

CAN RENT-A-CENTER ENFORCE TERMS OF AGREEMENT AFTER MERGER?



A man working for Rent-Way, Inc. was fired a few years after the company merged with Rent-A-Center. While the former employee and the company debated the reason for his termination, the real issue was whether or not the company could compel arbitration – a way for the employers and workers to handle disputes outside of the courts. The man was employed by Rent-Way in 2001. Five years later, the companies merged, and Rent-A-Center, operating in the same industry, used Rent-Way's stores and continued to employ its workers. In 2009, the man's employment was terminated, and he responded by filing a lawsuit, claiming that he was fired because of his race – violating the Civil Rights Act and Michigan law. Rent-A-Center, claiming that the man was fired for a policy violation, had the case removed from state court to federal court and made a motion to compel arbitration under its Solutions Agreement. The Solutions Agreement was the true source of contention. It was an arbitration agreement implemented by Rent-Way in 2005, prior to the merger. Its intent was to settle any potential work-related disputes entirely through arbitration. When the two businesses merged, Rent-A-Center announced new employee manuals and policies, as well as updated pricing, promotion and advertising systems – but none of its materials made a reference to the Solutions Agreement. The district court denied Rent-A-Center's motion, not believing it had successfully shown that it could lawfully enforce the terms of the Solutions Agreement. The company then made an interlocutory appeal – one that is made before the trial is finished. The man's contractual obligation to abide by the Solutions Agreement with Rent-Way was never in question. But appellate judges, in contrast to federal judges, believed that Rent-A-Center also had to right to enforce the agreement which the former employee had signed. The terms stated that employees would be bound by Rent-Way or its "successors" – and appellate judges defined a successor as a corporation that "is vested with the rights and duties" of the previous corporation. This would apply to a company that has merged with another and retained its business. -The appeals court further cited the Michigan Business Corporation Act that specifies that the surviving corporation in a merger "assume[s] all rights and liabilities" of the other company. According to appellate judges, contractual liabilities with the previous company would only be voided if there had been a "purchase of assets" in lieu of a merger. With a merger, however, such contractual obligations would be transferred to the succeeding corporation. The former employee claimed that the arbitration could not be enforced because Rent-A-Center never notified him of its intent to arbitrate the matter. He argued that a new arbitration agreement would have been required. But Michigan law dictates that employers are only required to notify employees of changes to agreements, not the continuation of an agreement – which the employee has already agreed to – prior to a merger. Since the contract between the man and Rent-Way was valid and never disputed, there is likewise a valid contract between the former employee and Rent-A-Center. The appeals court reversed the district court's ruling and remanded the case to the district court to compel arbitration.