IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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HYRAD CORPORATION,

Plaintiff, OPINION AND ORDER

v.

TENNECO AUTOMOTIVE INCORPORATED and MONROE AUTO EQUIPMENT COMPANY, 00-C-426-C

Defendants.

– –

Before the court is plaintiff Hyrad Corporation's motion for relief from judgment pursuant to Fed. R. Civ. P. 60(b). Plaintiff asks this court to re-open this lawsuit and hold that defendants have, by their acts and omissions, waived their right to seek arbitration in this case. Defendants Tenneco Automotive Incorporated and Monroe Auto Equipment Company oppose the motion.

Essentially, plaintiff contends that defendants tricked this court into dismissing the complaint on October 30, 2000, by claiming falsely that defendants were seeking arbitration pursuant to the parties' contract. Defendants strongly disagree, claiming that when they told this court in 2000 that they were seeking arbitration, what they really meant was that they were seeking to force *plaintiff* to file a demand for arbitration rather than proceed with a

federal lawsuit. Defendants contend that this is what this court would have understood and expected when it granted their motion to dismiss, but that subsequently, plaintiff never filed a demand for arbitration.

Defendants' interpretation of what occurred is painfully incorrect. Even so, under the circumstances presented here, there is no need to reopen this case. The parties' conduct toward each other between October 2000 and January 2002, demonstrates that there are no exceptional circumstances that militate toward relief from the judgment pursuant to Rule 60(b)(6). Accordingly, I am denying plaintiff's motion.

BACKGROUND FACTS

Plaintiff, an Arizona corporation with its principal place of business in Wisconsin Dells, Wisconsin, originally filed this breach of contract lawsuit in this court on July 5, 2000. Plaintiff contended that defendants had breached their License Agreement concerning a patent owned by plaintiff.

On August 1, 2000, defendants filed a motion to dismiss or in the alternative to stay this action for the purposes of arbitrating plaintiff's claim. Defendants contended that the parties' License Agreement contained a standard, enforceable arbitration clause that required the parties to submit their unresolvable disputes for determination pursuant to the commercial arbitration rules of the American Arbitration Association. In their motion, defendants stated

> Because the arbitration clause is valid and enforceable, and because all of HYRAD's claims are controlled by the arbitration clause of ¶9.9, TENNECO and MONROE request that this court enforce the mandate of the FAA by dismissing this action, or in the alternative, staying this action and allowing the parties the opportunity to arbitrate the dispute.

Dkt. #6 at 4.

Plaintiff opposed defendants' motion on two grounds: first, the arbitration clause in the agreement was inconsistent with the termination provision; second, Tenneco had not timely sought arbitration in this matter. In support of its second argument, plaintiff alleged that it had attempted to resolve defendants' alleged breaches of contract through negotiation, but finally had presented a written letter of termination on February 28, 2000. Plaintiff contended that thereafter, defendants began a slow response "but never requested that any issues be submitted to arbitration until Hyrad filed its complaint." Pltf.'s Response to Dfts.' Mot. to Dismiss, dkt. #8 at 5. Plaintiff argued that if defendants believed they had not breached the agreement or that plaintiff could not terminate the agreement, they should have sought arbitration when those issues were first raised.

In a reply brief filed August 31, 2000, defendants stated that

> Although Plaintiff asserts that Defendants should have sought arbitration in a more timely manner, it cites no legal authority or any other precedent obligating Defendants to act in accordance with Plaintiff's arbitrary timetable. In fact, Defendants have made their request for arbitration in a timely manner.

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> Plaintiff has not disputed that the underlying issues of materiality, breach, notice and cure raised by its complaint would be arbitrable under the terms of the License Agreement. Therefore, the Court should leave resolution of the waiver issue for the arbitrators.
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> If this court does choose to address this question, it should determine that Defendants have not waived their right to arbitrate this claim. Before Plaintiff filed suit, Defendants sought to resolve Plaintiff's performance issues through discussion and negotiation, as anticipated by the arbitration provision. When negotiations failed, Defendants sought arbitration immediately after suit was filed by Plaintiff, and in fact have participated in the suit solely by seeking to compel arbitration of Plaintiff's claims.
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> * * *
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> The short time period that has elapsed here and the fact that Defendants asserted their right to arbitration in their first pleading in this case support Defendants' claim that they have not waived their right to arbitration.

Dfts.' Reply, dkt. # 9, at 3-4.

On October 30, 2000, I granted defendants' motion to dismiss, stating:

> I conclude that under the terms of the parties' agreement, the arbitration provision covers the questions concerning plaintiff's right to terminate the agreement, as well as the consequences attendant upon plaintiff's exercise of its right. The only remaining question is whether defendants have waived their right to arbitration by not seeking it before suit was filed.

Dkt. #14, at 6.

I found that defendants had not waived their right, concluding that "it would be the unusual case in which a court would find a waiver by a party that asked for arbitration as

soon as suit was filed against it. The general rule is that a demand to arbitrate is to be made as early as possible once litigation has begun so that the other party can know the forum in which the matter will be proceeding." *Id*. at 6-7.

In fact, defendants had not actually initiated arbitration by filing an arbitration demand. As reflected in correspondence between the parties after dismissal, defendants were more interesting in resuming the parties' tumultuous negotiations. Plaintiff was game, and outlined several options for proceeding. In doing so, plaintiff's attorney expressed puzzlement:

> Finally, I noted in re-reading your reply brief to the federal court that on page 4 you state that, "When negotiations failed, defendants sought arbitration immediately after suit was filed by plaintiff and in fact have participated in the suit solely by seeking to compel arbitration of plaintiffs' claims." To date I have not received any arbitration papers from Tenneco and was unaware that any papers existed. If they have been filed please forward them to me as soon as possible.

Nov. 10, 2000 Letter of David Easton, attached to Mar. 8, 2002 Affid. of Kevin D. Trost, exh. #1 at 2. In the same letter, plaintiff's attorney notes that he and defendants' attorney had reservations about proceeding in front of the American Arbitration Association and discussed whether a different arbitration company should be used. Counsel closed by noting that, "We would like to proceed with parallel paths of negotiation and arbitration." *Id*. at 3.

Over the next several months the parties fruitlessly negotiated the terms of an arbitration proceeding. Neither side ever filed a formal demand for arbitration and by June

1, 2001, negotiations on the License Agreement had fallen off the track again. In a June 1, 2001 letter, defendants complained to plaintiff that "any failure by Hyrad to comply with the provisions of the License Agreement will force Tenneco Automotive to take appropriate legal action to immediately enforce its rights." Mar. 13, 2002 Affid. of Fredrick Furrer, dkt. #22, exh. 2 at 2.

This prompted a June 15, 2001 response from plaintiff, in which its president stated

> While this dispute was pending before the federal court, Tenneco's counsel represented to the court in writing that it had sought – and intended to pursue – arbitration of its claim that the License Agreement should continue despite the obvious breaches of that agreement by Tenneco.
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> It subsequently became apparent, however, that this representation was false. Not only had Tenneco not sought arbitration at that time, the fact is that Tenneco has taken no steps to seek arbitration in the many months since then.
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> The matter of the termination of the License Agreement is clearly one where time is of the essence since it involves patents of finite life. It is far too late at this point for Tenneco to suggest that its claims should now be arbitrated. Not only has Tenneco failed to pursue arbitration, it has ignored our repeated requests to meet with Tenneco personnel authorized to negotiate a settlement of any disagreements the parties may have had.

Id., exh. 1.

On January 22, 2002, defendants filed a complaint for a preliminary injunction in the United States District Court for the Northern District of Illinois. See Feb. 11, 2002 Affid. of Kevin Trost, dkt. #18, exh. 1. In their complaint, defendants outlined the history of their

dispute with plaintiff, including plaintiff's filing of a lawsuit in this court "despite the mandatory arbitration provision in the License Agreement." Id. at 6, ¶20. Defendants quoted a paragraph from this court's dismissal order, then stated that, "Although Hyrad has argued that the Agreement was terminated, Hyrad has never submitted its contentions to arbitration and has never sought to obtain a ruling through arbitration that the Agreement was in fact terminated, as was required under Judge Crabb's ruling." Id. at 7-8, ¶22.

In their brief in support of their complaint for a preliminary injunction, defendants stated that:

> As explained in more detail above, the United States District Court for the Western District of Wisconsin held that Hyrad could only terminate the License Agreement through arbitration. However, Hyrad ignored its duty to arbitrate and instead unilaterally declared the License Agreement null and void. . . .

Jan. 29, 2002 Mem. of Law at 14, attached to dkt. #18, exh. 1. In their prayer for relief, defendants ask for an injunction to preserve the status quo "until Hyrad obtains through arbitration a ruling that the License Agreement has been materially breached by Tenneco Automotive and is therefore null and void." Jan. 29, 2002 Cpt. at 13, ¶B.

On February 11, 2002, plaintiff filed its motion for relief from judgment in this court and filed its brief and supporting affidavits. On March 4, 2002, defendants filed their reply brief. In it, defendants state that:

> Because Hyrad now has made plain that it will not abide by its obligations under the License Agreement and this court's order, Tenneco today has filed a demand for arbitration to resolve

> Hyrad's claims and establish the continued validity of the Agreement.

Br. in Response, dkt. #19 at 2. Defendants continued:

> When this court granted Tenneco's motion and dismissed the complaint, there was no indication in the Opinion and Order that the Court in any way assumed an arbitration demand had been filed or that such an assumption in any way underlay the ruling.
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> Thus, the focus of the Court was on the assertion of the right to arbitrate, not the filing of a formal demand.
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> After this court dismissed Hyrad's complaint, Tenneco assumed that Hyrad would then pursue its termination claim in the only forum this court said was available, arbitration. When Hyrad did not, Tenneco delayed filing for arbitration because it was hopeful that a negotiated resolution of the parties' dispute could preserve the parties' long term business relationship.
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> * * *
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> The mere fact that Tenneco has not filed for arbitration since the Court's dismissal does not warrant the extraordinary relief Hyrad is seeking. After this court's ruling, Tenneco assumed that the party that sought to escape its legal obligations under the License Agreement, and that had initiated one proceeding to terminate that Agreement would follow this court's ruling that it could only obtain relief through arbitration and pursue that process.

Id. at 5-6, and 9. Defendants continue:

> When Tenneco moved to force resolution of the dispute through arbitration [in this court] and Hyrad claimed waiver because Tenneco did not request submission to arbitration earlier, the question was whether Tenneco invoked the contractual obligation to arbitrate in a timely manner. Tenneco

> did not represent that it had filed a formal demand with AAA, nor did this court's October 30, 2000 Order assume that a demand had been filed. The Order noted only that Tenneco had "raised the issue as early in plaintiff's suit as they could have."

Id. at 10.

OPINION

Plaintiff argues that it is entitled to relief from the October 31, 2000 judgment because (1) defendants' protracted delay in initiating arbitration constitutes a waiver of defendants' right to seek enforcement of the License Agreement through arbitration; or (2) defendants' filing of a lawsuit in federal court in Illinois constitutes a waiver of its right to seek arbitration.

Defendants object, claiming that plaintiff cannot demonstrate the exceptional circumstances required to obtain the extraordinary relief allowed by Rule 60(b). Defendants contend that they have complied fully with this court's earlier order and that they have waived nothing.

The two subsections of Rule 60 invoked by plaintiff in this case provide:

> (b) On motion and upon such terms as are just, the court may relieve a party or a party's legal representative from a final judgment, order, or proceeding for the following reasons: . . . (5) the judgment has been satisfied, released, or discharged, or a prior judgment upon which it is based has been reversed or otherwise vacated, or it is no longer equitable that the judgment should have prospective application; or (6) any other reason justifying relief from the operation of the judgment.

Rule 60(b) relief is exceptional because the need for the finality of judgments is an overarching concern of the courts. Cincinnati Ins. Co. v. Flanders Electric Motor Serv., 131 F.3d 625, 628 (7th Cir. 1997). Therefore, a Rule 60 motion must be made within a reasonable time and relief is limited to extraordinary circumstances; proper resort to the "catch-all" provision of (b)(6) is even more highly circumscribed. Provident Savings Bank v. Popovich, 71 F.3d 696, 700 (7th Cir. 1995). Where the party seeking relief from judgment alleges fraud or misrepresentation, it has the burden of proving this contention by clear and convincing evidence. Simons v. Gorsuch, 715 F.2d 1248, 1253 (7th Cir. 1983). The movant must establish not only that an unusual circumstance exists, but also that this circumstance creates a substantial danger of an unjust result. Daniels v. Brennan, 887 F.2d 783, 790 (7th Cir. 1989), Industrial Associates, Inc. v. Goff Corp., 787 F.2d 268, 269 (7th Cir. 1986). A district court's ruling on a motion pursuant to Rule 60(b) is reviewable for an abuse of discretion. Cincinnati Ins. Co., 131 F.3d at 628.

Defendants argue that Rule 60(b)(5) quickly dropped out of the picture because there was no prospective relief envisioned by the court's order. Technically this is correct: I did not dismiss this case with leave to reinstate, which would have indicated an intention to maintain control over this lawsuit. See Baltimore & Ohio Chicago R. Co. v. Wisconsin Central Ltd., 154 F.3d 404, 408 (7th Cir. 1998). This is because I concluded from defendants' assertions in their brief that defendants already had submitted plaintiff's claim to an arbitration panel for decision pursuant to § 9.9 of the License Agreement. In reliance

on those representations, I assumed that there was an existing link between this lawsuit and the arbitration demand that provided a seamless and instant transition from a judicial decision maker to an arbitrational decision maker. Be that as it may, my misinterpretation of defendants' representations would provide a basis for relief only under Rule 60(b)(6)'s catch-all clause. This requires a weighing of the equities, including the promptness with which plaintiff filed its motion and whether plaintiff faces a substantial danger of an unjust result if relief from judgment is not granted.

Having carefully considered all the relevant circumstances, I find no reason to re-open this particular lawsuit. Although defendants and their attorneys have nothing of which to be proud in their handling of the litigation aspects of this contract dispute, plaintiff shares part of the blame for the current messy state of affairs.

Preliminarily, when I dismissed this lawsuit on October 30, 2002, it was based on my mistaken belief that defendants actually had filed a formal demand for arbitration. That was the clear implication of defendants' representations to the court. Defendants' current protestations to the contrary are cynical and disingenuous. Defendants never had any intention of seeking arbitration and they deduced early on that plaintiff was equally averse to arbitration. It is now quite clear that defendants have engaged in a game of intentional delay and avoidance, hoping to keep their business relationship with plaintiff in limbo as long as possible.

This conclusion is corroborated by defendants' tactics in their lawsuit filed in the Northern District of Illinois. Unhappy with plaintiff's unilateral self-help in response to the parties' stalemate, defendants asked that court for an injunction "until *Hyrad* obtains through arbitration a ruling that the License Agreement has been materially breached by Tenneco Automotive and is therefore null and void." January 29, 2002 Cpt. at 13, (emphasis added). As is clearer in this one sentence than any of the vague and passive representations defendants made to this court, defendants had no intention of actually invoking the arbitration clause. What finally forced defendants' hand was plaintiff's motion to this court for relief from judgment: on the same day that they filed their response, defendants filed a formal demand for arbitration, apparently to hedge their bets.

Notwithstanding the arbitration clause in the License Agreement, plaintiff never has had any legal obligation to seek arbitration. A party to a contract containing an arbitration clause has the option of demanding arbitration but it also has the option of coming to court first, thereby signifying its choice to resolve the dispute through litigation. See Cabinetree of Wis. V. Kraftmaid Cabinetry, Inc., 50 F.3d 388, 390 (7th Cir. 1995). The opposing party is free to agree to ignore the arbitration clause or to invoke it; if it does not invoke it, then the case may continue in court. Id. Therefore, it is sophistry for Tenneco to invoke the arbitration clause in court but then to foist the burden of filing an arbitration demand on Hyrad. It may well be that defendants' filing of a lawsuit without first filing their own demand for arbitration signifies their waiver of any right to seek arbitration, see id., but that

is for the court in Chicago to decide. This court has no current stake in the parties' dispute.

This is because plaintiff responded to defendants' iniquitous misrepresentations of fact and law by attempting to outmaneuver defendants on the field of commerce instead of returning promptly to this court for relief. Correspondence between the parties establish that plaintiff initially shared this court's misimpression that defendants actually had filed a demand for arbitration. Upon learning that this was not true, plaintiff undertook half-hearted negotiations with defendants to demand arbitration but never followed through. If it had been important to plaintiff to resolve this case quickly, in the spring of 2001, plaintiff either could have filed its own demand for arbitration or could have returned to this court asking for relief at that time. Instead, having been shut out of this court and having no genuine wish to arbitrate, plaintiff undertook self-help by means of simultaneous negotiation with defendants and flirtation with defendants' competitors. Plaintiff played this game for over a year before being blind-sided by defendants' new lawsuit. It is much too late for plaintiff to convince this court that it has been victimized.

Once this court dismissed the original lawsuit in October 2000, the parties were on their own. Their subsequent fifteen-month battle in the commercial arena has altered the contours of their dispute significantly. At this juncture, there is no reason for this court to assert jurisdiction over this case in place of the Northern District of Illinois.

ORDER

IT IS ORDERED that plaintiff Hyrad Corporation's Motion for Relief from Judgment is DENIED.

Entered this 29th day of March, 2002.

BY THE COURT:

BARBARA B. CRABB
District Judge