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ADR Case Update 2021 - 11

Federal Circuit Courts

- **NURSE EQUITABLY ESTOPPED FROM AVOIDING ARBITRATION**

Franklin v. Community Regional Medical Center
2021 WL 2024516
United States Court of Appeals, Ninth Circuit
May 21, 2021

Franklin was a travel nurse with United Staffing Solutions, Inc. (USSI). In 2017, USSI assigned Franklin to work at Community Regional Medical Center (the Hospital). Franklin signed an Assignment Contract, which established the assignment terms and included an arbitration provision for any claim between USSI and Franklin involving the construction or application of the terms or conditions of the contract. Franklin brought a class and collective action suit against the Hospital, alleging violations of the FLSA, the CA Labor Code, and the CA Business and Professions Code. The Hospital, which was not a signatory to the Arbitration Agreement or the Assignment Contract, moved to compel arbitration. The court granted the motion and dismissed Franklin's claims without prejudice, finding that Franklin was equitably estopped from avoiding the arbitration provisions of her employment contracts. Franklin appealed.

The United States Court of Appeals for the Ninth Circuit affirmed. For equitable estoppel, the court considers the relationships of persons, wrongs, and issues and whether the claims are intimately founded in and intertwined with the underlying contract obligations. Although Franklin omitted any mention of USSI from her complaint, the substance of her claims was rooted in her employment relationship with USSI, which the Arbitration Agreement governed. The thrust of Franklin's claims was that she was owed wages and overtime for unrecorded time that she worked; the records showed that USSI was responsible for reviewing timekeeping records and raising any discrepancies with the Hospital. Franklin's other claims involving the accuracy of wage statements and reimbursement of travel expenses could not stand on their own against the Hospital.

- **EQUITABLE ESTOPPEL DID NOT REQUIRE CUSTOMER TO ARBITRATE**

Stafford v. Rite Aid Corporation
2021 WL 2024511
United States Court of Appeals, Ninth Circuit
May 21, 2021

Stafford filed a putative class action against Rite Aid Pharmacy, alleging that it fraudulently inflated reported prices of prescription drugs to insurance companies, resulting in class members paying Rite Aid a higher co-payment for drugs. Rite Aid moved to compel arbitration under the theory of equitable estoppel, asserting that Stafford's claims were intertwined with Rite Aid's contracts with pharmacy benefit managers, the intermediaries who coordinated insurance reimbursement and co-payment calculations. According to Rite Aid, it would be unfair to permit Stafford to sue in court for relief provided by contracts with arbitration clauses. The court denied Rite Aid's motion, and Rite Aid appealed.

The United States Court of Appeals for the Ninth Circuit affirmed. Stafford's causes of action were based on Rite Aid's misrepresentations to the pharmacy benefits managers of the usual and customary price of Stafford's prescription drugs. Stafford alleged that Rite Aid told the pharmacy benefit managers that the amount charged to customers for the prescription was higher than it was. It was irrelevant whether the contracts between Rite Aid and the pharmacy benefits managers required Rite Aid to report the usual and customary price of a prescription drug. Even if the contracts contained no provision, Rite Aid did report that information and purportedly inflated it. Rite Aid's duty not to commit fraud was independent of any contractual requirements with the pharmacy benefit managers.

Case research and summaries by Deirdre McCarthy Gallagher and Richard Birke.

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