IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF WISCONSIN

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

Plaintiff,

OPINION AND ORDER

v.

11-cv-424-bbc

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

Defendants.

- -

In this civil suit for injunctive relief and money damages, plaintiff PPC is suing defendants International Communications Manufacturing Corporation (ICM), Randall A. Holliday and Belden Inc., for breach of contract, rescission of the contract, infringement of the claims of two separate patents and an accounting. Defendants have filed an answer denying plaintiff's allegations and asserting counterclaims and affirmative defenses. Dkt. #18.

The case is before the court on defendants' motion to stay proceedings in this court, pending arbitration. Defendants contend that the settlement agreement that the parties signed to resolve longstanding patent litigation between them gives defendants the right to demand arbitration of one of the claims plaintiff is asserting against them in this suit. Dkt. #39. Plaintiff denies that defendants have any right to seek arbitration: they are not parties to the agreement that incorporates the arbitration agreement and even if they were, the language of the provision on which they rely makes it plain that they were not afforded the right to demand arbitration. Plaintiff adds that even if defendants did have a right to ask for arbitration, they waived that right by failing to seek it promptly upon learning of the triggering event and that by failing to give plaintiff notice of the dispute, they are in default.

I conclude that defendants have no right to seek arbitration under the terms of the parties' agreements and accordingly, no right to a stay pending arbitration. The case will proceed in this court on all of plaintiff's claims.

The following facts are fairly alleged in the complaint or set out in the settlement agreement and license agreement, copies of which were filed with the court by defendant Holliday. (Plaintiff did not file copies of either agreement but relies on the copies filed by Holliday. Dkts. ##28 & 29). I have ignored plaintiff's citations to the declaration of James Muldoon, dkt. #33. Muldoon's explanation of plaintiff's reasons for negotiating as it did and on its contractual intentions is irrelevant. Goldman Sachs Group, Inc. v. Almah LLC, 924 N.Y.S.2d 87, 90 (N.Y. App. Div. 2011) ("'The intent of the parties must be found within the four corners of the contract, giving a practical interpretation to the language employed and the parties' reasonable expectations.'") (Quotations and citations omitted.)

ALLEGATIONS OF FACT

Plaintiff PPC is a designer and manufacturer of coaxial cable connectors for the cable and telephone industries. It owns U.S. Patent No. 6,558,194, which was issued in 2003 and was the subject of extended litigation with a company known as ARRIS International, Inc., and with defendants ICM and Randall Holliday. ICM is a Colorado corporation; defendant Holliday is a resident of Colorado. Defendant Belden Inc. is a Delaware corporation and allegedly the successor in interest of defendants ICM or Holliday or both. (Because Belden does not play any role in the present dispute and because the interests of ICM and Holliday are indistinguishable at this point, all further references to these two defendants will be simply as "defendants" except in the few instances in which a distinction between them is appropriate.)

In February 2004, plaintiff entered into an agreement with ARRIS and defendants to settle various lawsuits involving patent rights. Paragraph 24 of that settlement agreement requires defendants to cease and desist from separately making, using or importing products that fall within the definition of a licensed product "under the terms of the License Agreement"; purchase all of ICM's licensed products exclusively and directly from ARRIS; and pay royalties for any purchases or sales. Stlm. agmt. dkt. #28, at 8.

At the same time, plaintiff and ARRIS, but not defendants, entered into a license agreement that was to become effective when ARRIS and defendants made all payments to plaintiff required under the settlement agreement. Lic. agmt., dkt. #29, § I at 3. "Subject to the terms of the Settlement Agreement and License Agreement," plaintiff was to grant ARRIS a non-transferable, non-exclusive, limited license to make, use, offer to sell, sell, import, and export "ARRIS's licensed products and RCA and BNC Products under the Licensed Patents," without the right to grant sublicenses. Id. at § 3.1. The license agreement specifies that nothing contained in it is to be construed as granting defendants any rights or a license. Id. at § 3.2. Plaintiff agreed not to assert any claim of infringement against ARRIS or its distributors or customers for any RCA and BNC product obtained directly or indirectly from ARRIS for which the applicable royalty is paid. Id. at § 3.4.

The license agreement provides that disputes are to be resolved in steps. Id. at § 11.1. First, the parties are to attempt in good faith to resolve the dispute by negotiation. Id. The parties are to meet within 7 days of notice of any controversy or claim and attempt to reach a resolution within 30 days. Id. If this does not happen, either party can move to the second step, which is to take any action permitted under the agreement, including the commencement of a civil action. Id.

Section 11.1 of the license agreement does not apply to a "Patent Event," which is identified in § 2.5 as the issuance of a patent to plaintiff with claims covering the RCA and

BNC products. Patent events are the subject of § 11.2, which provides that the parties are to meet within 7 days of notice of the dispute. If they fail to reach agreement about the validity of the patent claims and whether the claims cover the specified products, the parties "will submit such issues to binding arbitration." Section 11.2.7 of the license agreement gives defendants the right to participate with ARRIS in appointing the arbitrator and the preparation of one opening brief and one reply brief.

Returning to the settlement agreement signed by plaintiff, defendants and ARRIS, defendants agree "to be bound by any decision of the arbitration regarding disputes within the scope of Section 11.2 of the License Agreement and shall have the right to participate as described therein." Stlm. agmt., dkt. #28, at ¶ 25(h). If defendants are not in default under the settlement agreement and the license agreement is in full force and effect, 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 and in compliance with" that agreement's terms and conditions. Id. at ¶ 25(i).

Paragraph 27 of the settlement agreement states that, "[s]ubject to the terms and conditions of this Agreement and as a material part of the consideration for this Agreement," plaintiff and ARRIS "have entered into a license for the sale and manufacture of ARRIS Licensed Products as defined in the License Agreement, the terms and conditions of the

License are recorded in a separate agreement entitled License Agreement, a copy of which is attached as Exhibit F to this Settlement Agreement and made a part hereof." Id. at ¶ 27. Two paragraphs later, ¶ 29 of the settlement agreement provides that nothing in it is to be construed as a license under any other patents owned by PPC or as a license granted to defendants.

Both the settlement agreement and the license agreement include provisions relating to reporting of sales, stlm. agmt., ¶¶ 24 & 25(a); lic. agmt., § 5.1; plaintiff's right to examine defendants' books and records, stlm. agmt., ¶ 25(a)-(e); lic. agmt. § 5.2; and the consequences of failing to comply with these provisions, stlm. agmt., ¶ 25(d)-(g); lic. agmt., §§ 5.2 & 8.2. For example, any failure by defendants to permit plaintiff full access to the certified accounting firm it hires to examine defendants' books and records "shall be deemed a default" under the settlement agreement, ¶ 25(c), and if either defendant is in default, it will no longer be entitled to manufacture, import and sell the licensed product or RCA and BNC product and any such activity "may be pursued by [plaintiff] in an action for patent infringement, breach of contract, an accounting or other claims." Stlm. agmt., dkt. #28, at ¶ 25(f). Only the license agreement, however, sets out the terms and conditions of royalty payments. Lic. agmt., dkt. #29, at §§ 4.2-4.6.

The possibility that plaintiff would obtain a patent that might cover particular electrical connector products (referred to as RCA and BNC products in the settlement and license agreements) came to pass on February 1, 2005, with the issuance of plaintiff's U.S. Patent No. 6,848,940. Plaintiff gave notice of the patent's issuance to ARRIS on February 21, 2005; it gave no notice to defendants. The issuance of the patent triggered an obligation by ARRIS and defendants to pay royalties on their RCA and BNC products and to perform certain reporting and audit requirements.

In 2008 defendant ICM purchased connectors covered by the licenced patents from Rich International and resold the connectors to Ultralink without paying royalties to ARRIS. Plaintiff learned of the purchase in November 2010 and demanded an audit of ICM's books and records in January 2011. Defendant ICM's purchase and sale of the products allegedly infringed the '940 patent. Defendant ICM refused to allow an audit as it related to the RCA and BNC products, contending that they were not covered by the '940 patent. Under the settlement agreement, if defendants are in default, plaintiff may proceed against them "in an action for patent infringement, breach of contract, an accounting or other claims." Stlm. agmt., dkt. #28, at ¶ 25(f).

OPINION

A. Background

In its complaint, plaintiff states five causes of action. (The complaint actually has six counts, but one count is for preliminary and permanent injunctive relief, which I will ignore, as it is a form of relief and not a claim on which relief could be granted.). Plaintiff alleges in count I that defendants have breached the settlement agreement; in count II, it alleges that the settlement agreement is subject to rescission because defendants induced plaintiff to enter into the agreement by making promises to purchase certain product 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 are infringing the claims of the '194 patent and in count IV, it alleges that defendants are infringing the claims of the '940 patent issued in 2005. Finally, plaintiff alleges in count V that it is entitled to an accounting under the terms of the settlement and license agreements.

Defendants are moving for a stay pending arbitration on all the counts with the possible exception of count III, contending that they have a right under the two agreements read together to demand arbitration. The motion for a stay raises three questions: whether defendants have a right to arbitration of any issue; whether their motion is timely; and whether a stay should be granted of all or any portion of the lawsuit.

B. Defendants' Right to Enforce Arbitration Provision

Under § 2 of the Federal Arbitration Act, 9 U.S.C. § 2, written arbitration agreements are "valid, irrevocable, and enforceable." They are to be placed upon the same footing as other contracts. Volt Information Sciences, Inc. v. Board of Trustees of Leland Stanford Junior Univ., 489 U.S. 468, 478 (1989).

Federal policy strongly favors the liberal interpretation of arbitration agreements, Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614, 625 (1985), but this rule must be interpreted in light of the rule that arbitration is contractual in nature and parties cannot be required to submit to arbitration any dispute that they did not agree to submit. United Steelworkers of America v. Warrior & Gulf Navigation Co., 363 U.S. 574, 582 (1960). State law determines "'issues concerning the validity, revocability and enforceability of contracts generally,'" provided that the state law "'arose'" to govern those issues. Arthur Andersen LLP v. Carlisle, 129 S. Ct. 1896, 1902 (2009) (quoting Perry v. Thomas, 482 U.S. 483, 492 n.9 (1987)). In this case, the parties to the agreements agreed that New York law would apply. As with any contract, an arbitration agreement may be enforced by or against nonparties through such principles as "'assumption, piercing the corporate veil, alter ego, incorporation by reference, third-party beneficiary theories, waiver and estoppel.'" Id. (quoting 21 R. Lord, Williston on Contracts § 57:19, p. 183 (4th ed. 2001)).

Defendants argue that the settlement agreement they signed with plaintiff explicitly requires arbitration of the dispute because it incorporates the license agreement. I agree with defendants that the two agreements are so closely intertwined as to constitute one agreement. For example, in ¶ 25(i) of the settlement agreement, the parties agreed that after the "patent event," defendant ICM could sell RCA and BNC products if defendant was not in default and would be responsible for paying any royalties owed to plaintiff as if it were the licensee under the license agreement. This reference to the potential license includes the terms of the license agreement by necessity because that agreement is the only place in which the applicable royalty terms appear. Paragraph 24 of the same agreement says that "[defendants] agree that sales of products that fall within the definition of RCA and BNC Product under the License Agreement will be subject to payment of RCA and BNC Running Royalties *under the terms and conditions of the License Agreement*." (Emphasis added.) Also, ¶ 27 of the settlement agreement states explicitly that the license agreement is attached to the settlement agreement and made a part thereof.

Moreover, it is telling that when plaintiff filed its complaint in this case it alleged in ¶ 83 of that complaint that defendants "failed or refused to perform all of their duties under the Settlement and License Agreements, including . . . their . . . (b) failure to keep records and pay royalties on RCA and BNC Products sold by [defendants] that practice the '940 Patent." Such an allegation is an implicit concession that defendants are covered by the terms of the license agreement, because it is the only agreement that sets out the payment obligations that accompany the right to sell products practicing the '940 patent. If defendants are not considered parties to the license agreement, how could they have enforceable duties under that agreement?

However, it is one thing to find that the two agreements are one agreement in reality and another to find that defendants have a particular right under those agreements, that is, to seek arbitration over the validity and scope of the '940 patent. Defendants rely on ¶ 55 of the settlement agreement, which 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 Holliday [presumably one of these "Hollidays" was intended to be ICM], which will be determined under Section 11.2 of the License Agreement, the parties will attempt in good faith to resolve any controversy or claim related to this Agreement by negotiation." It is reasonable to read this, as defendants do, as saying that the usual dispute resolution methods will apply to everything but disputes over the validity and scope of the '940 patent and that those disputes will be subject to resolution under a specific provision of the license agreement. It would even be reasonable to read this provision as incorporating § 11.2 into the settlement agreement and covering all the parties to the settlement agreement were it not for the very specific language of the license agreement. Section § 3.2. states that nothing in the license agreement is to be construed as granting defendants any rights or licenses under the agreement and § 11.2.7 sets out the limited extent to which defendants can participate with ARRIS in any aspect of the arbitration (appointing the arbitrator and preparing briefs). Nothing in either agreement gives defendants a specific right to demand arbitration or even implies that defendants have such a right.

In short, I conclude that the settlement agreement and the license agreement are so intertwined as to constitute one contract, but that even read together, they do not grant defendants the right to demand arbitration of the validity and scope of the '940 patent. This conclusion would not change if I took up defendants' alternative arguments that they are third-party beneficiaries of the license agreement or that plaintiff is estopped from avoiding arbitration with defendants. Even if these arguments are correct, defendants are still left with the specific provisions of the license agreement limiting their role in arbitration to participation once it has been initiated.

Because I have concluded that defendants have no right under the agreements to seek arbitration of the parties' dispute over the validity and scope of the '940 patent, it is not necessary to address plaintiff's contentions that defendants' demand for arbitration is untimely or that defendants are in default because they did not give plaintiff notice of the dispute. No arbitration need take place, the case need not be stayed in whole or in part and the parties' disputes will proceed to trial.

ORDER

IT IS ORDERED that the motion of defendants International Communications Manufacturing Corporation and Randall A. Holliday for a stay pending arbitration, dkt.

#25, is DENIED.

Entered this 8th day of December, 2011.

BY THE COURT:
/s/
BARBARA B. CRABB
District Judge