

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF PENNSYLVANIA

SOUTHCO, INC.,	:	CIVIL ACTION
	:	
vs.	:	NO. 06-1983
	:	
REELL PRECISION	:	
MANUFACTURING CORPORATION	:	

MEMORANDUM AND ORDER

JOYNER, J.

November 13 , 2006

Before the Court is Defendant's Motion to Dismiss Count One of Plaintiff's Complaint for Failure to State a Claim pursuant to Federal Rule of Civil Procedure 12(b)(6); and to Dismiss Count Three of Plaintiff's Complaint for Lack of Subject Matter Jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(1). For the reasons below, the Court grants Defendant's Motion and DISMISSES Count One and Count Three of Plaintiff's Complaint. Because of the divergent factual backgrounds, the Court addresses Counts I and III separately.

Count I

I. Factual Background

The Plaintiff, Southco, Inc. ("Southco"), is a Delaware corporation that manufactures and sells a product known as the

"DCX Hinge."¹ Defendant Reell Manufacturing Corporation ("Reell"), is a Minnesota corporation that supplies Southco with a component of the DCX Hinge called a "Reell Torque Engine." Once assembled, the DCX Hinge is sold by Southco to a third party, Intier Automotive Interiors ("Intier"). (Plaintiff's Complaint ("Pl. Compl.") at ¶ 13).

Since December 20, 2002, Southco and Reell have worked together pursuant to an Alliance Agreement ("Agreement"), which defines the parties' rights and obligations.² (Alliance Agreement ("Pl. Compl. Ex. A") at 1). The amended Agreement comprehensively defines Southco and Reell's contractual relationship with respect to various areas of business practice, i.e., marketing and sales, intellectual property, confidentiality, and dispute resolution. (See Pl. Compl. Ex. A at Articles I-X). Specifically, Article IX establishes the parties' commitment to arbitration to resolve disputes, and provides the necessary procedures for the filing and hearing of all claims.

In April, 2006, a controversy arose when Southco claimed Reell violated the Agreement by soliciting Intier to stop buying

¹ The DCX Hinge is a hinge assembly used to control the angular position of two independent components. One application for such a hinge would be in laptop computers where the LCD screen folds into the base of the computer. The hinge employs a friction element to allow a user to position the screen at various angles.

² This Agreement was amended and restated on April 1, 2004.

the DCX Hinge. (Pl. Compl. at ¶ 19). Paragraphs 9.1 and 9.2 of the Agreement provide that in the event of a dispute, a twenty-five (25) day waiting period is triggered during which the parties must work reasonably and in good faith to resolve their disagreement. (Pl. Compl. Ex. A at ¶¶ 9.1, 9.2). After the expiration of the waiting period, the party seeking arbitration must give written notice of a demand to arbitrate to the other party and the American Arbitration Association. (Id. at ¶ 9.2).

During the waiting period, Southco requested evidence in Reell's possession concerning its relationship with Intier. Reell refused to provide any information in the absence of written notice of a demand to arbitrate. (See Pl. Compl. at ¶¶ 21, 23). Subsequently, on May 11, 2006, Southco filed suit for equitable relief in the form of an order compelling Reell to provide evidence of its relationship with Intier. Southco claims Reell's refusal to do so breaches the Agreement. In particular, Southco claims that Reell's inaction breaches paragraphs 9.1 and 9.6.

In part, paragraph 9.1 provides:

Any claim, controversy or dispute arising out of or relating to this Agreement or any interpretation or breach thereof or performance under this Agreement, including without limitation any dispute concerning the scope of this arbitration provision, shall be settled exclusively by submission to final, binding and non-appealable arbitration... During the Waiting Period, the Parties shall work reasonably and in good faith and shall use their best efforts to amicably resolve the claim, controversy or dispute.

(Pl. Compl. Ex. A at ¶ 9.1).

Southco contends Reell's refusal to produce evidence of its business relationship with Intier breaches this paragraph because it requires both parties to "work reasonably in good faith" to resolve any claim during the waiting period, i.e., prior to arbitration. With respect to paragraph 9.6, Southco claims this paragraph contractually obligates Reell to produce the documents it requested. This paragraph provides that:

Upon written demand to any Party to the Arbitration for the production of documents and things (including computer discs and data) reasonably related to the issues being arbitrated, the Party upon which such demand is made shall promptly produce, or make available for inspection and copying such documents or things without the necessity of any action by the arbitrators...

(Id. at ¶ 9.6).

Southco alleges Reell's refusal constitutes a breach of paragraph 9.6, which requires parties to the arbitration to produce documents reasonably related to the dispute without the need for action by the arbitrators. (See Pl. Compl. at ¶¶ 22, 23; Pl. Compl. Ex. A at ¶ 9.6). Lastly, Southco argues that this Court is the appropriate forum from which to seek relief because paragraph 9.9 "reserve[s] the [parties the] right to seek...short term equitable relief" prior to the arbitration panel's final determination of the parties' rights. (Pl. Compl. Ex. A at ¶ 9.9).

In opposition, Reell avers the agreement between the parties unequivocally reserves all claims to binding arbitration, and grants the arbitration panel discretion over all issues including discovery. (Defendant's Motion to Dismiss ("D. Mot.") at 7-14). Moreover, Reell claims the relief sought by Southco—a mandatory injunction—is inappropriate without an initial showing of irreparable harm, which Southco has failed to demonstrate. Id. 12-13.

Discussion

I. Standards Governing 12(b)(6) Motions

"When considering a motion to dismiss a complaint for failure to state a claim pursuant to Federal Rule of Civil Procedure 12(b)(6), a district court must 'accept as true all of the allegations in the complaint and all reasonable inferences that can be drawn therefrom, and view them in the light most favorable to the non-moving party.'" Dougherty v. Wells Fargo Home Loans, Inc., 425 F. Supp. 2d 599, 602 (E.D. Pa. 2006) (quoting Rocks v. City of Philadelphia, 868 F.2d 644, 645 (3d Cir. 1989)).

The court may grant the motion only if "it is clear that no relief could be granted under any set of facts that could be proved consistent with the allegations." Id. (quoting H.J., Inc. v. N.W. Bell Tel. Co., 492 U.S. 229, 249 (1989)). However, "[w]hen considering a motion to dismiss, we need not credit a

plaintiff's 'bald assertions' or 'legal conclusions.'" Id.
(quoting Morse v. Lower Merion Sch. Dist., 132 F.3d 902, 906 (3d
Cir. 1997)).

II. Arbitration

Generally, "arbitration is a matter of contract and a party cannot be required to submit to arbitration any dispute which he has not agreed to so submit." Howsam v. Dean Witter Reynolds, 537 U.S. 79, 83 (2002)(quoting Steelworkers v. Warrior & Gulf Nav. Co., 363 U.S. 574, 582 (1960)). The Federal Arbitration Act ("FAA"), 9 U.S.C. §§ 1-16, codifies Congress' desire to honor private arbitration agreements without involvement of federal courts in order to promote prompt and fair dispute resolution.³ Section 2 of the FAA embodies the national policy favoring arbitration, and places arbitration agreements on equal footing with all other contracts.⁴ See, e.g., Buckeye Check Cashing, Inc.

³ "There is a strong policy in favor of arbitration and courts must resist the temptation to intrude upon arbitration proceedings where the statute does not explicitly authorize court involvement." John Hancock Mut. Life Ins. Co. Olick, 151 F.3d 132, 137 (3d Cir. 1998).

⁴ Specifically, Section 2 provides:

§2. Validity, irrevocability and enforcement of agreements to arbitrate

A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or

v. Cardegna, 126 S. Ct. 1204, 1207 (2006)(holding claim that contract containing arbitration provision was void for illegality was to be determined by arbitrator, not court). To further this interest, a court must scrupulously honor the bargains implicit in such contracts and interfere only when an award is seriously problematic. See Brentwood Medical Associates v. United Mine Workers of America, 396 F.3d 237, 239 (3d Cir. 2005).

III. Analysis

Neither party challenges the enforceability of the Agreement's mandate to use binding arbitration to resolve all claims or controversies. (See Pl. Compl. at ¶ 12). Both parties also concede they are bound by the terms of this agreement, including the provision granting an arbitration panel the power to provide "any and all relief and remedies, whether at law or in equity," that a federal court may grant. (See Pl. Compl. Ex. A at ¶ 9.7). Accordingly, the dispute is one of interpretation, rather than enforceability.

Paragraph 9.1 explicitly states that "[a]ny claim, controversy or dispute arising out of or relating to this

refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

9 U.S.C. § 2 (2000) (emphasis added).

Agreement or any interpretation or breach thereof or performance under this Agreement . . . shall be settled *exclusively* by submission to final, binding and non-appealable arbitration...” (Pl. Compl. Ex. A at ¶ 9.1)(emphasis added). Furthermore, as mentioned above, the Agreement empowers the arbitration panel to grant all relief and remedies available to courts, with the exception of punitive damages. (Pl. Compl. Ex. A at ¶ 9.7).

In light of this language, it is clear Southco has not stated a claim for which this court may grant relief. In entering the Alliance Agreement, Southco has committed itself to arbitration as the forum for resolution of “any claim, controversy or dispute arising out of or relating to th[e] Agreement, or any interpretation or breach” of the Agreement. (Pl. Compl. Ex. A at ¶ 9.1). Southco’s request for documents and other evidence—although artfully plead as short term equitable relief—is really a demand for discovery, which the Agreement reserves to the discretion of the arbitration panel. (Pl. Compl. Ex. A at ¶ 9.7).

Moreover, even if discovery had not been reserved to the arbitrators’ discretion, Southco has failed to demonstrate the need for a preliminary injunction, i.e., the likelihood of irreparable harm if Reell is not immediately enjoined.

District courts employ a four-part test when ruling on a request for a preliminary injunction. Specifically, the court

considers:

(1) whether the movant has shown a reasonable probability of success on the merits; (2) whether the movant will be irreparably injured by denial of the relief; (3) whether granting preliminary relief will result in even greater harm to the nonmoving party; and (4) whether granting the preliminary relief will be in the public interest.

GlaxoSmithKline Consumer Healthcare, L.P. v. Merix Pharm. Corp., No. 05-4566, 2006 U.S. App. LEXIS 16377, at *8 (3d Cir. Jun. 29, 2006)(quoting ACLU v. Black Horse Pike Regional Bd. of Educ., 84 F.3d 1471, 1477 (3d Cir. 1996)). "In order to constitute irreparable harm, an injury must be so great that an arbitrator's award, if forthcoming, would be inadequate to fully recompense the injured party. It would render the award an empty victory." Communications Workers of Am. v. Verizon Communications., Inc., 255 F. Supp. 2d 479, 485 (E.D. Pa. 2003)(citing IUE-CWA, Local 628 v. Flowserve Corp. of Pennsylvania, 239 F. Supp. 2d 527, 532 (M.D. Pa. 2003)).

Southco has not demonstrated it will suffer irreparable harm if the court denies its request for equitable relief. During the arbitration process, Southco will have the opportunity to seek discovery and if Reell does not cooperate, Southco can petition the arbitration panel for "any and all relief and remedies," that the courts may grant. Reell's present refusal to provide documents, even if inequitable or in breach of the Agreement, does not constitute imminent and irreparable harm required for

the issuance of a preliminary injunction.

Count III

I. Factual Background

Southco also seeks a declaration and final judgment, pursuant to the Declaratory Judgment Act, 28 U.S.C. § 2201, et. seq., that a hinge patent (U.S. Patent Re 37,712), held by Reell, is invalid, unenforceable, and not infringed by Southco's manufacture, use, or sale of a similarly designed product. (Pl. Compl. at ¶ 37). Reell, in response, has moved to dismiss Southco's declaratory judgment action for lack of subject matter jurisdiction. Specifically, Reell claims the absence of an "actual controversy" at the time Southco filed its declaratory judgment action prevents this court from addressing the issue. (D. Mot. at 14-18). In the alternative, Reell asks the court to stay this matter pending the outcome of a subsequently filed patent infringement action filed in Minnesota by Reell against Southco. (Id. at 18-20).

In March 2005, the parties discussed the potential licensing of "clip friction hinge" technology by Southco from Reell. These negotiations ended in late March when Southco decided to forego a licensing agreement because of its forthcoming acquisition of CEMA Technologies, Inc., ("CEMA"), a manufacturer of "clip friction hinges." Southco acquired CEMA in the spring of 2005.

(See Oct. 12, 2005 Letter from E. Donaldson to B. McNeill ("D. Mot. Ex. A"))).

On October 12, 2005, Reell's CEO, Eric Donaldson, met with Southco's CEO, Brian McNeill, to inquire about a particular CEMA "sickle" clip friction hinge which bore similar characteristics to a hinge patented by Reell. See id. Donaldson requested, in his October 12, 2006 letter, that Southco cease from producing or selling the "sickle clip" hinge and provide an explanation of its uses. See id. Southco's General Counsel, Alan L. Eisen, responded by letter, stating Reell had no valid claim of patent infringement and suggested the matter be resolved by a "reasonable business accommodation." (Oct. 18, 2005 Letter from A. Eisen ("D. Mot. Ex. B")). Donaldson, in an email dated November 13, 2005, stated that Reell disagreed with Eisen's conclusions but shared his (and Southco's) preference for a business, rather than legal solution. (Nov. 13, 2005 email from E. Donaldson ("D. Mot. Ex. C")).

For roughly four months, there were no discussions regarding the sickle clip friction hinge. In the spring of 2006 the issue resurfaced, however. In an April 18, 2006 letter, Donaldson reiterated Reell's concern over Southco's use of the hinge design. (See Apr. 18, 2006 Letter from E. Donaldson ("D. Mot. Ex. D")). Specifically, Donaldson stated Reell was uncertain whether this particular design was simply a "prototype" or if it

was currently being manufactured and sold by Southco or CEMA. See id. If the former, Reell requested the hinge not be produced or sold, and if the latter, then Reell requested a business arrangement to compensate for the use of the technology. See id. More importantly, however, Reell reaffirmed its commitment to negotiate a resolution rather than pursue litigation, in light of the "very real prospects of inordinate expense, delays, diversions, complexities, and remedies." Id. On April 26, 2006, Southco responded, stating Reell did not have any valid claim of infringement and requested additional information that supported Reell's position. (April 26, 2006 Letter from A. Eisen ("D. Mot. Ex. E")).

On May 11, 2006, Southco filed this action, which included an action for declaratory judgment on the issue of noninfringement. On May 18, 2006, Donaldson was informed that Apple Computers, Inc. ("Apple") had been purchasing the disputed clip-style friction hinge and using it as a component part in laptop computers. (D. Mot. at 18; D. Mot. Attachment, Declaration of E. Donaldson at 5-7). With this knowledge, Reell filed suit against Southco for patent infringement of U.S. Patent Re 37,712 in the District of Minnesota on June 13, 2006. Two days later, it moved to dismiss Southco's declaratory action for lack of subject matter jurisdiction pursuant to Fed. R. Civ. P. 12(b)(1).

Discussion

I. Jurisdiction Under the Declaratory Judgment Act

The Declaratory Judgment Act, 28 U.S.C. § 2201(a), provides that:

In a case of *actual controversy* within its jurisdiction . . . any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought.

28 U.S.C. § 2201(a) (2000) (emphasis added).

The initial burden is on the plaintiff to show that an "actual controversy" existed at the time it filed its complaint. Solid State Equip. Corp. v. Verteq, Inc., Civ. A. No. 01-4423, 2003 U.S. Dist. LEXIS 12051 at, *3 (E.D. Pa. Jan. 26, 2003).

Where resolution of a jurisdictional question is contingent upon a question of fact, the court is "free to weigh the evidence and satisfy itself as to the existence of its power to hear the case." Solid State, 2003 U.S. Dist. LEXIS 12051 at *2 (E.D. Pa. Jan. 26, 2003)(quoting Robinson v. Dalton, 107 F.3d 1018, 1021 (3d Cir. 1997)).

The Federal Circuit in BP Chemicals Ltd. v. Union Carbide Co., 4 F.3d 975 (Fed. Cir. 1993) set forth a two-part test for determining whether a declaratory claim is justiciable in the patent infringement context:

There must be both (1) an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff

that it will face an infringement suit, and (2) present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity.

Institut Pasteur v. Simon, 332 F.Supp.2d 755, 758 (E.D. Pa. 2004) (quoting BP Chemicals, 4 F.3d at 978)). This is an objective test. A declaratory plaintiff's subjective belief or fear is "insufficient to satisfy the burden of establishing, by a preponderance of the evidence, that, based solely on the defendant's conduct, the plaintiff had an objectively reasonable apprehension that it would be sued for infringement." Solid State, 2003 U.S. Dist. LEXIS 12051 at, *3-4 (emphasis added). In the absence of an express charge of infringement, the court will look to the "totality of the circumstances" in determining whether objective apprehension—and thus an actual controversy—existed at the time the complaint was filed. See Arrowhead Industries v. Ecolochem, 846 F.2d 731, 736 (Fed. Cir. 1988). If the totality of the circumstances do not reveal an objectively reasonable apprehension of an infringement action, no actual controversy exists, and a court must dismiss the declaratory claim pursuant to Rule 12(b)(1).

II. Analysis

After carefully weighing the underlying evidence, the Court finds that no "objectively" reasonable apprehension of litigation existed at the time Southco filed its declaratory judgment action. Before Southco filed, Reell did not explicitly threaten

litigation over the disputed patent. Also, the "totality of the circumstances" do not reveal any objectively reasonable apprehension of suit. The correspondence between the parties shows that Reell consistently indicated a preference for a "business solution" to the dispute. For example, in Donaldson's April 18, 2006 letter, less than a month before Southco filed suit, Reell specifically expressed Reell's preference to avoid litigation due to the cost, delay, and inconvenience—a sentiment emphasized by both parties.

At this point, a distinction should be made that goes to the heart of Southco's declaratory action. As set forth in BP Chemicals, 4 F.3d at 978, a plaintiff must be able to show there was an "objectively" reasonable apprehension of suit based on the defendant's conduct alone. Therefore, Southco's subjective belief that, as a result of its own conduct, an infringement suit was imminent is insufficient to support a declaratory claim.

The record reflects that on the day--May 11, 2006--Southco filed for declaratory judgment, it was producing and selling the disputed clip friction hinge in considerable volume to Apple. (D. Mot. at 18; D. Mot. Attachment, Declaration of E. Donaldson at 5-7). At that time, Reell considered the hinge to be a prototype with a limited presence in the marketplace. The nature of the dispute, therefore, was different in the eyes of the parties. While Southco may have considered an infringement

action inevitable due to their significant production and sale of the hinge, Reell was without this information. Thus, on May 11, 2006, Southco may have had a subjective apprehension of suit based on their own conduct, but not an objectively reasonable apprehension based solely on Reell's conduct. Accordingly, the Court concludes that Southco has failed to satisfy the justiciability test, and the absence of an actual controversy at the time of filing deprives this court of subject matter jurisdiction to entertain this declaratory judgment action.

III. Conclusion

For the foregoing reasons, the Court DISMISSES Count One for Failure to State a Claim pursuant to Rule 12(b)(6); and Count Three for Lack of Subject Matter Jurisdiction pursuant to Rule 12(b)(1). An order follows.

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MANUFACTURING CORPORATION :

ORDER

AND NOW, this 13th day of November, 2006, upon consideration of Defendant's Motion to Dismiss Count One of Plaintiff's Complaint for Failure to State a Claim pursuant to Federal Rule of Civil Procedure 12(b)(6); and to Dismiss Count Three of Plaintiff's Complaint for Lack of Subject Matter Jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(1) (Docs. 12, 13), and all responses thereto (Doc. 20, 22), it is hereby ordered that the Motion is GRANTED.

BY THE COURT:

s/J. Curtis Joyner

J. CURTIS JOYNER, J.