

U.S. Supreme Court Reaffirms Enforceability Of Arbitration Agreements

By:



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In its latest ruling on the enforceability of arbitration agreements, the United States Supreme Court reiterated that there exists “a national policy favoring arbitration.” Arbitration clauses are common in contracts of all types, including employment agreements and contracts between insurers and health care providers. In *Nitro-Lift Technologies, LLC v. Howard*, 586 U.S. ___ (2012), the United States Supreme Court reversed a ruling by the Oklahoma Supreme Court, which had enjoined an arbitration proceeding and decided a legal issue, which the U.S. Supreme Court concluded should have been left for the arbitrator to decide.

Nitro Lift Technologies required some of its employees to enter into non-competition agreements. Those agreements contained arbitration clauses. When two employees resigned and went to work for a competitor, Nitro Lift filed a demand for arbitration claiming that the employees were in violation of the non-compete agreements. Instead of agreeing to arbitrate the dispute, the employees filed suit in state court, asking that the agreements be declared null and void. While the trial judge did not agree with the employees, the Oklahoma Supreme Court did. The Oklahoma Supreme Court held that the court, and not the arbitrator, should determine the validity of the non-competition agreement. The Court then decided that the agreement violated an Oklahoma statute and was therefore void as a matter of public policy.

The United States Supreme Court disagreed and vacated the Oklahoma Court’s decision, explaining that the state court had ignored long standing precedent regarding the Federal Arbitration Act (“FAA”). The FAA, first enacted in 1925, applies in both federal and state courts. The Act mandates that courts, which at the time of its enactment had historically been hostile to private arbitration agreements, must honor and enforce such provisions. Section 2 of the

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FAA declared that a court could invalidate an arbitration clause only for the same grounds applicable to contracts generally, such as unconscionability or duress. Consequently, state laws that disfavor enforcement of arbitration agreements are preempted by the FAA. As the Court explained, “[w]hen state law prohibits outright the arbitration of a particular type of claim, the analysis is straightforward: The conflicting rule is displaced by the FAA.”

In Nitro-Lift Technologies, LLC, the United States Supreme Court reiterated that while courts can consider attacks on the validity of an arbitration clause, they should not rule on the validity or enforceability of the underlying contract. When a valid arbitration clause is in place, challenges to the contract as a whole, or substantive provisions contained within it, must be placed before the arbitrator. In the Nitro-Lift case, the Oklahoma court put the cart before the horse. The state court skipped the initial issue of whether the arbitration clause was valid and went straight to the enforceability of the non-compete agreement.

In short the issue was not whether the Oklahoma Court was right about the enforceability of the underlying agreement. Rather, the United States Supreme Court held that, because of the arbitration clause, it was not the Oklahoma court’s decision to make.

The Nitro Lift decision is part of an on-going trend of the United States Supreme Court bolstering the enforcement of arbitration agreements and pushing back against attempts by lower courts to limit the scope and application of such agreements.