

APPELLATE

MICHIGAN SUPREME COURT HOLDS THAT AGENCY PRINCIPLES APPLY TO DETERMINING THE SCOPE OF AN ARBITRATION CLAUSE

by Phillip J. DeRosier

It is well established that whether a particular dispute falls within the scope of an arbitration clause depends on the language of the parties' agreement. In the recent case of *Altobelli v Hartmann*, the Michigan Supreme Court further clarified that when a dispute involves actions taken by officers and agents on behalf of a corporation and is otherwise within the scope of an arbitration agreement to which the corporation is a party, the arbitration clause controls even if the plaintiff has sued the officers and agents individually.

The Facts

Altobelli was a former principal of a law firm. Altobelli claimed that despite having been promised that he could take a temporary leave of absence "to pursue a new opportunity as an assistant coach for the University of Alabama football team," the firm considered him to have withdrawn and "shorted [his] income as a result." In response, Altobelli filed a demand for arbitration under the firm's operating agreement, which provided for "[a]ny dispute, controversy or claim . . . between the Firm or the Partnership and any current or former Principal" to be resolved by arbitration.

While the arbitration was pending, Altobelli also filed a lawsuit naming several individual managing directors and principals of the firm. The defendants moved to dismiss the lawsuit in light of the arbitration agreement, but the trial court and court of appeals both concluded that the agreement only applied to disputes between "the Firm" and "a principal."

The Supreme Court's Decision

On appeal to the Michigan Supreme Court, the defendants argued that under application of ordinary agency principles, any lawsuit against firm officers or agents acting within the scope of their authority was a dispute with "the Firm." The supreme court agreed, explaining that "[a]lthough no Michigan court has explicitly applied agency principles when interpreting an arbitration clause, it is well established that 'corporations can only act through officers and agents.'" Moreover, the court reasoned, the principle applies equally to limited liability companies. The court held that because Altobelli's claims were all based on actions allegedly taken by the individual defendants acting on the firm's behalf – as provided in the firm's operating agreement – "the individually named defendants must be included within the meaning of 'the Firm' in the arbitration clause." Because the nature of

Altobelli's claims otherwise placed them within the broad scope of the arbitration agreement, the court concluded that the parties' dispute "must be resolved by the arbitrator."

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