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Developments

## UNITED STATES SUPREME COURT UPHOLDS EMPLOYMENT-RELATED ARBITRATION AGREEMENT (March 21, 2001)

**Summary:** Today, the United States Supreme Court decided the much-awaited *Circuit City Stores, Inc. v. Adams* case, in which it ruled that employment-related arbitration agreements will be enforced by federal courts.

**Details:** Adams was a sales counselor for Circuit City Stores. Before being hired, he signed an employment application that included an agreement to settle *any* employment-related claims through arbitration. Two years later, Adams filed an employment discrimination lawsuit in a California state court.

In response, Circuit City filed an action in federal court requesting that Adams be compelled to arbitration pursuant to the Federal Arbitration Act ("FAA"), which allows federal courts to enforce valid arbitration agreements. The federal court agreed.

On appeal, the Ninth Circuit Court of Appeals reversed, holding that the FAA's exclusion for "contracts of employment of seamen, railroad employees, or any other class of workers engaged in foreign or interstate commerce" applied to *all* employment contracts, not just those of workers in the transportation industries.

The Supreme Court, in a five to four ruling, reversed the Ninth Circuit opinion (as it often does). The Supreme Court ruled that the FAA's exclusion was limited to those workers actually involved in the transportation industries. More importantly, the Supreme Court reaffirmed "that there are real benefits to the enforcement of arbitration provisions," particularly in employment litigation.

**What this means:** One of the last uncertainties in the arbitration arena has now been lifted. Last year, the California Supreme Court ruled that employment-related arbitration agreements are valid as long as they contain certain procedural safeguards. Now, the United States Supreme Court has given the green light for federal courts to enforce these agreements as well.

The only open issue remaining is the arbitrability of federal discrimination claims brought in federal court. Currently, the Ninth Circuit takes the position that federal discrimination claims brought in a federal court cannot be forced into arbitration. Given the Supreme Court's ruling in *Adams* (which involved state, but not federal, discrimination claims), the Ninth Circuit may well change its view on this narrow issue or, once again, find itself reversed by the Supreme Court.

For those employers who have been considering a mandatory arbitration program, now may be the time to implement one. For those employers who have not yet considered such a program, now may be the time to consider one.

If you have any questions about this or any other topic, please contact Joe Connaughton

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