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Administrative Law

Admiralty & Maritime

Appellate Law

Collections

Commercial Litigation

Construction Law

Environmental & Toxic
Tort Law

General Business Law

Governmental Liability

Insurance Litigation

Labor & Employment

Mediation & Arbitration

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Personal Injury
Litigation

Railroad Law

Real Estate

Subrogation

Technology &
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Transportation

Workers' Compensation

Economic Duress in Negotiations Not Enough to Defeat Arbitration Clause

In re RLS Legal Solutions, LLC

2007 WL 1162795, 50 Tex. Sup. Ct. J. 641 (Tex. Apr. 20, 2007).

In this case involving a dispute over an arbitration provision in an employment contract, the Texas Supreme Court held that even when economic duress was involved in securing the employee's signature, when an employee does not specifically and solely complain that the duress was aimed toward the agreement to arbitrate, such duress will not successfully defeat the enforcement of the arbitration clause.

Because they help promote judicial efficiency and provide cost benefits to the parties, arbitration agreements will generally be upheld by the courts; however, there are some exceptions to their validity. The Texas Supreme Court in *In re First Merit Bank, N.A.* (2001) set forth the general rule in Texas regarding duress in arbitration clauses, stating that duress, among other defenses, must "specifically relate to the Arbitration Addendum itself, not the contract as a whole, if [it is] to defeat arbitration."

In this most recent decision regarding arbitration disputes, the plaintiff was a sales representative for the defendant for a period of five years and was paid both a bi-weekly salary, as well as a monthly commission. When the plaintiff was asked to sign a new contract containing terms, conditions, non-competition agreements, an arbitration agreement, and other subjects, she refused to do so. Upon refusing to sign the new contract, the defendant informed the plaintiff that if she refused, she would not be paid. The plaintiff did not sign the new contract until after one of her pay checks was not directly deposited into her bank account (although there was a direct deposit for her commission). At the time she signed the contract, she stated she was only doing so under economic duress.

Although the Court held the plaintiff did in fact establish a case for economic duress, she did not successfully demonstrate that the defendant's actions were calculated toward forcing her solely to agree to the arbitration agreement itself. Rather, the plaintiff also complained of provisions in the contract relating to compensation and commission, among other provisions. In doing so, she failed to single out the arbitration clause from the other provisions of the contract, resulting in the arbitration clause being upheld.

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