

Fifth Circuit Update

By Natasha Breaux | April 29, 2019

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Hebbronville Lone Star Rentals, L.L.C. v. Sunbelt Rentals Indus. Servs., L.L.C., 898 F.3d 629 (5th Cir. 2018)

Plaintiff Lone Star sold its assets, customer lists, and customer contracts to a competitor, Defendant Sunbelt. The sales price included three future contingent payments, called “earnouts,” which were dependent on the amount of revenue Sunbelt received from Lone Star’s customer base. The sales contract provided a mechanism for Sunbelt to calculate revenue and for Lone Star to propose an adjustment. The arbitration provision of the parties’ contract provided that an arbitrator would resolve any “dispute[s] over [Lone Star’s] proposed adjustments to [the] Revenue Calculation.” After a dispute arose and an arbitrator was appointed, the arbitrator agreed with Lone Star’s upward adjustment to the revenue calculation but also reformed the contract, concluding the parties had made a mutual mistake when listing the revenue target for former Lone Star customers in the agreement. The district court vacated the portion of the arbitration award reforming the contract.

The Fifth Circuit affirmed. The Court reasoned that the arbitration provision empowering the arbitrator was narrow as it authorized the arbitrator only to resolve the parties’ dispute over Lone Star’s proposed adjustments to the revenue calculation. Had the provision extended to any dispute “regarding” or “arising out of” the revenue calculation, the outcome might have been different. By straying beyond the contractual language, the arbitrator exceeded his power and thus, the order reforming the contract for mutual mistake was properly vacated.

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