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California Court Interprets Vague Language in Arbitration Agreement in Favor of Employee

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Author: Ameneh K. Ernst (Torrance)

Rebolledo v. Tilly's Inc., No. G048625 (July 8, 2014): In a recent decision, a California Court of Appeal held that an employer cannot compel arbitration of a wage claim when the language in the parties' arbitration agreement excluded wage and hour claims. The court held that a provision in the agreement that expressly excluded "any matter within the jurisdiction of the California Labor Commissioner" removes from arbitration any claim that could have been decided by the state labor commission, regardless of whether such a claim was actually filed with the labor commissioner.

Maria Rebolledo was hired as a warehouse worker by Tilly's Inc. from 2000 to 2001 and again from 2002 to 2012. In 2013, Rebolledo filed a lawsuit on behalf of herself and a putative class of similarly situated workers, alleging meal and rest period violations as well as other wage and hour claims. The employer moved to compel arbitration based on three arbitration agreements signed by the employee. The first agreement, signed in 2001, stated that "any matter within the jurisdiction of the California Labor Commissioner" was excluded from the arbitration agreement. The second arbitration agreement was signed by the employee in 2004 and contained the same exclusion. The third agreement was signed in 2005 but did not contain the exclusion. However, the agreement was not signed by any employer representatives.

Despite the employer's argument that the 2001 and 2004 agreements were intended to only exclude claims actually filed with the labor commissioner, the trial court denied the employer's motion to compel arbitration. The court ruled that the employee's current claims could be subject to the labor commission's jurisdiction and based on the language of the 2001 agreement are excluded from arbitration. The court further ruled that the 2005 agreement (which did not contain the exclusion) was unenforceable because the terms of the 2001 agreement required signatures from three company executives to modify the agreement, which the agreement lacked.

The California Court of Appeal agreed with the trial court, noting that "the parties' arbitration agreement expressly excluded statutory wage claims from the arbitration obligation." The court noted that if the employer intended to only include claims actually filed with the commissioner, it could have narrowly drafted the language in the agreement to that effect.

Practical Impact

According to Betsy Johnson, the managing shareholder in the Los Angeles office of Ogletree Deakins, "While the court reaffirmed California's strong public policy in favor of arbitration, this case illustrates the importance of having carefully drafted arbitration agreements and a properly

implemented arbitration program. In reviewing the arbitration agreements, the court stated that it will apply standard contract interpretation to determine the mutual intent of the parties. In this regard, the court was critical of the employer's failure to (a) provide Spanish-speaking employees with versions of the arbitration agreement in Spanish, (b) allow the employees sufficient opportunity to review and ask questions about the arbitration agreement, and (c) obtain the signatures of the employer's executives as required by the arbitration agreement."

Johnson added, "Further, the court construed all drafting errors and ambiguities, such as the failure to update the arbitration agreement to reflect changes in the law and to include a provision clearly stating that an updated arbitration agreement supersedes all prior agreements, against the employer. It is crucial that employers ensure that their arbitration agreements are reviewed by counsel and updated as needed."

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