IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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HYRAD CORPORATION,

Plaintiff,

v.

TENNECO AUTOMOTIVE INCORPORATED and MONROE AUTO EQUIPMENT COMPANY,

Defendants.

OPINION AND ORDER

00-C-0426-C

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This is a civil suit for declaratory relief and monetary damages brought by plaintiff Hyrad Corporation, involving claims of breach of contract and termination of a licensing agreement. Defendants Tenneco Automotive Incorporated and Monroe Auto Equipment Company believe that the dispute should be arbitrated and have moved for dismissal or, in the alternative, for a stay pending the completion of arbitration. Jurisdiction is present under 28 U.S.C. § 1332. The parties are of diverse citizenship and the amount in interest exceeds $75,000. I conclude that defendants are correct; the arbitration provision in the parties' agreement governs this entire dispute. Therefore, defendants' motion to dismiss will be granted.

For the sole purpose of deciding the motion to dismiss, I find the following facts from the complaint and the record.

FACTS

Plaintiff Hyrad is an Arizona corporation with its principal place of business in the state of Wisconsin. Defendant Tenneco is a foreign corporation that maintains its principal place of business in Illinois. It is in the business of manufacturing and selling automotive parts. Defendant Monroe is a foreign corporation with its principal place of business in Michigan, also in the business of manufacturing and selling automotive parts.

On May 16, 1991, plaintiff entered into a licensing agreement with defendant Monroe concerning plaintiff's U.S. Patent No. 4,838,394 for an adjustable shock absorber and system. Plaintiff gave defendant Monroe an exclusive license to manufacture and sell certain automotive components covered by the patent. The agreement contained the following provisions relating to arbitration and termination.

> 7. Term and Termination
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> 7.2 Breach of Agreement. In the event of any material breach of this Agreement by one party hereto, the other party hereto shall be entitled to give notice of default and a demand for correction of such breach within sixty (60) days following the date of such notice, and if the party in breach fails to correct the breach within the stipulated period, the other party hereto shall have the unconditional right to terminate this Agreement by giving written notice thereof.

* * * * * *

> 9.9 Arbitration. In the event of a difference arising between the parties hereto on the construction of this Agreement or any clause herein contained or any matter in any way connected herewith or the rights, duties and obligations of either party hereunder, it shall, failing agreement between the parties within three (3) months of the date of the written notice of such difference being given by one party to the other, be finally determined in accordance with the Commercial Arbitration Rules of the American Arbitration Association by three arbitrators appointed in accordance with these rules. . . .

The parties clarified the agreement by letter dated May 16, 1991, and amended it on July 26, 1993, in ways that do not affect the issue in dispute.

Defendant Tenneco owned defendant Monroe when Monroe entered into the agreement and is bound by the terms of the agreement. Defendant Tenneco is required to provide plaintiff a written statement on the computation of royalties due plaintiff for the preceding calendar quarter at or before it pays plaintiff the royalties. Defendant Tenneco has not provided any report of royalties since January 1999. Pursuant to ¶ 7.2, plaintiff provided defendant Tenneco notice of the breach in a letter dated December 20, 1999. Defendant Tenneco failed to cure the breach within sixty days.

Also under the terms of the agreement, plaintiff is entitled to examine defendant Monroe's books of account at all reasonable times in order to verify the royalty report. Plaintiff requested that such an examination take place during the month of January 2000, and sent its request to Tenneco's legal counsel on December 20, 1999. Defendant Tenneco did not respond

to the letter during the months of December 1999, January 2000 or February 2000. It has not given plaintiff a date on which the examination could take place, leaving plaintiff unable to verify its royalty payments.

Plaintiff and defendant Monroe made an oral agreement in 1994 that royalty payments would be made to plaintiff on a monthly basis rather than quarterly. Defendant Monroe made monthly payments from July 1994 to December 1998, but stopped making regular payments in 1999 and ceased making any payments at all after September 1999. Plaintiff provided notice of this breach in its December 20, 1999 letter; defendant Tenneco failed to cure the breach within sixty days.

Defendant Tenneco's failure to make royalty payments within sixty days after the last day of the calendar quarter ending September 1999 breached ¶ 5.11 of the agreement. Plaintiff gave notice of the breach in its December 20 letter; defendant Tenneco failed to cure the breach within sixty days. Defendants have refused to adjust the rate of royalty payments to adjust for the discontinuance of the particular Producer Price Index they agreed to use in 1991, unless plaintiff agrees to additional modifications in the application of the terms of the agreement to the Producer Price Index. Defendant Tenneco's refusal to make the adjustment called for in the agreement has lasted since December 1994. Plaintiff gave notice of the breach in its December 20 letter; defendant Tenneco failed to cure the breach within sixty days.

When defendant Tenneco failed to cure its breaches, plaintiff provided defendant with written notice of its termination of the agreement by a letter it delivered to defendant on February 28, 2000. The parties attempted to resolve their dispute through negotiation but were unsuccessful. On July 5, 2000, plaintiff filed this suit against defendants. On August 1, 2000, defendants moved to dismiss to permit arbitration.

OPINION

In opposing defendants' motion to dismiss, plaintiff argues that the terms of the agreement entitle it to unconditional termination once certain steps are completed, including notice of breach, failure to cure within sixty days and delivery of notice of termination. Plaintiff maintains that because the agreement provides for unconditional termination, there is nothing to arbitrate. Plaintiff adds that if the agreement is construed to require arbitration, it would deny meaning to ¶ 7.2, which gives the non-breaching party the *unconditional* right to terminate. Plaintiff takes issue as well with the timing of defendants' request for arbitration, It argues that defendants waited too long to seek arbitration rather than asking for it as soon as plaintiff provided notice of termination in February 2000. In plaintiff's view, when defendants waited to seek arbitration until suit was filed, they waived their right to challenge plaintiff's notice of termination.

Plaintiff's reading of the agreement does not stand up to scrutiny. It is obvious from even a cursory reading of ¶ 7.2 that termination is not the unconditional right of any party who asserts a material breach of the agreement, gives notice, determines that timely correction has not taken place and gives notice of termination. Rather, the agreement provides that termination becomes an unconditional right only if there is a material breach in fact, the non-breaching party provides notice of default and demand for correction and the allegedly breaching party fails to correct the breach within sixty days. It takes more than a simple calculation to determine whether plaintiff has met these conditions precedent to termination. Resolving the differences requires finding facts and analyzing the significance of those facts. Did a breach occur? If it did, was it material? What efforts did the allegedly breaching party take to try to correct the breach? Were those efforts sufficient? Providing a means for resolution of such disputed questions is the purpose of the arbitration clause, which by its terms covers the entire agreement and any clause within it, as well as "any matter in any way connected herewith or the rights, duties and obligations of either party." 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.

Plaintiff has not cited any statute or case that holds that a defendant waives its right to arbitrate by engaging in negotiation to resolve the dispute. But see Howard Fields & Associates v. Grand Wailea Co., 848 F. Supp. 890 (D. Hawai'i 1993) (party does not waive right to arbitration by participating in several months of negotiation before opposing party files suit). In this circuit, "an election to proceed before a nonarbitral tribunal for the resolution of a contractual dispute is a presumptive waiver of the right to arbitrate." Cabinetree of Wisconsin v. Kraftmaid Cabinetry, Inc., 50 F.3d 388, 390 (7th Cir. 1995). This suggests 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. See Baltimore & Ohio Chicago R. Co. v. Wisconsin Central, 154 F.3d 404, 408 (7th Cir. 1998). However, a judge can excuse non-compliance with this rule because it is not jurisdictional. See id. In this case the question of non-compliance does not even arise because defendants raised the issue as early in plaintiff's suit as they could have. Cf. PPG Industries, Inc. v. Webster Auto Parts, Inc., 128 F.3d 103 (2d Cir. 1997) (party held to have waived right to arbitration of counterclaims raised in second collection action when it engaged in discovery and filed substantive motions in first action relating to counterclaims raised in second action and failed to assert defense of arbitration or

move for stay pending arbitration in either action). The policies of judicial economy and fairness to the plaintiff are served by not allowing a party to jettison months of litigation by raising an untimely claim of arbitration. No such policy considerations are present here: the lawsuit has not progressed and no definitive rulings have been made.

One additional matter needs to be addressed. Plaintiff argues that Michigan law applies to the construction of the contract but it has not cited any Michigan cases or made any attempt to show how application of Michigan law would affect the reading of the contract. Therefore, I have given this argument no consideration.

It appears that all of plaintiff's claims are subject to arbitration and can be resolved through that process. Under these circumstances, I can see no reason to retain jurisdiction and plaintiff has suggested none.

ORDER

IT IS ORDERED that the motion to dismiss filed by defendants Tenneco Automotive Incorprated and Monroe Auto Equipment Company is GRANTED. The clerk of court is directed to enter judgment for defendants and close this case.

Entered this 30th day of October, 2000.

BY THE COURT:

BARBARA B. CRABB
District Judge