

Supreme Court Holds That District Courts May Not Dismiss Lawsuits Pending Arbitration, But Instead Must Stay Them

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On May 16, 2024, the United States Supreme Court in *Smith v. Spizzirri* addressed whether district courts are required to stay a lawsuit pending arbitration, or if they have the discretion to dismiss the suit when all the claims are subject to arbitration. In a unanimous opinion by Justice Sonia Sotomayor, the Court held that when a district court finds a case involves an arbitrable dispute and a party has requested a stay of the case pending arbitration, Section 3 of the Federal Arbitration Act ("FAA") compels the court to issue a stay and the court does not have discretion to dismiss the case.

The case originated when the petitioners filed suit against the respondents in state court, alleging violations of federal and state employment laws. The respondents removed the case to federal court and moved to compel arbitration and dismiss the case. The petitioners agreed that their claims were arbitrable, but argued that the Section 3 of the FAA required the district court to stay the case pending arbitration rather than dismissing it. The District Court dismissed the case without prejudice, and the Ninth Circuit affirmed. **However, the Supreme Court reversed, holding that a stay is required under Section 3, and the case could not be dismissed.** Section 3 provides in part that any court hearing a case referable to arbitration "shall on application of one of the parties stay the trial of the action until such arbitration has been had in accordance with the terms of the agreement." The Court noted that Section 3 used the word "shall," which creates an obligation that is not subject to judicial discretion. The Court interpreted the term "stay" to mean a "temporary suspension" of legal proceedings, not a dismissal.

If you have questions about how this case may affect your organization, please call your Miller Canfield lawyer or one of the authors of this alert.