IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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MITCHELL HEALTH TECHNOLOGIES, INC.,
RUSS MITCHELL and JAMES HIGGINS,

Plaintiffs,

OPINION AND ORDER

02-C-0439-C

v.

NATUREWELL, INC., f/k/a
LA JOLLA DIAGNOSTICS, INC.,

Defendant.

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This is a civil action for monetary and declaratory relief in which plaintiffs allege that defendant Naturewell, Inc., f/k/a La Jolla Diagnostics, Inc., breached its marketing agreement with plaintiff Mitchell Health Technologies, Inc. and failed to issue plaintiffs Russ Mitchell and James Higgins stock certificates without a restrictive legend that prohibits them from trading the stock.

Presently before the court are (1) defendant's motion to dismiss or, in the alternative, stay the proceedings pursuant to an arbitration clause; (2) plaintiffs' motion to unseal and use James Arabia's deposition transcript; and (3) defendant's motion to seal its brief in opposition. Because the parties dispute whether the contract containing the arbitration

clause is the operative contract or whether the arbitration clause itself is enforceable, defendant's motion to dismiss or stay the proceedings will be denied. Because Arabia's deposition testimony is properly before the court and relevant to the central issue in this case, I will grant plaintiffs' motion to unseal and use Arabia's testimony. As a result, defendant's motion to seal its brief in opposition will be denied as moot.

Plaintiffs' allegations were set forth in this court's December 2, 2002 opinion, dkt. #23, at 2-4, in response to defendant's first motion to dismiss. Therefore, I will not repeat them in this opinion.

OPINION

A. Motion to Dismiss or Stay Proceedings Pending Arbitration

The parties' dispute centers on which contract is the operative contract between defendant and plaintiff Mitchell Health. Plaintiffs contend that a November 3, 2000 contract (including oral modifications) controls the dispute and defendant contends that a May 1, 2002 contract controls. The issue is complicated by the fact that (1) plaintiff Mitchell Health never signed the May 1 contract; and (2) the May 1 contract contains arbitration and forum selection clauses, while the November 3 contract does not.

As a preliminary matter, defendant argues that when this court determined that the May 1 contract's permissive forum selection clause did not require the parties to litigate in

a California forum, it "implicitly decided" that the May 1 contract is the operative contract. Defendant's assumption is incorrect. Plaintiffs argued alternatively that *even if* the May 1 contract *were* the operative contract, the forum selection clause within that contract was permissive and, thus, the clause could not mandate a different forum. I agreed. There was no need to determine whether the May 1 contract is the operative contract because it did not matter in light of the fact that the clause itself is permissive. Moreover, as I stated in the December 2 opinion, because plaintiffs' factual allegations support their assertion that the November 3 contract is the operative contract, it would be improper for the court to accept defendant's version of events to conclude otherwise. See December 2 Op., dkt. #23, at 16 ("in determining whether to grant a motion to dismiss, the court is required to accept plaintiffs' factual allegations as true and draw all reasonable inferences in plaintiffs' favor") (citing Harrell v. Cook, 169 F.3d 428, 431 (7th Cir. 1999)).

Citing Roberts & Schaefer Co. v. Merit Contracting, Inc., 99 F.3d 248 (7th Cir. 1996), defendant argues that the court should conclude at this stage of the proceedings that the unsigned May 1 contract and concomitant arbitration clause are enforceable. I am unpersuaded. In Merit, the defendant argued that its bid package, its bid and the plaintiff's oral acceptance of its bid established the terms of the parties' construction contract. Id. at 252. On the other hand, the plaintiff argued that the subsequent unsigned purchase order documents (which contained a forum selection clause not found in the bid package) made

up the terms of the contract. Id. The court of appeals held that the unsigned purchase order documents constituted the operative contract because the defendant's continued performance was consistent with the terms found in those documents. Id. at 253. Thus, the forum selection clause was enforceable. Id. at 254 However, the court pointed to two problems with the defendant's position, id. at 253, that defendant fails to mention in this case. First, in Merit, the defendant failed to include the bid package in the record and, therefore, the court had no way of determining whether that document could constitute an enforceable contract. Id. at 253-54. Second, the defendant's lawyer conceded at oral argument that the bid package merely described the scope of the work. Id. at 254. In this case, the parties do not appear to dispute that the November 3 contract is enforceable. To the contrary, defendant argues only that the May 1 contract supersedes the November 3 contract. Although the holding in Merit might well carry the day on summary judgment or at trial, at this juncture plaintiff's factual allegations are sufficient to stave off a motion to dismiss and foreclose a conclusion that the May 1 contract and arbitration clause are enforceable.

As to defendant's alternative motion to stay pending arbitration, its request is premature. The parties contest the existence of the May 1 contract, which contains the arbitration clause at issue. See Magallanes Inv., Inc. v. Circuit Systems, Inc., 994 F.2d 1214, 1217 (7th Cir. 1993) ("the existence of a contract to arbitrate is usually a threshold question

for the court not the arbitrator to determine") (citing AT&T Technologies, Inc. v. Communication Workers, 475 U.S. 643, 649-650 (1986)). Although defendant persists in arguing that this court should accept its version of events, see, e.g., Dft.'s Reply, dkt. #42, at 3-4, such arguments are misplaced at this stage of the proceedings. As is evident, until there has been a determination as to the enforceability of the arbitration clause, the court cannot stay the proceedings on the basis of that clause.

Nevertheless, plaintiffs contend that defendant has waived its right to invoke arbitration. Although it is well established that the right to arbitrate can be waived, "whether the right has been waived will depend on the circumstances of each case." Magallanes, 994 F.2d at 1217 (citing Ohio-Sealy Mattress Manufacturing Co. v. Kaplan, 712 F.2d 270, 272-273 (7th Cir. 1983)). Defendant has not waived its right to invoke arbitration for the same reason that its request for a stay pending arbitration is premature. If it is too early for a party to invoke arbitration, it stands to reason that it also is too early to waive that same right by not asserting it. Plaintiffs cite Fed. R. Civ. P 12(h), (g) and argue that if a party omits an available defense of improper venue from a Rule 12 motion, see Baltimore and Ohio Chicago Terminal Railroad Co. v. Wisconsin Central Ltd., 154 F.3d 404, 408 (7th Cir. 1998) (construing demand for arbitration as invocation of improper venue), it has waived that right forever. Plts.' Resp., dkt. #27, at 4. Because plaintiffs dispute the existence of the May 1 contract, an arbitration defense was not "then available"

at the time defendant filed this or its first motion to dismiss. See Fed. R. Civ. P. 12(g) (waiver occurs if party omits any defense "then available to the party"); see also Baltimore and Ohio, 154 F.3d at 408 ("claim of improper venue . . . must be made as early *as possible* so that the other party can know in what forum he has to proceed") (emphasis added); Cabinetree of Wisconsin Inc. v. Kraftmaid Cabinetry, Inc., 50 F.3d 388, 391 (7th Cir. 1995) ("[s]election of forum in which to resolve a legal dispute should be made at the earliest *possible* opportunity in order to economize on the resources") (emphasis added). Therefore, unless and until the court or factfinder determines that the arbitration clause in the May 1 contract is enforceable, any arguments invoking arbitration are pointless.

One final word of caution is in order. Defendant should be aware that, in addition to arguing that the May 1 contract is unenforceable as a whole, plaintiffs argue alternatively that even if the May 1 contract were enforceable, the arbitration clause is not, because it was added unilaterally. In other words, defendant should not jump to the conclusion that if the May 1 contract is determined to be the operative contract, this court also has "implicitly decided" that all clauses or provisions within the contract are enforceable.

B. Motion to Unseal and Use James Arabia's Deposition Transcript

Plaintiffs have requested permission to file under seal and use certain excerpts of a deposition of James Arabia, defendant's chief executive officer, who testified in a separate

arbitration action involving defendant and a third party, Dr. Stephen Roberts. To the extent that plaintiffs alleged that they needed Arabia's deposition testimony to oppose the motion to dismiss, the motion to compel is moot. Nonetheless, for the sake of efficiency I will address plaintiffs' motion because I predict that plaintiffs will seek to use the Arabia deposition in future proceedings in this case.

Pursuant to a settlement agreement reached in the Roberts case, Arabia's deposition testimony is subject to a confidentiality agreement that provides that neither the parties nor their lawyers may disclose the testimony absent a court order. Dr. Roberts was represented by the same law firm that represents plaintiffs in this action, which is how plaintiffs know about Arabia's prior testimony. As part of the order denying defendant's first motion to dismiss, I granted defendant's motion to strike those portions of plaintiffs' brief and supporting materials in which plaintiffs cited Arabia's deposition testimony, finding that plaintiffs' attorneys had acted inappropriately by disclosing the testimony without first obtaining an order to compel disclosure, as required by the confidentiality agreement. Taking their cues from the prior order on the motion to strike, plaintiffs are minding their p's and q's and have sought an order to compel before relying on the Arabia testimony. (Dr. Roberts has waived his right to maintain the confidentiality of the selected excerpts from the Arabia deposition.)

As a preliminary matter, I note that plaintiffs moved for permission to file the Arabia

testimony under seal before bringing their motion to compel. On January 30, 2003, the magistrate judge granted plaintiffs' motion to file the Arabia testimony under seal after finding that defendant had not opposed the motion. Subsequently, defendant filed a motion to vacate the order, alleging that it had never received plaintiffs' electronic version of the motion and that the mailed copy had arrived too late to file a response. In an order entered February 6, 2003, the magistrate judge granted the motion to vacate. In the meantime, however, plaintiffs had prepared and mailed their motion to permit the use of and unseal the Arabia transcript and referred to the content of the transcript in their supporting papers. (Plaintiffs' papers indicate that plaintiffs mailed them on February 4; the clerk of court docketed them on February 10, 2003.) Thus, by virtue of what appears to have been the result of documents crossing in the mail, the pending motion for leave to file the Arabia transcript under seal is technically moot. Nonetheless, I will consider defendant's arguments opposing that motion.

Defendant contends that plaintiffs should not be allowed to submit the Arabia deposition even for the purpose of arguing for its disclosure because plaintiffs had no right to know that the deposition existed in the first place. Defendant argues that allowing plaintiffs to use the deposition in any way would reward their attorneys for violating the confidentiality agreement reached in the Roberts case. Defendant goes so far as to suggest that the Skolnick firm breached the settlement agreement merely by undertaking to

represent a second client against defendant, "since the same attorney could hardly be expected to keep information confidential from himself." Defendant argues that the only proper remedy for Skolnick's failure to build a "Chinese wall" protecting the confidential information it learned in the Roberts case is to bar plaintiffs from using it in any fashion.

Plaintiffs' attorneys acted improperly by disclosing the existence of Arabia's prior testimony to their clients without first alerting the court to the concerns they had about the alleged inconsistency of his statements. However, this breach of the confidentiality agreement does not amount to misconduct warranting an order barring plaintiffs from filing under seal or using the Arabia deposition in this case. Certainly, there was no ethical bar preventing the Skolnick firm from representing another party against defendant. (In fact, insofar as defendant suggests that the confidentiality agreement effectuated such a bar, the provision would probably constitute an improper restriction on Skolnick's right to practice. See ABA Formal Op. 00-417.) Furthermore, Skolnick did not disclose or seek to use any information from the Roberts case as a basis for bringing this lawsuit on behalf of plaintiffs. Keeping the Roberts materials confidential was not an issue until defendant opened the door by presenting an affidavit from Arabia that allegedly conflicts with his prior sworn testimony, and then counsel revealed only the limited part of the Arabia deposition that conflicts with the sworn statements Arabia has made in this case. To hold that plaintiffs' counsel should have looked the other way and pretended they knew nothing about Arabia's prior statements

would allow a litigant's private interest in keeping case-related materials out of the public realm to outweigh the public's interest in the fair administration of justice. Even communications protected by the attorney-client privilege must be disclosed if failing to do so may mean that a fraud will be committed upon the court; here, the materials sought to be disclosed are not protected by any privilege but are "confidential" only in the sense that the parties have deemed them so. Although this court does not take confidentiality agreements lightly, such agreements must yield when they are in tension with the truth-seeking process, as is the case here.

Defendant maintains that plaintiffs have cheated by submitting excerpts from Arabia's deposition to the court before obtaining a ruling that they could use the information. As noted previously, counsel made a mistake when they disclosed the deposition testimony to their clients and this court in connection with the previous motion to dismiss. However, once the information was "out of the bag," there was no point in plaintiffs' counsel's pretending that it was not for the purposes of the instant motion to compel. I do not understand defendant to be contending that, had plaintiffs' counsel brought a motion to compel before revealing the substance of the Arabia deposition to their clients, they could not have asked the court to review the deposition transcript for the purpose of deciding whether it could be disclosed to their clients and used in this lawsuit. Further, insofar as defendant may be contending that plaintiffs acted in violation of the

magistrate judge's order vacating his order allowing plaintiffs to file the transcript excerpts under seal, it appears that plaintiffs mailed the transcript before they were aware of the magistrate judge's February 6 order. In sum, plaintiffs' submission of the deposition transcript simply does not amount to the malfeasance alleged by defendant.

Having concluded that the selected excerpts from the Arabia deposition are properly before the court and after balancing the competing interests involved, I will grant plaintiffs' motion to compel. Arabia's prior statements are relevant to the central issue in this case (whether the May 1 contract supersedes the November 3 contract) and they tend to impeach averments he has made in recent affidavits. There is nothing in the selected deposition excerpts that reveals any sensitive business information, trade secrets or settlement negotiations. Although defendant argues that Arabia's statements are either inadmissible legal opinions or are not inconsistent with the statements he has made in this case, its arguments do not warrant an order denying disclosure of the statements. Defendant is free to argue about the admissibility or weight of Arabia's statements at trial.

Finally, for the reasons just explained, I find that no good cause exists for sealing the deposition excerpts or the briefs that refer to them. Accordingly, the clerk is directed to unseal these documents. Defendant's motion to seal its brief in opposition will be denied as moot.

ORDER

IT IS ORDERED that

1. Defendant Naturewell, Inc., f/k/a La Jolla Diagnostics, Inc.'s motion to dismiss or, in the alternative, to stay the proceedings pending arbitration is DENIED;

2. Plaintiffs' motion to unseal and use James Arabia's deposition transcript is GRANTED. The clerk of court is directed to unseal all documents in this case; and

3. Defendant's motion to seal its brief in opposition is DENIED as moot.

Entered this 10th day of March, 2003.

BY THE COURT:

BARBARA B. CRABB
District Judge