



**ARIZONA SUPREME COURT  
ORAL ARGUMENT CASE SUMMARY**



**JEFFREY HAMBLEN, et al. v. HON. RALPH HATCH  
(WINSLOW MEM. HOSP., INC. d/b/a LITTLE COLO. MED. CTR.)  
CV-16-0260-PR**

**PARTIES:**

*Petitioners:* Jeffrey Hamblen (“Hamblen”) and Barbara Youngs, husband and wife (collectively, “the Hamblens”).

*Respondent:* Hon. Ralph Hatch, Judge of the Superior Court of the State of Arizona, in and for Navajo County.

*Real Party in Interest:* Winslow Memorial Hospital, Inc. d/b/a Little Colorado Medical Center (“LCMC”).

**FACTS:**

***The Underlying Dispute.*** LCMC operates a 25-bed Critical Access Hospital in Winslow, Arizona. In 2003, it entered a management services agreement with Northern Arizona Healthcare, Inc. (“NAH”), which hired Hamblen to be LCMC’s CEO. The employment agreement provided that if Hamblen were terminated, he would receive six months’ salary as severance pay. Under the management agreement, LCMC was required to reimburse NAH for Hamblen’s salary.

In early 2013, NAH notified LCMC that it was electing to terminate the management agreement, and told Hamblen that he would be terminated shortly before the termination date. In August 2013, LCMC entered an employment agreement directly with Hamblen. It includes a provision requiring arbitration of “[a]ny controversy or claim arising out of or relating to” the employment agreement. It also requires the party not initiating an arbitration demand to submit to arbitration any “compulsory” or “permissive” counterclaims it might have.

In early 2014, LCMC learned that Hamblen was receiving severance pay from NAH, which LCMC was contractually required to reimburse. LCMC put Hamblen on administrative leave pending further investigation. Hamblen responded by notifying LCMC that he was terminating the employment agreement for “Good Reason,” which would allow him to obtain eighteen months’ salary as severance pay plus benefits. In April 2014, LCMC notified Hamblen that it was rescinding the employment agreement based on his alleged misrepresentation that he would not be entitled to severance pay if LCMC hired him, and in May it terminated him for cause.

***The Lawsuit and the Arbitration.*** In April 2014, Hamblen filed an arbitration demand and served it on LCMC, seeking severance pay and other amounts. A few weeks later, LCMC sued Hamblen in superior court, asserting an unjust enrichment claim in connection with Hamblen’s severance pay. Hamblen then moved to compel arbitration, arguing that LCMC’s claim was subject to the employment agreement’s arbitration provision. LCMC opposed the motion on the ground that it was entitled to rescind the agreement based on Hamblen’s alleged misrepresentations about his entitlement to severance pay if LCMC hired him. Despite that argument, the court granted the motion and stayed the case pending completion of the arbitration.

In the arbitration, LCMC asserted a variety of counterclaims and also sought to rescind the employment agreement based on Hamblen's alleged misrepresentations. In October 2015, the arbitrator entered his award: (1) denying Hamblen's severance pay claims because he terminated the agreement without "Good Reason"; and (2) ruling that LCMC was entitled to rescind the employment agreement based on Hamblen's fraud. The award also provided that "[t]his Final Award is in full settlement of all claims and counterclaims submitted to this Arbitration" and that "[a]ll claims not expressly granted herein are hereby denied."

***The Superior's Court Rulings.*** LCMC then filed a motion in superior court to confirm the award. It also asked the court to lift the stay to allow it to seek damages for the same claims it asserted in the arbitration. In February 2016, the court entered judgment confirming the arbitration award and lifting the stay. It acknowledged Hamblen's argument that LCMC should not be permitted to reassert its counterclaims because the "Arbitration Award was a full and final settlement of all claims and counterclaims submitted [to the arbitrator] and that all claims not expressly granted were denied." But it rejected that argument, explaining that the arbitrator found that LCMC had "grounds to and did rescind the . . . Employment Agreement," which "abrogate[d] the agreement and undid it from its very beginning." Consequently, Hamblen's request "to deny Plaintiffs their right a jury trial to prove damages" on LCMC's claims "is unreasonable as the contract was rescinded and undid [sic] from its very beginning."

A few weeks later Hamblen filed a motion for new trial, arguing that the arbitration award disposed of all claims between the parties—including LCMC's counterclaims—and that the court overstepped its authority under the Revised Uniform Arbitration Act, A.R.S. §§ 12-3001 et seq., by ruling that LCMC could reassert its counterclaims in superior court. In April 2016, the court denied Hamblen's motion in a second "judgment."

Hamblen filed a special action with the Court of Appeals challenging the orders, but in early October 2016 the Court of Appeals declined to accept jurisdiction.

#### **ISSUES:**

The Hamblens are asking the Arizona Supreme Court to address the following issues:

"Under the separability doctrine, an arbitration provision is considered a stand-alone agreement separate from the contract in which it is found, even if the contract is rescinded. As a result, a challenge to the entire agreement (as opposed to the arbitration provision itself) does not affect the validity of the arbitration provision. *See U.S. Insulation, Inc. v. Hilro Const. Co., Inc.*, 146 Ariz. 250, 253 (App. 1985). If an arbitrator determines that a party rescinded a contract containing an arbitration provision (without finding that the separate arbitration provision was rescinded), then may the superior court rule on claims that are subject to arbitration and in fact have already been submitted to and resolved in arbitration?"

"In addition, Hamblen identifies the following issues under ARCAP 23(d)(1): Whether an arbitration award taken to judgment (i) bars the superior court from taking action beyond confirming the arbitration award; (ii) bars further claims merged into the award; and (iii) bars claims under res judicata."

***This Summary was prepared by the Arizona Supreme Court Staff Attorneys' Office solely for educational purposes. It should not be considered official commentary by the Court or any member thereof or part of any brief, memorandum, or other pleading filed in this case.***