

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF WISCONSIN

PROCESS RESEARCH CORP.,

Plaintiff,

v.

HYPROTECH LTD.,

Defendant.

OPINION AND ORDER

00-C-561-C

This is a civil action for declaratory, monetary and injunctive relief in which plaintiff Process Research Corp. alleges that defendant Hyprotech Ltd. breached its Software License Development and Distribution Agreement by (1) failing to commercialize POLYRED-H and POLYRED-HI within the time frame set forth in the agreement; (2) failing and refusing to provide accountings for product sales; (3) failing to pay royalties; (4) charging plaintiff for expenses not reasonably related to the development or marketing of the products covered by the agreement; and (5) using or intending to use the technology owned by plaintiff.

After plaintiff filed suit in Wisconsin state court in Dane County, defendant removed this case to federal court pursuant to 28 U.S.C. § 1441. Jurisdiction is present. See 28 U.S.C. § 1332. Presently before the court is defendant's motion for partial summary

judgment and plaintiff's motion for summary judgment. Plaintiff asks this court to disregard the April 24, 2001 Affidavit of Wayne D. Sim, dkt. #37, arguing that the affidavit is not based on personal knowledge and is not sufficiently specific. Plaintiff's arguments will be considered in determining the undisputed material facts from the parties' proposed facts.

One more issue should be addressed about the proposed findings of fact. In support of plaintiff's motion for summary judgment, plaintiff filed proposed findings of fact, see dkt. #20, to which defendant filed a response, see dkt. #35. As allowed for in this court's Procedures to be Followed on Motions for Summary Judgment, defendant proposed its own facts in opposition to plaintiff's motion for summary judgment in addition to responding to plaintiff's proposed findings of fact. See Procedures, II.C.4 ("If properly disputing the movant's proposed findings of fact alone does not adequately support the nonmovant's position or adequately address the undisputed facts necessary to the movant's position, the nonmovant may present its own proposed findings of fact. . . .") Instead of responding to defendant's additional proposed findings of fact, plaintiff submitted the May 14, 2001 Affidavit of W. Harmon Ray, dkt. #42. See Pltf.'s Reply Br., dkt. #41, at 10. Submitting an affidavit without any numbered factual statements with cites to specific paragraphs in the affidavit is not an acceptable means by which to put defendant's additional proposed findings into dispute. Therefore, I will take as undisputed defendant's additional proposed facts. See Procedures, III.A.1 ("The movant may serve and file . . . [n]umbered factual

statements in rebuttal to factual statements made in response to movant's proposed findings of fact or to dispute new facts proposed by the nonmovant, together with appropriate citations to the record.").

Defendant's motion for partial summary judgment will be granted because I conclude that plaintiff did not give defendant the requisite notice necessary to terminate the agreement for substantial and material breaches and that plaintiff may not recover monetary damages except for its allegation that defendant failed to pay royalties in compliance with Article 6 of the agreement. The central issue in deciding plaintiff's motion for summary judgment is whether plaintiff is entitled to terminate the agreement three and a half years after the latest deadline set forth in the agreement. Defendant offers several reasons why the deadline has not passed and why plaintiff should not be able to enforce the termination provision in the agreement. Construing all facts in the light most favorable to defendant (the non-moving party on plaintiff's motion), see *Bombard v. Fort Wayne Newspapers, Inc.*, 92 F.3d 560, 562 (7th Cir. 1996), I find that it is disputed whether plaintiff may terminate the agreement under section 8.2.5 of the agreement. See Fed. R. Civ. P. 56(c); see also *Celotex Corp. v. Catrett*, 477 U.S. 317, 322 (1986). Accordingly, I will deny plaintiff's motion for summary judgment.

From the facts proposed by the parties, I find that the following are both undisputed and material.

UNDISPUTED FACTS

A. Parties

Plaintiff Process Research Corp. is a Wisconsin corporation located in Madison, Wisconsin. Plaintiff developed a group of computer programs known as “POLYRED,” which are designed to model polymer processes. Defendant Hyprotech, Ltd. is a Canadian corporation; it is the developer and marketer of computer programs that simulate chemical processes, including those involved in the manufacture of petroleum products.

B. Software License Development and Distribution Agreement

1. Signing the agreement

On March 29, 1994, plaintiff and defendant entered into a Software License Development and Distribution Agreement. In the agreement, plaintiff licensed to defendant the right to develop, market and distribute commercial software, using plaintiff’s POLYRED process modeling programs and incorporating POLYRED into defendant’s proprietary software. The agreement required defendant to produce two new software products: POLYRED-H and POLYRED-HI. In return for the right to develop and sell POLYRED, defendant was to pay plaintiff, among other things, royalties on sales of the products it developed based upon POLYRED.

2. Time frames in the agreement

The agreement states that POLYRED-H was to be commercialized within 18 months of the date of the agreement (September 1995) and POLYRED-HI was to be commercialized within three years of the date of the agreement (March 1997). Defendant did not deliver POLYRED-H or POLYRED-HI within the time frames set forth in the agreement.

The original time frames contained in the agreement were based on information provided by plaintiff and a demonstration plaintiff's president, Dr. W. Harmon Ray, gave in Calgary. Defendant was not allowed to view POLYRED before it signed the agreement.

3. Language of the agreement

a. Article 3: "Development"

Section 3.1 provides, "PRC acknowledges that the timing of performance may be affected by PRC's failure to perform any of its obligations under this Agreement in a timely fashion."

Section 3.2 provides

Although HYPROTECH shall be primarily responsible for all development of Products, PRC agrees, pursuant to Section 4.1(c) and Section 4.2 below and upon HYPROTECH's request, to consult with HYPROTECH concerning the conversion of POLYRED . . . into POLYRED-H. . . . Subject to the foregoing, PRC shall use its best efforts to provide such consultation in a timely manner.

Section 3.3 provides “So long as HYPROTECH is required to pay royalties to PRC pursuant to Section 7.1 . . . , PRC shall provide, subject to the foregoing time limitations: (a) ongoing research and development of the technology included in POLYRED. . . .”

b. Article 4: “PRC Training and Support”

Section 4.1.3 provides, “. . . so long as HYPROTECH is required to pay royalties pursuant to Section 7.1 (or corresponding provisions of Section 7.6), PRC will actively participate in the ongoing development of the Product. . . . and they shall provide this research, development and support diligently and effectively.”

c. Article 6: “Fees”

Section 6.1 provides that “HYPROTECH shall pay to PRC \$50,000 within thirty (30) days after the effective date of this Agreement and an additional \$50,000 on the first anniversary date of this Agreement.”

d. Article 8: “Term and Termination”

Section 8.2 provides that “This Agreement may be terminated in each of the following circumstances:”

. . .

8.2.3. By either party if the other party commits any material and substantial breach or default and fails to provide an acceptable remedy of such breach or default within thirty (30) days after written notice of such breach or default from the non-breaching or non-defaulting party. If any payment, including any royalty payment is not made within thirty (30) days of the due date thereof, such payment shall bear interest at the rate of one and one-half percent (1.5%) per month, or the highest legal rate, whichever is less, commencing as of the due date, until fully paid. Failure to make any license or royalty payment within thirty (30) days of the due date thereof or failure by HYPROTECH to actively develop or market Products shall each constitute a material breach of this Agreement.

. . .

8.2.5. At the option of PRC, if the Date of First Commercial Sale of POLYRED-H occurs later than eighteen months after the effective date of this Agreement, or if the Date of First Commercial Sale of POLYRED-HI occurs later than three years after the effective date of this Agreement, such deadlines being extended by any period of delay caused by PRC's failure to meet its obligations under this Agreement.

The agreement defines "Date of First Commercial Sale" as "the date when cumulative Gross Receipts from POLYRED-H or POLYRED-HI, respectively, exceed \$100,000."

Section 8.3 provides:

In the event that PRC terminates this Agreement, all rights granted by PRC to HYPROTECH hereunder shall terminate and HYPROTECH shall terminate any further sales of the Product. . . . In the event of such termination, HYPROTECH agrees that it will not develop or assist in or contribute to the development of any product incorporating any programs based upon substantially similar polymer reactor equations, solution algorithms, methods and data as contained in POLYRED for a period of five (5) years from the date of such termination.

Section 8.5 provides:

Termination of this Agreement by PRC shall not release HYPROTECH from any payment obligations under this Agreement which have been accrued and are unpaid

at the time of termination.

e. Article 10: “Warranty”

Section 10.2 provides:

PRC MAKES NO WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO POLYRED, ANY PRODUCTS, OR ANY OTHER ITEMS LICENSED OR ANY SERVICES PROVIDED HEREUNDER AND PRC EXPRESSLY DISCLAIMS ALL WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

f. Article 11: “Remedies”

Section 11.2 provides:

Except as otherwise specifically set forth herein, in the event of failure of either party to fulfill any of its obligations hereunder, the exclusive remedy of the other party shall be to request that such obligations be fulfilled and, if that does not occur promptly thereafter, or within such time periods as may be specifically set forth herein, to terminate this Agreement and, where appropriate, to bring an action for monies due hereunder or an injunction for violation of Article 9 Except for amounts due to the other under Articles 6, 7, 12 and 13, or in the event of a material breach of Article 9, neither party shall be liable for monetary damages to the other in any amount for any breach of this Agreement. . . . If, notwithstanding the foregoing, HYPROTECH is found to be liable for monetary damages other than pursuant to Articles 6 or 7, then the maximum liability of HYPROTECH arising under this Agreement shall be the amount of Gross Receipts received by HYPROTECH during the immediately preceding 12 month period.

g. Article 15: “General”

Section 15.1 provides

Notices: All notices shall be in writing and deemed given and received (a) when delivered, if delivered in person, (b) five (5) business days after mailing, if by certified or registered mail, return receipt requested, unless the receipt shows a different date of receipt, or (c) the next business day after delivery, if by commercial overnight courier (in the case of notices between parties located in the United States, and two business days after delivery in all other cases), unless the courier's records indicate a different date of receipt. Notices shall be addressed to each party at their respective addresses set forth below, or to such other address or addresses as either party may specify by written notice to the other

Section 15.8 states

Consent to Breach Not Waiver: No term or provision hereof shall be deemed waived and no breach excused, unless such waiver or consent shall be in writing and signed by the party claimed to have waived or consented. Any consent by any party to, or waiver of, a breach by the other, whether express or implied, shall not constitute a consent to, waiver of, or excuse for any other different or subsequent breach.

C. POLYRED-H and POLYRED-HI

POLYRED-H is a Microsoft Windows version of POLYRED that combined POLYRED with Windows interface technology. Defendant produced two versions of POLYRED-H, finishing POLYSIM 1.0 in May 2000 and POLYSIM 1.1 in September 2000. POLYSIM 1.0 did not include a simulation of a condensation polymer, which was required under the agreement. In all other respects, POLYSIM met or exceeded agreement requirements. POLYSIM 1.0 was as close to POLYRED-H as could have been achieved. If POLYSIM had included a condensation polymerization, the model would not have been commercially viable because it would have lacked robustness, would not have been able to

solve the majority of commercially significant processes and would have been a marginal increase in value compared to the other reactors in POLYSIM. POLYRED-HI was supposed to be an integration of POLYRED-H and defendant's process simulator HYSYS. POLYRED-HI has never been commercially available. Until plaintiff filed this suit, defendant was working toward development of POLYRED-HI.

D. Problems With POLYRED

In trying to meet the deadlines to commercialize the POLYRED program, defendant had multiple problems, including its lack of familiarity with the POLYRED code, unanticipated problems in the POLYRED software, its underestimation of the magnitude of the project, the difficulty of moving to a Windows platform, the immaturity of the team, its ability to acquire resources and a lack of communication between the parties. The unanticipated problems with the POLYRED code included a lack of system design documentation, a lack of compatibility between the DOS and Windows operating systems, problems with the FORTRAN compilers, non-standard programming practices, routines that gave fatal error messages, memory management issues and algorithmic errors. Defendant also encountered the following problems with POLYRED: memory leaks, inefficient gamma function, problems with the lengths of filenames and bugs that prevented the original POLYRED code from solving problems and instability. Defendant did not discover the

problems with the POLYRED code until it had begun to work on POLYRED-H, after the agreement had been signed. Defendant told plaintiff of the difficulties it was having with POLYRED.

Defendant had problems receiving technical support from plaintiff. Plaintiff sent defendant POLYRED code updates that failed to reflect changes that had been incorporated previously into the code. Plaintiff continued to develop the existing code without considering defendant's ongoing work, causing problems each time the code was updated. Defendant's engineers had to wait for plaintiff to resolve problems. Defendant paid plaintiff to employ a post-doctorate student to work on the code. Plaintiff fired the first student it hired and never hired a replacement. Plaintiff kept the money defendant had paid to provide post-doctorate staff.

Plaintiff was informed in September 1995 and March 1997 that POLYRED-H would not be released in the near future and that defendant could not begin serious work on POLYRED-HI until POLYRED-H was completed. From October 1995 to present, defendant has invested over 27 person-years of software developer time in the POLYRED project.

E. Notice

Plaintiff never provided defendant with written notice that it regarded defendant as

being in default under the agreement. Defendant's Chief Executive Officer Wayne Sim found out that plaintiff regarded defendant as being in default under the agreement when defendant received the summons and complaint in this lawsuit.

OPINION

A. Summary Judgment Standard

To succeed on a motion for summary judgment, the moving party must show that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. See Fed. R. Civ. P. 56(c); Celotex v. Catrett, 477 U.S. 317, 324 (1986). All evidence and inferences must be viewed in the light most favorable to the non-moving party. See Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 250 (1986).

B. Defendant's Motion for Partial Summary Judgment

1. Notice and opportunity to cure provision

Defendant contends that plaintiff cannot terminate the agreement for four out of five of the alleged breaches (all but defendant's alleged failure to commercialize within the agreement's time frames) because plaintiff failed to give defendant adequate notice and an opportunity to cure the defects as required by section 8.2.3 of the agreement. Section 8.2.3 requires plaintiff to provide written notice before terminating the agreement if defendant

“commits any material and substantial breach or default and fails to provide an acceptable remedy of such breach or default within thirty (30) days.” In addition to alleging that defendant failed to meet its deadline for commercialization of the products, plaintiff alleges that defendant failed to pay royalties, failed to provide an accounting, charged it for certain expenses in error and used or intended to use the technology owned by plaintiff and developed products for other customers. Plaintiff does not argue that these do not qualify as “material and substantial breaches” under section 8.2.3 of the agreement. (The parties agree that plaintiff was not required to provide notice under section 8.2.3 in order to terminate the agreement for defendant’s failure to commercialize POLYRED-H and POLYRED-HI within the time frame set forth in the agreement under section 8.2.5.) Because plaintiff did not provide defendant with written notice of these alleged breaches and an opportunity to cure the alleged deficiencies, plaintiff may not terminate the agreement for substantial and material breaches. Accordingly, defendant’s motion for partial summary judgment will be granted on this issue and plaintiff may seek to terminate the agreement on one ground only: defendant’s alleged failure to commercialize POLYRED-H and POLYRED-HI within the agreement’s time frames.

2. Damages

According to plaintiff, it can recover monetary damages for defendant’s alleged

breaches under sections 8.5 and 11.2 of the agreement. Defendant contends that section 11.2 precludes plaintiff from recovering monetary damages for any of the alleged breaches of the agreement except for defendant's alleged failure to pay royalties. Article 11 of the agreement sets forth the remedies available to the parties. Section 11.2 specifies that "Except for amounts due to the other under Articles 6, 7, 12 and 13, or in the event of a material breach of Article 9, neither party shall be liable for monetary damages to the other in any amount for any breach of this Agreement." Plaintiff alleges that defendant breached Article 7 by failing to pay royalties; plaintiff does not allege that defendant breached Article 6 (fees), Article 9 (proprietary information), Article 12 (patent, trade secret and copyright indemnification by PRC) or Article 13 (patent, trade secret and copyright indemnification by Hyprotech). Section 11.2 specifies that for the situations in which damages are not available, the parties' sole remedy is to ask the other party to fulfill its obligations and terminate the agreement if necessary, which plaintiff has not done.

Plaintiff points to the last sentence of section 11.2 in support of its argument that it may recover monetary damages for breaches not specified by section 11.2. Section 11.2 provides in relevant part that, "If, notwithstanding the foregoing, HYPROTECH is found to be liable for monetary damages other than pursuant to Articles 6 or 7, then the maximum liability of HYPROTECH arising under this Agreement shall be the amount of Gross Receipts received by HYPROTECH during the immediately preceding 12 month period."

The natural reading of this sentence is that it provides a cap on monetary damages if defendant is found liable for monetary damages for breaches of Articles 12, 13 or 9, which are allowed for by section 11.2, as opposed to breaches of Articles 6 or 7. This provision does not expand plaintiff's ability to recover monetary damages in this case.

Furthermore, section 8.5 does not provide an independent basis for monetary damages; instead, it specifies that defendant is not released from its payment obligations "which have been accrued and are unpaid at the time of termination" in the event plaintiff terminates the agreement. Contrary to plaintiff's assertion, section 8.5 does not override the allowance for damages in specific circumstances only that is set forth in section 11.2. Similarly, section 8.2.5 does not allow plaintiff to recover damages in the event that defendant failed to commercialize POLYRED-H and POLYRED-HI within the time frame set forth in the agreement; instead, section 8.2.5 provides the sole remedy of termination for defendant's failure to meet its deadlines.

Defendant asserts that under section 8.2.3, plaintiff cannot recover monetary damages for its claim for royalties because it failed to give the proper notice and opportunity to cure. Defendant is mistaken. Section 8.2.3 governs termination, not damages. Defendant's motion for partial summary judgment will be granted: plaintiff may not recover monetary damages for any allegations other than its allegation that defendant failed to pay royalties in compliance with Article 7.

C. Plaintiff's Motion for Summary Judgment

Plaintiff contends that it is entitled to summary judgment because defendant failed to commercialize POLYRED-H and POLYRED-HI within the time frame set forth by section 8.2.5 of the agreement. Defendant responds by saying that its deadlines for commercializing POLYRED-H and POLYRED-HI have not expired because of plaintiff's failure to abide by its obligations under the agreement. Defendant contends also that even if its deadlines have passed, plaintiff may not terminate the agreement because its terms do not allow for termination in these circumstances and because plaintiff has waived by implication its right to terminate the agreement for defendant's failure to meet the deadlines. In addition, defendant contends that plaintiff is not entitled to an injunction because plaintiff has failed to meet the requirements necessary to obtain a permanent injunction and to show that defendant is likely to engage in future behavior that is prohibited by the agreement.

1. Plaintiff's obligations under the agreement

Defendant argues that the deadline for commercialization has not passed because section 8.2.5 extends the deadline for "any period of delay caused by PRC's failure to meet its obligations" in developing POLYRED-H and POLYRED-HI. Specifically, defendant contends that the source code provided by plaintiff was not a commercial grade code and that plaintiff failed to communicate with defendant, respond to defendant's requests for

information, provide technical support and supply the necessary personnel. Plaintiff challenges defendant's argument that plaintiff did not deliver a commercial grade code on the basis that section 10.2 of the agreement states that plaintiff does not make any warranties as to POLYRED, the condition of the POLYRED code did not change after the agreement was signed and defendant did not provide plaintiff with any notice that the POLYRED code was deficient. In addition, plaintiff contends that defendant failed to provide notice that plaintiff was failing to meet any of its training or support obligations and that defendant has not provided evidence that any period of delay was caused by plaintiff's shortcomings. Although it is likely that plaintiff has contributed to the delay in defendant's completion of the POLYRED products, it is unlikely that plaintiff's deficient performance extends the deadline all the way to the time of the filing of plaintiff's complaint in August 2000. However, because the parties dispute the extent to which plaintiff met its obligations under the agreement and defendant's obligation to notify plaintiff of its deficiencies, at this stage of the proceedings I cannot determine whether the deadline should be extended.

2. Language of the agreement

Defendant contends that under section 8.2.5, plaintiff was required to exercise its right to terminate the agreement in September 1995 and March 1997, at the time defendant failed to meet the deadlines for commercializing the software products. The language of

section 8.2.5 does not set a deadline by which plaintiff must exercise its option to terminate and defendant has failed to provide any reason why one should be read into the provision.

3. Implied waiver

Defendant contends that plaintiff waived its right to terminate the agreement for defendant's delay in commercializing the software products, pointing out that plaintiff knew that defendant was encountering many difficulties in completing the project and allowed defendant to continue investing monetary and employee resources into the project. Plaintiff contends that the non-waiver provision set forth in section 15.8 does not allow it to waive its right to terminate the agreement under section 8.2.5; defendant says that plaintiff has waived the non-waiver provision itself by its conduct. "The general rule is that a party to a written contract can waive a provision of that contract by conduct expressly or surrounding performance, despite the existence of a so-called anti-waiver or 'failure to enforce' clause in the contract." 13 Richard A. Lord, Williston on Contracts, § 39:42, at 657 (4th ed. 2000). This rule is "based on the view that the nonwaiver clause itself, like any other term of the contract, is subject to waiver by agreement or conduct during performance." Id. at 658. Because it is possible that plaintiff may have waived its right to terminate the agreement under section 8.2.5, I will address defendant's argument in support of waiver.

"Waiver may be established, as a matter of law, only when it is proved by the express

declaration of the party charged with waiver, or by undisputed words or conduct so inconsistent with a purpose to stand upon the contractual right allegedly waived as to leave no possibility of any reasonable inference to the contrary. Ordinarily, however, whether or not a waiver has occurred in a given factual setting is a question of fact for the finder of fact.” Id. at 587. According to defendant, plaintiff waived the termination provision of section 8.2.5 by implication because it either “(1) clearly manifested an intention to waive the contract provision. . . ; or (2) reasonably induced the nonwaiving party to rely upon an apparent waiver of such . . . provision, to [its] detriment.” Id. at 621-22. “[A] waiver by estoppel implied from conduct focuses not on the intent or purpose of the waiving party but on the effect of [its] conduct on the other party.” Id. at 629. “To prove waiver by estoppel one need only show that [it] was misled to [its] prejudice by the conduct of the other party into the honest and reasonable belief that the other party was not insisting upon some right.” Id. at 630. At this point, defendant’s argument centers on plaintiff’s knowledge that defendant had not completed the products within the relevant time frame and failure to enforce the deadlines or terminate the agreement. Although defendant may be able to establish that it is entitled to rely on the doctrine of waiver at trial, I cannot draw this conclusion from the facts presented on summary judgment.

3. Injunction

Defendant contends that even if plaintiff prevails at trial, plaintiff is not entitled to an order enjoining defendant from “any further development, or contribution to, or any further sales of the POLYRED processes, as provided in section 8.3 of the contract.” Pltf.’s Br., dkt. #19, at 9. Plaintiff responds by saying it is entitled to enforce the termination penalty set forth by section 8.3 of the agreement. “A court must consider four traditional criteria in deciding whether to grant injunctive relief: (1) whether the plaintiff has [succeeded] on the merits; (2) whether the plaintiff will have an adequate remedy at law or will be irreparably harmed if the injunction does not issue; (3) whether the threatened injury to the plaintiff outweighs the threatened harm the injunction may inflict on the defendant; and (4) whether the granting of the injunction will harm the public interest.” Plummer v. American Institute of Certified Public Accountants, 97 F.3d 220, 229 (7th Cir. 1996). If plaintiff succeeds at the liability stage at trial, I will resolve this issue during the damages phase.

ORDER

IT IS ORDERED that

1. Defendant Hyprotech, Ltd.’s motion for partial summary judgment is GRANTED;
and

2. Plaintiff Process Research Corp.'s motion for summary judgment is DENIED.

Entered this 14th day of June, 2001.

BY THE COURT:

BARBARA B. CRABB
District Judge