

Sunterra Corporation, et al v. Ernst & Young, LLP, Case No.: 24-C-02-002963, 2003 MDBT 1 (Circuit Court for Baltimore City)(January 30, 2003)(per Albert J. Matricciani, Jr.)

Plaintiff Sunterra Corporation (“Sunterra”) sued Defendant Ernst & Young (“Ernst & Young”) for fraud, fraudulent concealment, negligent misrepresentation, and negligence/professional malpractice. Sunterra filed an amended complaint alleging that an arbitration agreement was induced by fraud. Ernst & Young moved to dismiss or for a stay pending arbitration, demanding that the mediation/arbitration provisions deprived the Court of jurisdiction to determine the arbitrability of Sunterra's claims. Sunterra filed a motion for a stay of arbitration, contending that the mediation/arbitration agreements were invalid and that the Court, and not the arbitrators, should determine whether there are claims subject to arbitration.

Held: The Court would hold a hearing to decide whether the agreement to arbitrate was procured by fraud.

Synopsis: Arbitration agreements are severable from the other terms of a contract. A court has jurisdiction to determine whether a valid and enforceable agreement to arbitrate exists. Claims of fraud in the inducement must go directly to the arbitration provisions themselves and not merely to the underlying contract. Sunterra's allegation raised a substantial and bona fide dispute as to the existence of an agreement to arbitrate: the allegations asserted a substantial relationship between the alleged fraud and the agreement to arbitrate.

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Related case: 2003 MDBT 2.