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New York Court Compels Arbitration of Commercial Marijuana Dispute

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The defendants moved to compel arbitration of a complex dispute concerning the parties' investment in medical marijuana companies. The plaintiff claimed that the defendants breached a non-compete agreement and fiduciary obligations by taking virtually all the business belonging to the parties' mutual holding company and transferring it to a competing company in which the plaintiff held a substantially smaller interest. The holding company's operating agreement contained a broad arbitration clause requiring that all disputes, claims, rights, and obligations between the parties arising out of the agreement be resolved by final and binding arbitration. The plaintiff brought suit in New York state court seeking to compensate the holding company for its loss of business. The defendants argued that the plaintiff's claims were barred by the statute of limitations and laches, and moved to dismiss and/or compel arbitration under the operating agreement.

While agreeing that the defendants had potentially strong affirmative defenses, including a statute of limitations and laches, the court held that the merits of these claims and defenses must be decided by an arbitrator. Although New York law allows courts to rule on "gateway" issues, such as a statute of limitations and laches defenses, the court held that the Federal Arbitration Act (FAA) applied here because the matter involved interstate commerce. Under the FAA, the court explained, threshold questions of these kinds are presumptively reserved for the arbitrator. The arbitration clause in this case also expressly incorporated the American Arbitration Association rules. New York courts generally defer arbitrability questions to the arbitrators in such cases. The court also held that the defendants did not waive their right to move to compel arbitration. Because the defendants insisted throughout the case that it belonged in arbitration, the court held that the plaintiff could not now claim to be prejudiced by the defendants' request for that relief.

Broumand v. Abbot, No. 655954/2018 (N.Y. Sup. Ct. N.Y. Cty. Oct. 4, 2019).

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