, though that case

involved different factual circumstances regarding the scope of CFRA applicability. The present decision may reflect a more franchisee-protective approach than *Servpro* by examining the substantive differences between the contractual termination provisions and CFRA protections.

Law and Economics Perspective

From a law and economics standpoint, the court's decision may address information asymmetries and bargaining power imbalances inherent in franchise relationships. Franchisees typically face significant information disadvantages when negotiating franchise agreements, as they may not fully understand the implications of choice-of-law provisions or how those provisions could waive statutory protections. By invalidating choice-of-law provisions that may diminish franchisee rights, the court may reduce the franchisor's ability to exploit superior bargaining position and legal sophistication to impose unfavorable terms. This judicial intervention may be justified on efficiency grounds because it can reduce transaction costs franchisees would otherwise incur in attempting to negotiate protective provisions into standardized franchise agreements, and it may prevent a race to the bottom where franchisors select the least protective state law regardless of where the franchise operates. The decision also may promote efficient deterrence of opportunistic franchisor behavior by ensuring that franchisors cannot use choice-of-law provisions to circumvent termination protections and appropriate quasi-rents from franchisee-specific investments in establishing and operating franchise locations.

Final Disposition

The United States District Court for the Central District of California granted 7-Eleven's motions to dismiss in part and denied them in part. The court held that the choice-of-law provisions

selecting Texas law in four of the six franchise agreements were invalid because the franchise agreements' termination provisions did not clearly incorporate all of the protections afforded by the California Franchise Relations Act, and that California had a materially greater interest in the dispute than Texas. The court denied the motions with respect to the franchisees' CFRA claims, breach of implied covenant of good faith and fair dealing claims, and accounting claims, finding each sufficiently pleaded, while granting the motions with respect to the breach of fiduciary duty claims and dismissing those claims without leave to amend on the ground that the franchise relationship does not give rise to fiduciary obligations and amendment would be futile.