

Opinion Analysis: Richey v. AutoNation

On January 29, 2015, a unanimous California Supreme Court issued its opinion in *Richey v. AutoNation, Inc.*, an important clarification on when a court can overturn an arbitration award.

Facts

Plaintiff Richey worked as an at-will employee for defendant Power Toyota. His employment terms included acceptance of (1) a company policy that prohibited outside work while on approved medical leave and (2) an agreement to resolve any employment dispute through arbitration. The arbitration agreement provided that any decision would be “final and binding.” The agreement did not expressly provide that courts could review any arbitration award for legal error.

Richey injured his back, and Power Toyota granted him medical leave under the California Moore-Brown-Roberti Family Rights Act (“CFRA”) and its federal counterpart, the Family and Medical Leave Act (“FMLA”). Richey spent at least some of his leave time working at a restaurant.

Power Toyota then terminated Richey about three weeks before his medical leave was set to expire. Power Toyota explained, in its termination letter, that it took this action because Richey was working while on leave in violation of company policy.

Richey sought and obtained a right-to-sue letter and then filed suit against Power Toyota and other related defendants under the CFRA. The defendants moved to compel arbitration, which the state court ordered.

The arbitrator held a hearing and found against Richey on all claims. Specifically, the arbitrator found that Power Toyota terminated Richey for violating company policy and not for any discriminatory reason. The arbitrator reasoned that the case law establishes a legal defense that allows an employer to terminate an employee during the course of medical leave if the employer has an “honest belief” she is abusing her medical leave with outside employment.

Richey sought to vacate the award on the ground that the arbitrator committed legal error by relying on the “honest belief” defense. The Court of Appeal agreed and ordered the district court to vacate the arbitrator’s award. The defendants petitioned the Supreme Court of California for review.

Opinion

The court granted review on two issues: (1) Is an employer’s honest belief that an employee was violating company policy or abusing medical leave a complete defense to the employee’s claim that the employer violated the CFRA? (2) Was the decision below to vacate the arbitration award consistent with the limited judicial review of arbitration awards?

The court, however, answered only the second question. In an opinion highly deferential to arbitration awards, the court held that any legal error by the arbitrator was unreviewable because the arbitrator found, as a factual matter, that Power Toyota terminated Richey for a lawful reason.

The court began by restating California precedent on deference to arbitration. Arbitration, the court explained, is the result of parties’ attempts to avoid formal litigation. In deference to party wishes, and unless the parties otherwise specify, California law permits judicial review only in the limited circumstances enumerated in the California Arbitration Act and the Federal Arbitration Act.

One such circumstance is if the arbitrator issues an arbitration award in excess of the arbitrator’s powers. Arbitrators generally do not exceed their powers merely by committing legal error. However, arbitrators can exceed their powers if they violate a party’s unwaivable statutory right by, for example, depriving a party of a hearing on the merits through a clearly erroneous misapplication of the limitations period.

Turning to the arbitration proceeding in this case, the court noted that the statutory right to reinstatement under the CFRA is subject to the defense that the employer would not otherwise have been employed at the time of reinstatement. Because the arbitrator reasonably found that Power Toyota fired Richey because of his violation of company policy, the applicability of the “honest belief” defense was irrelevant, and the arbitrator committed no legal error by considering the defense. Accordingly,

the arbitration award was affirmed.

Because the applicability of the “honest belief” defense was irrelevant to the case, the court declined to decide whether California law in fact recognizes such a defense.

Importance

The case offers two important takeaways. First, the court confirmed that the applicability of the “honest belief” defense is still an unsettled question of California law, though the opinion suggests that “the arbitrator may have committed error in adopting it.” Second, the court confirmed the policy of judicial deference to arbitration awards and the limited ability of courts to overturn them. Even if an unwaivable statutory right is at issue, an arbitration award supportable on other grounds may not be vacated.

The court noted that, based on the parties’ arguments and factual circumstances, it had no occasion to consider whether judicial review demands a greater scope in cases involving unwaivable statutory rights or whether different language in the arbitration agreement would have expanded judicial review. Those questions will await a different case.