

U.S. District Court Orders Samsung to Pay Over \$4 Million in Arbitration Fees; Takes Unique Judicial Notice Regarding Smartphone Users

November 16, 2023

The U.S. District Court for the Northern District of Illinois recently held in [*Wallrich v. Samsung Elecs. Am., Inc.*](#) that the Northern District of Illinois was an improper arbitration venue for 14,335 users of smartphone devices (“Petitioners”) manufactured by Samsung who did not live there. However, the court found that the Northern District of Illinois was the proper venue for 35,651 Petitioners, granted the Motion to Compel Arbitration for these Petitioners, and ordered Samsung to pay its portion of the arbitration fees.

Petitioners initially filed individual arbitration demands with the American Arbitration Association (“AAA”), pursuant to Samsung’s Term and Conditions. As a requirement to arbitrate, the AAA invoiced Petitioners and Samsung to pay their share of the initial arbitration fees. While Petitioners compliantly paid, Samsung refused to pay the remaining fees (aside from those for fourteen Petitioners now living in California), which totaled \$4,125,000.00. Because both Petitioners and Samsung refused to pay Samsung’s portion of the fees, no arbitrator was assigned to the claims, and no venue was designated for the arbitration. Rather, the AAA administratively closed Petitioners’ claims. In response, Petitioners filed their motion to compel arbitration with the U.S. District Court for the Northern District of Illinois, and Samsung moved to dismiss on the basis that the court was an improper venue for the arbitration.

Concerning the AAA’s administrative fees, Samsung argued the court should not interrupt the AAA’s discretionary authority to determine Samsung’s responsibility in paying them. If this issue was merely procedural, the court acknowledged, it would not be able to order Samsung to pay. However, the court ultimately determined that it could not expect the AAA to perform its services without ordering the fee payment. Because arbitration was conditioned on payment of fees required by the AAA, the fees were substantive, in that they are bound up in the right to arbitrate. Thus, the court determined that it could order Samsung to pay the fees.

With regard to venue, the court analyzed the venue provision of the Federal Arbitration Act (“FAA”) and the general venue provision under 28 U.S.C. § 1391. Under the FAA, Petitioners could establish venue by either the Samsung Terms and Conditions or designation by the AAA. The court held that neither applied. In analyzing 28 U.S.C. § 1391, the court considered whether venue was afforded to the Northern District of Illinois because a substantial part of the events giving rise to the claims occurred there. The court took judicial notice that smartphone users were likely to purchase and use these devices near their residences. Therefore, the 35,651 Petitioners who alleged they lived within the Northern District of Illinois established that, for them, the venue lay within that district. However, because 14,335 Petitioners did not reside within the Northern District of Illinois, the court dismissed their claims for improper venue. With respect to the remaining Petitioners, the court determined the cases were only “administratively closed,” and the court could order arbitration, for it was not improperly second-guessing a final and binding decision of the AAA.

FinCEN has articulated its commitment to creating a highly useful beneficial ownership database equipped to assist law enforcement and national security agencies with combatting money laundering and terrorist financing, but also its commitment to making this process as smooth as possible for businesses now subject to these requirements. Earlier in September 2023, FinCEN previously released the [Small Entity Compliance Guide](#) and accompanying [FAQs](#) to assist small businesses with understanding their reporting requirements and identifying beneficial owners.

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