

California Supreme Court Expands Judicial Review of Employment Arbitration Awards

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On April 26, the California Supreme Court issued a decision in the case of *Pearson Dental Supplies, Inc. v. Superior Court* (S167169) that will likely have resounding implications for the enforceability of arbitration awards. The case concerns an arbitration decision in which an employee's age discrimination claim was dismissed as untimely. The arbitration agreement in question required the employee to initiate arbitration of his claims within one year. However, rather than proceeding to arbitration, the employee first pursued his claims with the California Department of Fair Employment and Housing (DFEH) and subsequently in the Superior Court. By the time the employee had finally submitted his claims to binding arbitration, more than one year had passed since his termination, and the arbitrator dismissed the action.

Background

A provision of the California Code of Civil Procedure operates to toll any time limitation imposed by an arbitration agreement that restricts the period within which a claim may be submitted to arbitration when a civil action is commenced based on that claim. In this case, the Superior Court held that in dismissing the employee's age discrimination claim, the arbitrator erroneously applied the statute of limitations. This, according to the trial court, resulted in the violation of plaintiff's "unwaivable FEHA rights," which mandated overturning the arbitrator's dismissal as contrary to public policy and ordering the arbitrator to make a decision on the merits of the employee's FEHA claims. The Court of Appeal reversed, holding that the trial court did not have the authority to vacate an arbitration award on the basis of the arbitrator's perceived misapplication or misinterpretation of the law.

The Supreme Court granted review to determine the proper standard of judicial review that should apply to the arbitrator's decision in this instance and whether a mandatory arbitration agreement can prevent an employee from seeking administrative remedies for FEHA violations.

The Decision

In a divided 4-3 decision, the court ruled that when an arbitration award made pursuant to a mandatory arbitration agreement effectively denies an employee the ability to obtain a hearing on the merits of his FEHA or other statutory claims, a trial court may properly vacate the award based on the arbitrator's legal error. In reaching this conclusion, the majority relied on the fact that the arbitrator failed to include in his written decision his reasoning as to why the tolling period did not apply and that the error of misapplying the tolling period altered the procedural framework under which the parties agreed to conduct the arbitration. The majority also found persuasive the fact that the employee in no way bargained for the provisions contained in the arbitration agreement. The dissent, however, characterized the majority's holding as an "unprecedented move to judicialize the arbitration process" and warned that the ruling will undermine the purpose of arbitration agreements by enabling excessive court involvement.

Addressing the second issue before the court, the justices unanimously found that an arbitration agreement, like the one in this case, could lawfully bar employees from submitting claims for adjudication to an administrative entity, such as the California Labor Commissioner.

Implications

The fallout from the court's decision is potentially wide-ranging given the prevalence of arbitration agreements governing employment relationships. The decision erects greater obstacles to enforcing arbitration awards that dismiss employee statutory claims on procedural grounds, and it opens the door for employees to petition the courts to compel arbitrators to decide the merits of their statutory claims. The ruling, however, does confirm the principle that arbitration agreements can restrict the forum in which employee claims can be ultimately adjudicated by preventing employees from initiating claims before administrative agencies.

The Proskauer California Labor & Employment Group is actively monitoring this case and other developments in California employment and labor law. Your Proskauer relationship attorney or any of the attorneys listed in this alert is available at your convenience to discuss these important issues and their possible ramifications for your workplace.

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