While Courts Often Uphold Arbitration Awards, the Underlying Arbitration Agreement Faces a More Stringent Review When Challenged

Client Advisories

05.27.2022

The Court of Appeals for the Third Circuit recently upheld an arbitration award finding that an employee must repay his former employer bonuses advanced to him. The employee attempted to overturn the award through the courts. However, two courts upheld the award, reminding litigants that they will face an uphill battle to overturn an arbitration decision. The decision also reminds employers of some of the benefits of executing arbitration agreements with their employees.

Christopher Caputo ("Caputo") worked for Wells Fargo Advisors, LLC ("Wells Fargo") as a financial advisor. As part of his employment, Caputo was eligible for performance-based bonuses totaling $2,164,130. He received the bonuses as an upfront lump sum payment in the form of a loan and executed various promissory notes with a condition that if he was terminated, he must pay the entire unpaid balance. Caputo was terminated thereafter and still owed approximately $1,700,000 at the time. Wells Fargo commenced an arbitration to recover the outstanding balance. When the arbitration panel found in favor of Wells Fargo, Caputo moved to vacate the award in the U.S. District Court for the District of New Jersey. The District Court denied Caputo's motion and granted Wells Fargo's cross-motion, confirming the award. Caputo appealed to the Third Circuit.

At the outset, the Court of Appeals recognized the strong federal policy in favor of commercial arbitration and explained courts begin with the presumption that the award is enforceable, vacating only in rare cases. The Federal Arbitration Act ("FAA") only recognizes four narrow grounds under which the court may vacate the arbitration award, including where:

1. the award was procured by corruption, fraud, or undue means;

2. there was evident partiality or corruption in the arbitrators, or either of them;

3. the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy; or of any other misbehavior by which the rights of any party have been prejudiced; or

4. the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

9 U.S.C.A. § 10.

Although the FAA does not recognize a public policy exception, the Court was nevertheless willing to consider Caputo's argument in this regard. The Court rejected this argument because there must be an "explicit conflict with an explicit public policy" and the state labor statutes Caputo relied on did not have a "well-defined [or] dominant" public policy.

Caputo also argued that the award should be vacated because it was in manifest disregard for the law and the arbitrators exceeded their authority. The Court rejected this argument as well, reasoning that to vacate on these grounds, "the arbitrators' decision must fly in the face of clearly established legal precedent, such as where an arbitrator appreciates the existence of a clearly governing legal principle but decides to ignore or pay no attention to it." The Court determined Caputo did not overcome this "extremely deferential" standard.

This case reinforces some of the benefits arbitration provides. Lawsuits can be time-consuming and expensive, even where an employee's claims are meritless. Generally, arbitration provides for a quicker resolution and is more cost-effective, as discovery and motion practice are often more limited than with traditional litigation. Moreover, even if the case does ultimately end up in court, as here, the high standards of law and the limited grounds for challenging the award lend towards a quick resolution.

However, to obtain these benefits, the underlying arbitration agreement must be enforceable under state law—an issue which may not be delegated to an arbitrator to decide and thus, is left for the courts. Questions of contract formation and enforceability commonly arise after an employee files a lawsuit and the employer moves to stay or dismiss the proceeding and compel arbitration pursuant to an agreement. Overcoming this initial hurdle to enforce the agreement has the potential to outweigh the benefit originally sought in seeking arbitration – avoiding costly and time-consuming litigation. Additionally, because employers are perceived to have a greater bargaining power than an employee, the legal standards are more stringent for questions of enforceability than the standards applied when considering whether to uphold an arbitration award. It is important for employers to draft and execute their arbitration agreements properly to overcome an initial challenge to the agreement and reap the benefits of arbitration.

As such, employers are strongly encouraged to contact counsel for advice when drafting arbitration agreements. If you have any questions regarding arbitration agreements with employees, please contact Meghan O'Brien at 856-354-3060 or mobrien@archerlaw.com.

obtained from a qualified attorney or tax practitioner licensed to practice in the jurisdiction where that advice is sought.

Related People

Meghan N. Hitch

Associate

mhitch@archerlaw.com

856.354.3060

Related Services

- Labor & Employment