

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

JOHN MEZZALINGUA ASSOCIATES,
INC, d/b/a PPC,

Plaintiff,

v.

INTERNATIONAL COMMUNICATIONS
MANUFACTURING CORPORATION,
RANDALL A. HOLLIDAY and BELDEN
INC.,

Defendants.

OPINION AND ORDER

11-cv-424-bbc

Defendants International Communications Manufacturing Corporation (known as ICM), Randall A. Holliday and Belden Inc. have moved for reconsideration of this court's December 8, 2011 order denying their motion for a stay pending arbitration. Also before the court is a motion by defendants to file a reply brief on their motion to reconsider, which will be granted.

The parties' dispute arises out of two agreements that the parties signed in 2004 an effort to settle long-running patent litigation. One agreement focused on settlement and was signed by plaintiff John Mezzalingua Associates, Inc., defendants ICM and Holliday and

ARRIS International, Inc., which is not a party to this case. The other agreement was directed to future licensing and was signed only by plaintiff and ARRIS.

Seven years after signing the agreements, plaintiff brought this suit against defendants for injunctive relief and money damages, alleging claims of breach of contract, rescission and infringement of the claims of two separate patents. (The second patent issued a year after the execution of the agreements, as anticipated by the parties to the agreement.) Defendants responded to the suit by moving to stay until arbitration could take place. They argued that the terms of the agreements required arbitration of plaintiff's claim relating to the patent that issued after settlement and that, because resolution of this claim affected most of the other claims, the case should be stayed pending the results of arbitration. Defendants took the position that although they are not technically parties to the license agreement, it must be construed together with the settlement agreement because it is incorporated by the settlement agreement. Read together, the two agreements apply to defendants and require arbitration of any dispute over a "patent event," which is defined in § 2.5 of the license agreement as "the issuance of a U.S. patent claiming priority to the Parent Application with claims that cover the RCA and BNC Products."

Plaintiff views the agreements quite differently, maintaining that it was never its intent for defendants to be parties to the license agreement. Rather, it excluded them specifically and made it clear in the agreements that defendants were required to purchase

any licensed product solely from ARRIS, not directly from plaintiff. Plaintiff adds that defendants have no ground on which to insist on arbitration; the license agreement makes it clear that any conflict between it and the settlement agreement is to be resolved in favor of the settlement agreement and the settlement agreement says nothing about arbitration. Instead, according to plaintiff, defendants are bound by the terms of the settlement agreement to consent to suit in a court of competent jurisdiction.

In the December 8, 2011 order, I agreed with defendants that the settlement and license agreements were so closely intertwined as to constitute one agreement, even if defendants were not signatories to the license agreement. This intertwining can be seen in several places, but ¶ 55 of the settlement agreement makes it plain. It provides that “[s]ubject to the exclusion of disputes over whether a PPC patent covers the RCA and BNC Product of ARRIS, Holliday and/or [ICM], which will be determined under Section 11.2 of the License Agreement, the parties [to the settlement agreement] will attempt in good faith to resolve any controversy or claim related to this Agreement by negotiation.” Stlm. agmt., dkt. #28, at 21. (Emphasis added.) Despite this provision, I concluded that the language of § 3.2 of the license agreement was fatal to defendants’ position because the section seemed to say that nothing in the license agreement was to be construed as granting defendants any rights or licenses under the agreement. I read this as saying that although arbitration was provided for in the license agreement, defendants could not claim the benefit of it. I read in additional support

for this view from § 11.2.7 of the license agreement, which specified the limited extent to which defendants would participate with ARRIS in any aspect of the license agreement relating to arbitration. Finally, I found nothing in the agreement that gave defendants a specific right to demand arbitration or implied such a right.

I am now persuaded that this reading of § 3.2 was erroneous, as defendants have pointed out in their motion to reconsider. Section 3.2 is not concerned with rights that defendants might have under other sections of the settlement agreement, but an attempt to specify that the license agreement does not confer rights to any of plaintiff's patents "other than the Licensed Patents." As defendants note, no "other" patent rights are at issue in this case. Although the last phrase of the section could be read as intended to keep defendants from having any rights or licenses to anything, defendants make the point that such a reading would not make sense. It would put § 3.2 in tension with § 11.2.7, which gives defendants rights, albeit limited ones, to participate with ARRIS in arbitration proceedings. In addition, it would come up against §§ 4.2 and 5.2 of the license agreement, which give defendants additional rights if they are treated as licensees, including that of receiving royalty credit, § 4.2, and the right to cure deficiencies, § 5.2. It would also conflict with ¶ 25(i) of the settlement agreement, which says that under certain circumstances, defendant "ICM shall be entitled to directly manufacture, import[,] sell and offer for sale RCA and BNC Product upon the payment of the applicable royalty as if it is the Licensee under the

License Agreement.”

Also, as defendants have argued, it was error to read the provisions of the license agreement related to a “patent event” as limited to the situation in which ARRIS is selling particular RCA and BNC products alleged to be within the scope of the new patent. This possibility is clearly contemplated by the agreements, but the license agreement also contemplates the situation in which defendants are selling particular ICM products that come within the scope of a new patent. In that situation, the terms of the license agreement obligate defendant ICM to pay royalties to plaintiff “as if it is the Licensee under the License Agreement and in compliance with the terms and condition [sic] of the License Agreement.” § 25(i), lic. agmt., dkt. #28, at 11. The facts of this lawsuit fall into the second category, that is, all the products at issue are ICM products, not ARRIS products, and the dispute centers on ICM and its alleged violation of the new patent. Plaintiff says that, in § 3.2, it disavowed any intention to grant defendants a license under the terms of the license agreement, but plaintiff does not explain how this bars defendants from arbitrating disputes arising under licenses granted to them explicitly in other provisions of the agreements.

Finally, I agree with defendants that it was error to rely on the absence of anything in either agreement that gives defendants a specific right to demand arbitration. Defendants point out that nothing in either agreement speaks in terms of any party’s possessing such a right. Instead, the effect of the language is to foreclose any disputing party from avoiding

arbitration of the occurrence of a “patent event,” that is, the issuance of a patent to plaintiff that appears to cover products being sold by defendants. In support of this proposition, defendants cite § 11.2 of the license agreement, which provides that the parties will submit “patent event” issues to arbitration.

Plaintiff continues to oppose defendants’ interpretation of the two agreements. It relies on the language in the license agreement that the terms of the settlement agreement prevail when there is a conflict between the two agreements. § 10.4, lic. agmt., dkt. #29, at 18. This does little to resolve the dispute because plaintiff has not identified any conflict between the two agreements. As noted earlier, the relevant provision of the settlement agreement, ¶ 55, which allows the parties to take any action permitted under the agreement, including commencing an action,” excludes “disputes over whether a [patent issued to plaintiff] covers the RCA and BNC Product of” defendants, “which will be determined under § 11.2 of the License Agreement.” Stlm. agmt., dkt. # 28, at 21. There is no conflict between ¶ 55 of the settlement agreement and § 11.2 of the licence agreement.

Plaintiff has argued that even if the agreements permit defendants to arbitrate the patent event, they have waived their right to proceed in arbitration by waiting too long to demand it or failing to give notice to defendants before litigation began. These are arguments that are for the arbitrator to decide. Howsam v. Dean Witter Reynolds, Inc., 537 U.S. 79 (2002) (whether dispute between brokerage firm and its customer was time-barred

under particular arbitration procedure was “gateway procedural dispute” that did not present question of arbitrability” and thus was matter presumptively for arbitrator).

This leaves for decision two questions: which claims go to arbitration and whether resolution of any or all of the remaining claims should be stayed pending the arbitrator’s decision. Plaintiff alleged four causes of action against defendants in its complaint. In count I, it alleges breach of the settlement and license agreements. In count II, it seeks rescission of the settlement and license agreements on the ground that defendants induced plaintiff to enter into them by making promises to purchase certain products practicing the claims of plaintiffs’ U.S. Patent No. 6,558,194 but have since engaged in conduct showing that they never intended to comply with the terms of the agreement. In count III, plaintiff alleges that defendants have infringed the claims of plaintiff’s ‘194 patent by selling certain products. In count IV, plaintiff alleges that defendants have infringed the claims of the ‘940 patent issued in 2005. In count V (misnumbered as IV), plaintiff seeks preliminary or permanent injunctive relief or both and in count VI, it seeks an accounting.

Three of the first four counts (I, II and IV), are clearly intertwined with the issues to be resolved in arbitration, which are the validity of the ‘940 patent and its coverage. These claims will be stayed pending completion of arbitration. The issue of defendants’ alleged infringement of the ‘194 patent is separate from the issues alleged in other counts but it bears upon the breach of contract and rescission claims. Plaintiff is alleging that if

infringement of the '194 patent occurred, the infringement breached the parties' agreements and provides a ground for rescission. It follows that plaintiff's requests for injunctive relief and an accounting cannot proceed until the substantive issues have been resolved. Under the circumstances, I see no option but that of staying the entire proceeding until the arbitration has been completed.

ORDER

IT IS ORDERED that the motion of defendants International Communications Manufacturing Corporation, Randall A. Holliday and Belden Inc. to file a reply brief, dkt. #54, and defendants' motion, dkt. #51, for reconsideration of the court's December 8, 2011 order are GRANTED. The case will be stayed until the parties have completed arbitration proceedings.

FURTHER, IT IS ORDERED that all no later than August 9, 2012, defendants are to report to the court on the status of the arbitration proceedings and to continue to do so once a month thereafter until the proceedings have been completed.

Because the arbitration may dispose of the disputed issues, this case will be closed administratively, subject to reopening on motion of any party if issues remain for resolution after the arbitration has been completed. Upon reopening, the case will be promptly set for

trial or for such other proceedings as the parties agree are necessary.

Entered this 9th day of March, 2012.

BY THE COURT:

/s/

BARBARA B. CRABB

District Judge