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

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NOVUS FRANCHISING, INC.,

Plaintiff,

v.

SUPERIOR ENTRANCE SYSTEMS, INC., SUPERIOR GLASS, INC., and KNUTE PEDERSEN,

Defendants.

OPINION AND ORDER

12-cv-204-wmc

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Now before the court are defendants' motion for clarification of the court's judgment (dkt. #157) and defendants' motion to stay execution of the judgment (dkt. #164). The court previously indicated that it would discuss the matter of clarification at the scheduled April 19 contempt hearing (dkt. #160). Having received sufficient briefing on the subject, the court now provides additional guidance in this opinion. For the reasons discussed below, the court finds (1) all three defendants are jointly and severally liable for the court's attorneys' fee award; and (2) defendants' motion to stay execution of judgment is, therefore, moot.

## BACKGROUND

On January 10, 2013, plaintiff moved for an award of its attorneys' fees and costs, citing Article 24.3 in the parties' Franchise Agreement. Article 24.3 permits plaintiff to recover costs and expenses incurred in "successfully enforcing any term, condition or provision of this Agreement, in successfully enjoining any violation of this Agreement . . .

or in successfully defending any lawsuit you bring against us." (Franchise Agreement, dkt. #1-1.) On February 26, 2013, the court substantially granted plaintiff's request, awarding attorneys' fees and costs in the amount of $124,745.40, but did not specify whether this sum was awarded against all or only some of the three defendants. (Dkt. #142.) On the same day, the court entered final judgment in plaintiff's favor. (Dkt. #144.)

By letter, defendants then requested a "clarification" from the court as to whether its award of attorneys' fees applies jointly and severally to all defendants. Since defendants effectively argue in that letter that it was legal error *not* to specify that the monetary judgment applies only to Knute Pederson, the court treats the submission as a motion for reconsideration of judgment under Federal Rule of Civil Procedure 59(e).

"Altering or amending a judgment under 59(e) is permissible when there is newly discovered evidence or there has been a manifest error of law or fact." *Harrington v. City of Chi*, 433 F.3d 542, 546 (7th Cir. 2006). "Such motions cannot . . . serve as an occasion to tender new legal theories for the first time." *Rothwell Cotton Co. v. Rosenthal & Co.*, 827 F.2d 710 (7th Cir. 1987). Defendants never raised the question of joint and several liability in their opposition to plaintiff's request for fees, so the present request for clarification arguably falls under the prohibited category of "new legal theories." As neither side put the issue into dispute in briefing on the motion for attorneys' fees, however, defendants' failure to address joint and several liability may be excusable. As this court generally favors deciding issues on their merits rather than procedurally forfeited where possible, it will err on the side of considering the substance of defendants' arguments.

## OPINION

Of the three franchisees in this action, Knute Pedersen, Superior Entrance Systems (SES) and Superior Glass Inc. (SGI), defendants argue that only Mr. Pedersen should be liable for the attorneys' fee award.

### A. SES

Defendants argue that SES should not be liable for the entire attorneys' fee award because SES played only a small part in the litigation. The court disagrees. SES was directly involved in three significant aspects of the case. *First*, plaintiff brought a successful claim against SES for breach of its obligation under the Franchise Agreement to pay royalty fees. *Second*, SES brought its own (unsuccessful) counterclaims against plaintiff. *Third*, SES is directly liable for Knute Pedersen's violations of the Agreement's non-compete provision. (*See* dkt. #120, ¶7 ("You agree that you, your Owners, [and] the Personal Guarantors . . . will not . . . .")).

Each of these three connections to the litigation establishes an obligation to reimburse plaintiff its attorneys' fees, as is clearly provided in the Franchise Agreement:

> You will pay us for any and all Costs and Expenses we incur for the collection of past due Royalty Fees or other amounts due to us or our affiliates. In addition, you will pay all Costs and Expenses we incur in successfully enforcing any term, condition or provision of this Agreement, in successfully enjoining any violation of this Agreement by you, or in successfully defending any lawsuit you bring against us.

(Compl., dkt. #1, Ex. A, Art. 24.3.)

Indeed, between the three, there is very little of this case in which SES is not implicated. Therefore, it is appropriate to hold SES jointly and severally liable for the full attorneys' fee bill.

**B. SGI**

Defendants take a different approach with respect to SGI, arguing that it cannot be bound by the Agreement's attorneys' fee provision because it was not a signator to the agreement. Again, the court disagrees.

As has been true throughout this case with regard to SGI, the critical question is whether SGI is equitably estopped from rejecting the provisions of the Agreement after acting as though it were party to the agreement (and accepting the benefits of the Agreement) for over a decade. The court addressed this question in its August 16, 2013, order denying defendants' request for a jury trial. (Dkt. #91.) Because the court was unable to find any Minnesota law directly on point, it turned for guidance to the Minnesota Supreme Court's decision in *Onvoy, Inc. v. SHAL, LLC*, 669 N.W.2d 344, 356 (Minn. 2003). *Onvoy* dealt with a non-signatory's attempt to enforce a contractual arbitration clause against a signatory. In deciding this issue, the *Onvoy* court incorporated a test for determining when equitable estoppel allows a nonsignatory to compel arbitration set out in *MS Dealer Services Corp. v. Franklin*, 177 F.3d 942 (11th Cir. 1999) (abrogated on other grounds by *Arthur Andersen LLP v. Carlisle*, 556 U.S. 624, 631 (2009)).

In fairness, the facts in *Onvoy* and *MS Dealer* can be distinguished from those here -- both of those cases involved a non-signatory invoking a contractual arbitration clause in *defense* to a signatory's contract claims -- while this case involves the reverse -- a signatory attempting to *assert* contract terms against a non-signatory. The "distinction is *not* one without a difference." *Bridas S.A.P.I.C. v. Government of Turkmenistan*, 345 F.3d 347, 361 (5th Cir. 2003) (emphasis original). "A non-signatory cannot be bound to [the provisions of a contract] unless it is bound under traditional principles of contract and agency law to be akin to a signatory of the underlying agreement." *E.I. DuPont de Nemours and Co. v. Rhone Poulenc Fiber and Resin Intermediates, S.A.S.*, 269 F.3d 187, 194 (3rd Cir. 2001).

The distinction does not, however, change the outcome here, since one of the recognized traditional contract principles is "direct benefit" estoppel, which the Seventh Circuit has recognized prevents a "nonsignatory party . . . from avoiding arbitration [and by extension, any other contractual obligation] if it knowingly seeks the benefits of the contract containing the arbitration clause." *Zurich Am. Ins. Co. v. Watts Indus., Inc.*, 417 F.3d 682, 688 (7th Cir. 2005).[1] Typically, a non-signatory knowingly seeks the "direct benefits" of a contract by attempting to enforce that contract; courts recognize that a party cannot invoke the terms of a contract in one context, yet reject it in another. *Bridas*, 345 F.3d at 362. But most of the major cases (there is, unfortunately, no Minnesota law on directly point) suggest that whether a non-signatory has sought a

[1] Similarly, in denying SGI's request for a jury trial (dkt. #19 at 16), the "direct benefits" estoppel theory is more on point than general equitable estoppel principles recognized in *Onvoy* and *MS Dealer*.

"direct benefit" is not limited to situations where a non-signatory seeks to enforce the contract for its benefit, but rather turns on whether the non-signatory has intentionally taken advantage of the contract for its own gain. For example, *Zurich American* asks whether a non-signatory "knowingly [sought] the benefits of the contract." 417 F.3d at 688. *E. I. DuPont* considers whether the nonsignatory "knowingly exploit[ed] the agreement." 269 F.3d at 199. *American Bureau of Shipping v. Tencara Shipyard S.P.A.*, 170 F.3d 349, 353 (2nd Cir. 1999), focuses on the fact that the non-signatory proceeded to rely upon the contract as a tool to gather benefits, "including (1) significantly lower insurance rates on [their boat] and (2) the ability to sail under the French flag."[2]

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[2] At least one major case suggests that a non-signatory is bound by "direct benefits" estoppel *only* if it has tried to sue on the contract in its own name. See *Bridas*, 345 F.3d at 362 ("Here, it is undisputed that the Government has not sued Bridas under the agreement. The Government has thus not 'exploited' the [agreement] to the degree that the cases that consider applying this version of estoppel require.). However, *Bridas* is not binding precedent, and other courts have recognized the doctrine should, and does, reach more broadly. For example, in *American Bureau of Shipping,* a ship owner brought suit on negligence claims (as opposed to contractual ones) against the ship's designer. *American Bureau of Shipping v. Societe Jet Flint, S.A.*, No. 97 Civ. 3570(HB), 1998 WL 273083, at *2 (S.D.N.Y. May 27, 1998). The ship's designer and manufacturer had signed a contract containing an arbitration agreement, but the owners were not party to the contract, and had never tried to enforce the contract. Nevertheless, the ship's designer successfully enforced the contract's arbitration clause against the owner because it had taken advantage of the benefits received as a result of the contract (for example, lower insurance premiums). 170 F.3d at 353. While declining to enforce arbitration clauses under a theory of "direct benefits" estoppel, the courts' analysis in *Zurich* and *E.I. DuPont* is also instructive. In *Zurich*, the court knew that the plaintiff had "not sought to enforce any rights it ha[d] under the [relevant] agreements," yet still went on to consider whether the benefits the plaintiff received from the disputed contract were "direct." 417 F.3d at 688. In *E. I. DuPont*, the plaintiff never sued to enforce the contract (instead, the plaintiff sued on an oral contract that incorporated the obligations of the underlying agreement), but the court nevertheless found it to be a "close call" whether the plaintiff had sufficiently "embraced" the underlying agreement. 269 F.3d at 199-201.

Although SGI never formally attempted to enforce the contract against Novus in its own name, the evidence of record shows that SGI "knowingly exploited" the contract for years, including (1) taking advantage of its *de facto* status as a Novus dealer and (2) flying the Novus flag over its operation. Specifically, Knute Pedersen, who owned *both* SES and SGI, wrote letters reminding Novus of its contractual responsibilities under the contract (without disclosing that he was essentially enforcing the contract on SGI's behalf) and SGI acted as the *de facto* contracting party for a decade. SGI not only effectively adopted the contract as its own, the benefits it received as a result were neither attenuated nor indirect. It is, therefore, appropriate under Minnesota law to apply the "direct benefits" doctrine to bind SGI to the terms of the contract generally.

Finally, defendants argue that holding SGI to the terms of the Agreement would be inconsistent with the court's decision on summary judgment, explaining that "SGI -- a non-party to the Franchise Agreement -- cannot be directly restrained" under the contract's non-compete provision. (Dkt. #105, at 28.) Taken out of context, the quoted phrase may appear inconsistent with the court's determination above. Read in context, however, the phrase simply reflects the court's choice not to apply those equitable principles at summary judgment out of respect for plaintiff's theory of the case. As explained elsewhere in that opinion, plaintiff argued at the time that only SES and Mr. Pedersen were named parties to the contract and appeared to disclaim any intention of enjoining SGI based on the contract's non-compete provision. (*Id.* at 14.)

While plaintiff now seeks to enforce a different clause of the Franchise Agreement against SGI as if it *were* a party, plaintiff's previous failure to do so with respect to injunctive relief does not work some kind of judicial estoppel. On the contrary, plaintiff did not take contradictory positions on the merits, but rather sought more narrow equitable relief.[3]

SGI is, therefore, liable under Article 24.3 of the Franchise Agreement, requiring reimbursement of "all Costs and Expenses we incur in successfully enforcing any term, condition or provision of this Agreement . . . [and] in successfully defending any lawsuit you bring against us." (Compl., dkt. #1, Ex. A, Art. 24.3.) Since this phrase accurately describes this litigation, the court holds that SGI, too, is jointly and severally liable for the attorneys' fees.

ORDER

IT IS ORDERED that defendants' Request for Clarification (dkt. # 158), is GRANTED and all three defendants are to be jointly and severally liable for the court's attorneys' fee award.

Entered this 18th day of April, 2013.

BY THE COURT:

/s/

WILLIAM M. CONLEY
District Judge

[3] Plaintiff's decision not to pursue enforcement of the non-compete provision may have been prompted in part by the historically narrow construction given most such agreements. While the American rule is generally not to shift the costs of litigation to the losing party, there is no such history of narrow construction by courts to contractual fee shifting provisions.