

Supreme Court Rules "Ambiguous" Arbitration Agreements Cannot Force Class-Wide Arbitration

On April 24, 2019, in *Lamps Plus, Inc. v. Varela*, the U.S. Supreme Court held that "ambiguous" arbitration agreements cannot force employers to participate in class-wide arbitration. The decision highlights the benefits of individual arbitration and underscores the long-standing principle that arbitration is a matter of consent.

The Supreme Court's decision stems from a lawsuit filed by Frank Varela on behalf of himself and other similarly situated Lamps Plus employees whose sensitive tax information was compromised by a data breach. Like many Lamps Plus employees, Varela signed an arbitration agreement when he started work at Lamps Plus. Pursuant to this arbitration agreement, Lamps Plus moved to compel arbitration on an individual rather than class-wide basis. The district court denied Lamps Plus's request and the Ninth Circuit affirmed, holding that the arbitration agreement was ambiguous and should be construed against the drafter, *i.e.*, Lamps Plus, to allow class-wide arbitration.

The Supreme Court reversed in favor of Lamps Plus on appeal, reasoning that interpreting the ambiguous arbitration agreement against Lamps Plus would frustrate the Federal Arbitration Act's guiding principle—that "arbitration" is strictly a matter of consent. The Court explained that consent to class-wide arbitration is essential because class-wide arbitration undermines the central benefits of arbitration. Specifically, class-wide arbitration "sacrifices the principal advantage of arbitration—its informality—and makes the process slower, more costly and more likely to generate procedural morass than a final judgment." As a result, ambiguity cannot provide a sufficient basis to conclude that the parties to an arbitration agreement consented to give up the advantages of conventional individualized arbitration.

Lamps Plus ensures that employers cannot be forced into class-wide arbitration if their arbitration agreements are ambiguous. However, employers should take this opportunity to review their arbitration agreements and determine what, exactly, the parties have explicitly consented to. If you have any questions about the Supreme Court's holding or need assistance drafting or modifying your company's arbitration agreement, please contact [Christopher K. Schuele](#), Ashley E. Hornung or your Reinhart attorney.

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