IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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GERMANIA DAIRY AUTOMATION, a division of DeLaval, Inc., and DeLAVAL INTERNATIONAL AB, f/k/a ALA AGRI AB,

Plaintiffs,

v.

RIEBERJO B.V. and WESTFALIA-SURGE, INC.,

Defendants.

OPINION AND ORDER

01-C-365-C

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This is a civil action for declaratory, injunctive and monetary relief and specific performance in which plaintiffs Germania Dairy Automation, a division of DeLaval, Inc., and DeLaval International AB, f/k/a ALA Agri AB, contend that defendant Rieberjo B.V. terminated an exclusive licensing agreement wrongly and that defendant Westfalia-Surge, Inc., is violating plaintiffs' exclusive licensing agreement with defendant Rieberjo. This action was filed originally in the Circuit Court for Dane County, Wisconsin. Defendants removed the case to federal court, asserting that this court has original subject matter jurisdiction pursuant to 28 U.S.C. § 1331. Defendants contend that federal question jurisdiction exists because the license agreement at issue contains an arbitration clause that

is subject to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards under 9 U.S.C. § 203.

Several motions are presently before the court. Defendants have filed a motion to compel arbitration, asserting that the arbitration clause in the licensing agreement requires arbitration and application of the law of the Netherlands to settle the dispute. Plaintiffs agree to submit to arbitration the wrongful termination dispute as to defendant Rieberjo, but have filed a motion to remand to state court the claims against defendant Westfalia-Surge. Plaintiffs argue that this court should decline to continue exercising supplemental jurisdiction over the remaining state law claims against defendant Westfalia-Surge because this defendant was never a party to the arbitration agreement at issue and is not bound by the arbitration clause that allowed defendants to remove this action to federal court. In response, defendants have filed a motion to dismiss without prejudice or, in the alternative, stay the proceedings until arbitration is complete, arguing that the claims against defendant Westfalia-Surge turn on exactly the same issue to be determined by the arbitration: whether the licensing agreement was terminated properly. In addition, defendants have filed a motion for an enlargement of time in which to answer the complaint, asserting that answering the complaint will defeat the arbitration process. Subject matter jurisdiction is present. 28 U.S.C. § 1331.

Because plaintiffs and defendant Rieberjo have stipulated to honoring the arbitration

clause in the licensing agreement, I will grant defendants' motion to compel arbitration between plaintiffs and defendant Rieberjo. Furthermore, because I find that defendant Westfalia-Surge is a party to litigation involving an issue subject to the arbitration agreement entered into by plaintiffs, I will (1) grant a stay of proceedings as to both defendants under the doctrine of parallel-proceeding abstention pending the outcome of arbitration and (2) deny plaintiffs' motion to remand. Finally, I will deny as moot defendants' motion for an enlargement of time in which to answer the complaint.

From the complaint and record, I make the following findings of fact, solely for the purpose of deciding the pending motions.

FACTS

Plaintiff Germania Dairy Automation is a division of DeLaval, Inc. with its principal place of business in Waunakee, Wisconsin. DeLaval, Inc., the parent company, is a Delaware corporation. Plaintiff DeLaval International AB, f/k/a ALA Agri AB, is a Swedish Company with its principal place of business in Tumba, Sweden. Defendant Rieberjo B.V. is a Dutch company with its principal place of business in Gorssel, The Netherlands. Defendant Westfalia-Surge, Inc. is a Delaware corporation with its principal place of business in Naperville, Illinois.

On June 3, 1999, plaintiff Germania, as agent for plaintiff DeLaval International,

entered into an exclusive licensing agreement with defendant Rieberjo in which plaintiff Germania agreed to distribute dairy harvesting equipment developed by defendant Rieberjo. According to the terms of the agreement, defendant Rieberjo granted plaintiffs an exclusive, non-transferable, non-sublicenseable and worldwide license for selling and distributing a fully automated system for cleaning milk machine clusters and for teat disinfection within each milking liner. Defendant Rieberjo agreed to manufacture the milking system in compliance with plantiffs' equipment specifications and standards. In addition, defendant Rieberjo agreed that the system would be free of any defect in design, construction and manufacture and fit for its intended purpose. Plaintiffs agreed to market and sell the milking system competently.

At the time of the execution of the agreement and thereafter, plaintiffs and defendant Rieberjo agreed and acknowledged that the ability to market and sell the milking system would be affected by regulatory approval, including the approval of the U.S. Food and Drug Administration, and that the parties' performance of the contractual obligations would be subject to regulatory approval.

Once the licensing agreement was executed, plaintiffs expended substantial funds in marketing, installing and testing the milking system as well as identifying and rectifying problems with installed systems. Plaintiffs worked cooperatively with defendant Rieberjo to resolve these problems. Problems included injectors that did not function properly,

computer boards that malfunctioned and abnormally high somatic cell counts in the milk of cows using the system. As a result, the FDA refused to authorize the commercial sale of the system without changes that would remedy the problems.

In July 2000, defendant Rieberjo provided notice to plaintiffs that it intended to terminate the licensing agreement pursuant to paragraph 15.4 of the contract, alleging that plaintiffs had failed to meet sales targets. Plaintiffs disputed defendant Rieberjo's right to terminate the licensing agreement. Relying on the termination clause, defendant Rieberjo has refused to perform any of its existing and continuing obligations under the licensing agreement. Defendant Rieberjo then entered into an agreement with defendant Westfalia-Surge to sell and distribute the same milking system covered by plaintiffs' exclusive licensing agreement. Defendant Westfalia-Surge knew that plaintiffs disputed defendant Rieberjo's right to terminate and considered their licensing agreement still in effect.

The licensing agreement contained the following clauses, among others:

> 15.4 Termination for Insufficient Usage
> Rieberjo shall have the right as the sole remedy to terminate this Agreement immediately upon written notice in case ALA and its Affiliates do not sell the following numbers of Systems, as a total of stand-alone and integrated:
>
> | Year | No. of Systems |
> |---|---|
> | 1999 | 150 |
> | 2000 | 1.000 |
> | 2001 | 1.500 or 2.500 cumulative to date |
> | 2002 | 2.000 or 5.000 cumulative to date |
> | 2003 and onwards | 2.000 or 6.000 in total for the year concerned |

plus the previous two years

23.3 Equitable relief
The parties to this Agreement acknowledge that each party has valuable intellectual property rights embodied in its respective Confidential Information, and because each party will have access to and become acquainted with confidential and proprietary information and material of the other, the unauthorised [sic] use or disclosure of which would cause irreparable harm and significant injury which would be difficult to ascertain and which would not be compensable by damages alone, the parties agree that each party will have the right to enforce the confidentiality and license provisions of the Agreement by injunction, specific performance or other equitable relief without prejudice to any other rights and remedies that such party may have for the other's breach of this Agreement.

23.4 Applicable law and venue
This Agreement shall be governed by and construed in accordance with the laws of the Netherlands. Any litigation or other dispute resolution between the parties relating to this Agreement shall be settled by arbitration under the rules of the Netherlands Arbitration Institute, by three arbitrators. Each party has the right to appoint an arbitrator and the two arbitrators thus appointed shall together appoint the third arbitrator. Arbitration shall take place in Amsterdam or another place as the arbitrators may decide.

OPINION

A. Motion to Compel Arbitration

Defendants have filed a motion to compel arbitration pursuant to the international arbitration clause in the licensing agreement. See 9 U.S.C. § 202. (Although it is unclear from defendants' brief, I assume defendants are moving to compel arbitration between plaintiffs and defendant Rieberjo only, the parties to the licensing agreement.) Plaintiffs do not oppose referral of their claims against Rieberjo to arbitration in the Netherlands.

However, plaintiffs object to compelling arbitration as to their claims against defendant Westfalia-Surge because Westfalia-Surge is not a party to the licensing agreement executed between plaintiffs and defendant Rieberjo. In their reply brief, defendants stipulate to the fact that defendant Westfalia-Surge is not a party to the arbitration clause or licensing agreement at issue.

Because plaintiffs and defendant Rieberjo have stipulated to arbitration as set out in the licensing agreement, I will grant defendants' motion to compel arbitration between plaintiffs and defendant Rieberjo.

B. Defendants' Motion to Dismiss or Stay Proceedings and Plaintiffs' Motion to Remand

1. Subject matter and supplemental jurisdiction

This action was filed originally in the Circuit Court for Dane County, Wisconsin. Defendants removed this case to federal court, asserting that this court has original subject matter jurisdiction under 28 U.S.C. § 1331 and 9 U.S.C. § 205 because the licensing agreement at issue contains an international arbitration clause subject to Chapter 2 of the Federal Arbitration Act, which implements the Convention on the Recognition and Enforcement of Foreign Arbitral Awards. 9 U.S.C. §§ 202-03.

Plaintiffs' motion to remand and defendants' motion to dismiss or, in the alternative,

to stay the proceedings apply to the claims against defendant Westfalia-Surge only. Plaintiffs contend that defendant Westfalia-Surge is infringing on plaintiffs' exclusive license because it has entered into an agreement with defendant Rieberjo to sell and distribute the same milking system covered by plaintiffs' license. Plaintiffs argue that their claims against defendant Westfalia-Surge should be remanded to state court. According to plaintiffs, once they agreed to enter into arbitration with defendant Rieberjo, the federal question that permitted removal to federal court dropped out of the case. In opposition, defendants argue that this court should continue to exercise supplemental jurisdiction and either dismiss the proceedings without prejudice or, in the alternative, stay them pending the outcome of arbitration because plaintiffs' action against defendant Westfalia-Surge turns on exactly the same issue that will be arbitrated, namely, whether the licensing agreement was terminated properly.

Plaintiffs do not contend that this case was removed improperly under 9 U.S.C. § 203 and 28 U.S.C. § 1441(b). Rather, plaintiffs argue that once the claims against defendant Rieberjo are referred for arbitration, there is no independent basis on which this court can exercise subject matter jurisdiction over the Westfalia-Surge claim.

Pursuant to 9 U.S.C. § 203, "an action or proceeding falling under the Convention shall be deemed to arise under the laws and treaties of the United States. The district courts of the United States . . . shall have original jurisdiction over such an action or proceeding,

regardless of the amount in controversy." The federal question does not disappear once the motion to compel arbitration is granted; it may be necessary for the party prevailing in the arbitration to return to the court to enforce the arbitration decision. For this reason, I will stay the proceedings pending the outcome of arbitration. If arbitration does not resolve all the issues between plaintiffs and defendants, any party may return for further proceedings in this court.

Because federal question jurisdiction is present, the next question is whether this court should exercise supplemental jurisdiction over the remaining state law claims. In any civil action in which a district court has original jurisdiction under 28 U.S.C. § 1331, it shall also have "supplemental jurisdiction over all other claims that are so related to claims in the action within such original jurisdiction that they form part of the same case or controversy." 28 U.S.C. 1367(a); see also Groce v. Eli Lilly & Co., 193 F.3d 496, 500 (7th Cir. 1999) (district court has discretion to retain or refuse jurisdiction over state law claims); United Mine Workers of America v. Gibbs, 383 U.S. 715, 725 (1966) (court may exercise supplemental jurisdiction over state law claims when those claims arise from same common nucleus of operative facts found in federal claim). The claims alleged by plaintiffs against defendant Westfalia-Surge form part of the same case or controversy and arise from the same common nucleus of operative facts as their claim against defendant Rieberjo. It is impossible to conclude whether defendant Westfalia-Surge is infringing on plaintiffs' exclusive license

(the state claims) without first determining, through international arbitration, whether defendant Rieberjo terminated the licensing agreement properly (the federal claim). Although plaintiffs point to claims such as breaching confidentiality to demonstrate that their claims against defendant Westfalia-Surge are independent from those against defendant Rieberjo, these claims hinge on whether the licensing agreement was terminated properly. Because the claims against defendant Westfalia-Surge are so closely related to claims within this court's original jurisdiction that they form part of the same case or controversy, I will exercise supplemental jurisdiction over them.

2. Staying proceedings under Federal Arbitration Act

Plaintiffs argue that because defendant Westfalia-Surge is not a party to the arbitration agreement, plaintiffs' claims against it should neither be dismissed nor stayed pending the arbitration with defendant Rieberjo. Defendants assert that plaintiffs have a cause of action against defendant Westfalia-Surge only if the arbitration panel concludes that defendant Rieberjo terminated the licensing agreement improperly. In that event, defendants assert, plaintiffs can re-file their complaint (if dismissed without prejudice) or file a motion to lift the stay of proceedings (if stayed); plaintiffs will not be prejudiced by the dismissal or the stay. Defendants point out that if plaintiffs' motion to remand is granted, then litigation of the termination issue will occur in two forums simultaneously — the

arbitration hearing and state court. Moreover, defendants assert, such litigation would prejudice the arbitration, might lead to disparate holdings and runs counter to federal policy favoring arbitration agreements.

In Morrie Mages & Shirlee Mages Foundation v. Thrifty Corp., 916 F.2d 402 (7th Cir. 1990), the Court of Appeals for the Seventh Circuit addressed the question whether the defendant (a guarantor of a note) was entitled under the Federal Arbitration Act to stay the proceedings against it by the creditor of that note pending an arbitration between the creditor and debtor regarding the same debt. Although the defendant was not a signatory to the arbitration agreement, the court held that "Section 3 of the FAA plainly requires that a district court stay litigation where issues presented in the litigation are the subject of an arbitration agreement." Id. at 407 (emphasis in original). The court further held that the defendant "as a party to litigation involving issues subject to an arbitration agreement, is entitled to a stay under section 3 of the FAA regardless of its status as a party to the arbitration agreement." Id.; see also Kroll v. Doctor's Associates, Inc., 3 F.3d 1167, 1171 (7th Cir. 1993) (staying an action against shareholders while their corporation arbitrated with plaintiff under FAA because allowing case to proceed would allow plaintiff to evade its duty to arbitrate); McCowen v. Sears, Roebuck and Co., 908 F.2d 1099, 1106 (2d Cir. 1990) (if federal action concerns "an issue referable to arbitration by the terms of an arbitration agreement, then the federal court must stay the trial of the action until such

arbitration has been had in accordance with the terms of the agreement"); Tepper Realty Co. v. Mosaic Tile Co., 259 F. Supp. 688, 692-93 (S.D.N.Y. 1966) (irrelevant whether moving party was party to arbitration agreement).

Although defendant Westfalia-Surge is not a guarantor, the net effect is the same: its liability cannot be ascertained until the propriety of the termination is determined through arbitration. Thus, defendant Westfalia-Surge is in the same position as the defendant in Morrie Mages, that is, Westfalia-Surge is a party to litigation involving an issue subject to an arbitration agreement entered into by plaintiffs. It is true that defendant Westfalia-Surge did not enter into an arbitration agreement with plaintiffs, but in order to determine whether Westfalia-Surge is infringing on plaintiffs' exclusive license, the arbitration panel must first determine whether plaintiffs' license with defendant Rieberjo is still in effect (an issue plaintiffs agreed to arbitrate).

In IDS Life Ins. Co. v. SunAmerica, Inc., 103 F.3d 524 (7th Cir. 1996), the Court of Appeals for the Seventh Circuit revisited its rationale for staying the proceedings in Morrie Mages, concluding that it should have based its decision to stay in that case on the doctrine of parallel-proceeding abstention, rather than on Section 3 of the Federal Arbitration Action. The court held that Morrie Mages was a case "in which a party to an arbitration agreement, trying to get around it, sues not only the other party to the agreement but some related party with which it has no arbitration agreement, in the hope that the claim

against the other party will be adjudicated first and have preclusive effect in the arbitration. Such a maneuver should not be allowed to succeed, but it is blocked not by section 3, which is not addressed to the problem of parallel judicial/arbitral proceedings, but by the principles of parallel-proceeding abstention, which in the case just put would require the court to stay the proceedings before it and let the arbitration go forward unimpeded. We do not quarrel with the result in Mages, only with the attempt to ground it in section 3." Id. at 530.

Plaintiffs point out that in Morrie Mages, the court found that the effort to litigate against the guarantor was "an attempt by the plaintiffs to evade the agreed-upon resolution of their disputes in the arbitration forum by introducing the identical controversy in a judicial forum . . ." Morrie Mages, 916 F.2d at 407. In this case by contrast, plaintiffs allege that their motive is not to evade arbitration but "to protect important business interests" and halt "Westfalia-Surge's business plan to exploit opportunities related to the System," which are causing continuing harm. Plts.' Response to Mot. to Compel, dkt. #7, at 6. Because plaintiffs' alleged rationale is so nebulous, I am not persuaded that plaintiffs are not simply trying to evade arbitration. Plaintiffs agreed to arbitrate the termination of the licensing agreement; they should be held to that agreement.

Plaintiffs agreed to arbitrate any dispute relating to the licensing agreement. The alleged wrongful termination of the licensing agreement by defendant Rieberjo is such a dispute. The termination issue is pivotal to any cause of action plaintiffs might have against

defendant Westfalia-Surge. If the arbitration panel concludes that termination was proper, defendant Westfalia-Surge cannot possibly infringe on a license plaintiffs no longer own. If the arbitration panel concludes the termination was improper, plaintiffs can file a motion to lift the stay for further proceedings against defendant Westfalia-Surge. Because I find that defendant Westfalia-Surge is a party to litigation involving an issue subject to an arbitration agreement entered into by plaintiffs, both defendants are entitled to a stay of proceedings under the doctrine of parallel-proceeding abstention pending the outcome of arbitration.

Because I am staying the proceedings pending the outcome of arbitration, I will deny as moot defendants' motion for an enlargement of time in which to answer the complaint.

ORDER

IT IS ORDERED that

1. The motion of defendants Rieberjo B.V. and Westfalia-Surge, Inc. to compel arbitration between plaintiffs Germania Dairy Automation and DeLaval International AB, f/k/a ALA Agri AB and defendant Rieberjo B.V. is GRANTED;

2. Defendants' motion to dismiss or, in the alternative, to stay the proceedings is GRANTED; the proceedings are STAYED as to both defendants pending the outcome of arbitration proceedings. Because the arbitration proceeding may resolve all of the issues

among the parties and make any further proceedings in this court unnecessary, the clerk of court is directed to close the case administratively. In the event the arbitration does not resolve all of the issues, the case will be reopened immediately upon motion of any party and will be set promptly for trial, with the parties retaining all rights they would have had had the case not been closed for administrative purposes;

3. Plaintiffs' motion to remand is DENIED; and

4. Defendants motion for an enlargement of time in which to answer the complaint is DENIED as moot.

Entered this 24th day of September, 2001.

BY THE COURT:

BARBARA B. CRABB
District Judge