

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

---

STEVEN ZIMMER,	:	CIVIL ACTION
	:	
Plaintiff,	:	
	:	
v.	:	No. 04-3816
	:	
COOPERNEFF ADVISORS, INC. and	:	
BNP PARIBAS SA,	:	
	:	
Defendants.	:	

---

**MEMORANDUM**

**ROBERT F. KELLY, Sr. J.**

**DECEMBER 20, 2004**

**I. INTRODUCTION**

Presently before this Court is the Defendant's, CooperNeff Advisors Inc. ("CooperNeff"), Renewed Motion for an Order Compelling Arbitration and Staying Proceedings. The Plaintiff, Steven Zimmer ("Zimmer"), filed his response in opposition to this Motion on October 6, 2004. CooperNeff then filed its Reply Brief in support of its Motion on October 13, 2004.<sup>1</sup> Oral argument on the Motion was held on October 28, 2004. For the reasons that follow, CooperNeff's Renewed Motion for an Order Compelling Arbitration and Staying Proceedings is denied.

**II. FACTUAL AND PROCEDURAL BACKGROUND**

Zimmer began his employment with CooperNeff in March of 2003 working in the hedge fund area. The underlying dispute in this case arises from a computer Model

---

<sup>1</sup> This Court notes that CooperNeff filed its Reply Brief without seeking leave of court to do so and thus failed to comply with Local Rule of Civil Procedure 7.1(c).

(hereinafter referred to as “the Model”) which was/is used in CooperNeff’s hedge fund business. The Model is used to help rank the quality of stocks that might be included in the hedge fund. Zimmer left CooperNeff in late June 2004, and a dispute arose among the parties as to who is the owner of the Model. Zimmer argues that the Model was completed prior to the start of his employment with CooperNeff in March of 2003, and, therefore, is not owned by CooperNeff. CooperNeff asserts that Zimmer updated, edited and perfected the Model while at CooperNeff, thereby making it CooperNeff property under the terms of the Employment Agreement.<sup>2</sup> In the

---

<sup>2</sup> Specifically, paragraph 6d of the Employment Agreement states the following:

[a]ll software, programs, inventions, trade secrets, patentable or copyrightable items, Confidential Information and any other item of intellectual property that (i) may arise (in whole or in part) as a result of your joint or sole efforts during employment with the Company that in any way relates to the business of the Company or such affiliate or that might (if developed, pursued or the like) give the Company or such affiliate a financial benefit, or (ii) that you invented, discovered, produced or the like using (in whole or in part) any of the Company’s resources or on Company time, regardless of whether it relates to the Company’s business (collectively referred to as “Covered Intellectual Property”) will be the sole and exclusive property of the Company. All copyrightable Covered Intellectual Property will be deemed a work for hire under the federal Copyright Act. You further agree that, upon request, you will promptly agree to execute any assignments of such Covered Intellectual Property to the Company; you will execute whatever other documents the Company reasonably determines are necessary to vest title to any such Intellectual Property in the Company; and you will otherwise comply with all reasonable requests by the Company to assist it in asserting, registering, maintaining, defending or preserving its proprietary interest in any such Covered Intellectual Property with requiring the provision of additional consideration. If you fail to comply with the Company’s request to execute any document, as provided above, the Company will have the right, as your authorized agent and attorney-in-fact, to do so.

case that is currently before this Court, Zimmer has alleged five claims. Specifically, Zimmer asserts the following claims; copyright infringement, defamation, conversion, tortious interference with contractual relations and misappropriation of a trade secret.

This case was filed by Zimmer on August 11, 2004, however, the procedural history of the dispute among the parties begins before that date. On July 1, 2004, CooperNeff filed a complaint in the Montgomery County Court of Common Pleas against Zimmer (hereinafter referred to as the “state complaint”). This state complaint by CooperNeff contained the following six counts: count I - injunctive relief, count II - breach of contract, count III - misappropriation of trade secrets, count IV - breach of fiduciary duty, count V - conversion and count VI - unfair competition. The thrust of these claims filed against Zimmer by CooperNeff arose not only from the employee/employer relationship, but also from the Employment Agreement signed between CooperNeff and Zimmer.<sup>3</sup> Paragraph 6d governs the intellectual property rights of the parties. see supra note 2. After CooperNeff filed its state complaint against Zimmer, CooperNeff then sought a Special Injunction (Temporary Restraining Order “TRO”) against Zimmer in the Montgomery County Court of Common Pleas, which was granted. Zimmer was enjoined from revealing, disclosing, using or taking confidential CooperNeff business information, including the electronic trading Model developed at or used by

---

(Pl.’s Mem. Law Opp’n CooperNeff’s Renewed Mot. for Order Compelling Arbitration and Staying Proceedings, Ex. A).

<sup>3</sup> The Employment Agreement states that it was signed on March 31, 2004. Indeed, Zimmer did receive a copy of the Employment Agreement during the first week of working for CooperNeff. However, testimony elicited during the preliminary injunction hearing shows that Zimmer did not sign the Employment Agreement until May 2003.

CooperNeff.<sup>4</sup>

On July 29, 2004, Zimmer took two specific actions. First, he filed a Notice of Removal in this Court, seeking to remove the state complaint filed by CooperNeff. This case was given civil action number 04-3599. Additionally, Zimmer filed a separate complaint in this Court. This federally filed complaint was given civil action number 04-3598 (hereinafter referred to as the “first federal complaint”). This first federal complaint by Zimmer raised four counts: count I - copyright infringement, count II - defamation; count III - conversion and count IV - tortious interference with contractual relations. In this first federal complaint, Zimmer asserted that subject matter jurisdiction was based upon federal question jurisdiction for the copyright infringement claim (count I) and supplemental jurisdiction over the state law claims (counts II-IV). In addition to filing this first federal complaint on July 29, 2004, Zimmer also filed a Motion for a Preliminary Injunction and TRO. Through this Motion, Zimmer sought to have CooperNeff cease all of its efforts to decipher his computer Model, to have CooperNeff return all copies of the Model in CooperNeff’s possession and to have CooperNeff purge all copies of the Model from CooperNeff’s computer system.

A hearing for Zimmer’s TRO request was scheduled for August 6, 2004. On August 5, 2004, a day before this hearing, CooperNeff filed two motions. First, CooperNeff filed a Motion to Dismiss the first federal complaint for Lack of Subject Matter Jurisdiction. CooperNeff argued that since Zimmer had only applied for a copyright registration, but had neither received an actual registration nor had his application refused by the copyright office, his

---

<sup>4</sup> CooperNeff ultimately withdrew its petition for a preliminary injunction in its state complaint.

copyright infringement action did not meet the statutory requirement necessary to bring a copyright infringement claim. Thus, CooperNeff argued that no federal question was present that could give rise to this Court having proper federal question subject matter jurisdiction.

Additionally, CooperNeff filed a Motion to Remand in the removed state action.

At the beginning of oral argument on August 6, 2004, this Court stated that CooperNeff's Motion to Dismiss for Lack of Subject Matter Jurisdiction and Motion to Remand should be decided before moving onto Zimmer's request for a TRO. The focus of the August 6, 2004 hearing was on Section 411(a) of the Copyright Act, 17 U.S.C. § 411(a). Section 411(a) reads in pertinent part:

no action for infringement of the copyright in any work shall be instituted until registration of the copyright claim has been made in accordance with this title. In any case, however, where the deposit, application, and fee required for registration have been delivered to the Copyright Office in proper form and the registration has been refused, the applicant is entitled to institute an action for infringement if notice thereof, with a copy of the complaint, is served on the Register of Copyrights.

Id. At this point of the litigation, Zimmer was in an interim state as it related to his copyright registration application. While Zimmer had filed his application for a copyright in late July, 2004, he had not received a registration for his copyright by the time he filed his first federal complaint on July 29, 2004. Additionally, his copyright application had not been refused by the Copyright Office. Because Zimmer was in this state of limbo as his application remained pending at the Copyright Office, this Court determined that Zimmer could not satisfy the prerequisites of Section 411(a) of the Copyright Act to maintain his copyright infringement claim. During oral argument, Zimmer relied exclusively on the fact that he had filed his

application for a copyright registration in his attempt to establish proper subject matter jurisdiction with this Court. Zimmer's sole stated basis for federal question jurisdiction was based upon his copyright infringement claim. Ultimately, therefore, because Zimmer's copyright infringement claim was deemed premature, this Court granted CooperNeff's Motion to Dismiss for Lack of Subject Matter Jurisdiction and remanded the case Zimmer had removed from the Montgomery County Court of Common Pleas.

On August 11, 2004, after having successfully obtained a copyright registration, Zimmer filed a new Complaint in this Court. This action is the current case pending before this Court and has a civil action number of 04-3816. This Complaint contains the same four counts as Zimmer's first federal complaint, and adds a fifth count for misappropriation of trade secrets. On August 12, 2004, Zimmer filed a Motion for a Preliminary Injunction and a TRO. On August 18, 2004, this Court held a TRO hearing. Subsequently, on August 19, 2004, Zimmer's request for a TRO was granted. Pursuant to this Court's August 19, 2004 Order, CooperNeff was ordered to "cease all use of Plaintiff's computer model and any copies, derivatives, modifications, or adaptations of the computer model until the Court enters an order with respect to Plaintiff's Motion for a preliminary injunction." (Doc. No. 7).

Several days after Zimmer's request for a TRO was granted, a phone conference was held between this Court and the parties to set up a date for the preliminary injunction hearing. During this phone conference, the Defendants requested a later hearing date in order to give their expert more time to review the materials. The Plaintiff sought a preliminary injunction hearing as soon as possible. Ultimately, it was decided that the preliminary injunction hearing would commence on September 21, 2004.

On September 7, 2004, the Defendants filed their First Answer and Counterclaims. In their first Counterclaim, the Defendants seek a declaratory judgment of copyright ownership of the Model. In their second Counterclaim, the Defendants seek a declaratory judgment that Zimmer's copyright registration for the Model be deemed invalid and unenforceable. Subsequently, on September 17, 2004, the Defendants filed an Amended Answer and Counterclaims which included the affirmative defense of arbitration.<sup>5</sup>

CooperNeff filed its first Motion to Compel Arbitration and Stay the Proceedings on the day before the preliminary injunction hearing.<sup>6</sup> On September 21, 2004, this Court held the preliminary injunction hearing. However, before this Court could hear argument and testimony regarding the preliminary injunction, CooperNeff's Motion to Compel Arbitration was argued. Zimmer's counsel stated that he was ready to oppose CooperNeff's Motion orally, and this Court heard argument. The first Motion to Compel Arbitration was denied from the bench on September 21, 2004, and the preliminary injunction hearing moved forward. However, on the second day of the preliminary injunction hearing, CooperNeff filed the instant Motion designated as, its Renewed Motion to Compel Arbitration and Stay the Proceedings.

CooperNeff bases its Motion upon the dispute resolution clause in Zimmer's Employment Agreement with CooperNeff. This clause is found in paragraph 8 of the Employment Agreement. Specifically, it states:

---

<sup>5</sup> It should also be noted that during this period, the state complaint by CooperNeff continued to progress. Zimmer filed his Answer and New Matter in that case on September 13, 2004.

<sup>6</sup> CooperNeff's Motion to Compel Arbitration and Staying Proceedings is based upon a dispute resolution clause found in the Employment Agreement at paragraph 8. This dispute resolution clause will be discussed at greater length later in this Memorandum Opinion.

[t]he Company's policy is to resolve any claims by or disputes with its employees (including former employees) in a fair, efficient and expeditious manner. You therefore understand and agree that any and all legal or contractual disputes of any nature arising at any time (including after termination of employment) between you on the one hand and the Company and its affiliates on the other (including other employees, officers, directors, shareholders, agents, insurers and benefit plans and each of their successors and assigns) will be resolved under the following procedures:

a. [y]ou will report in writing any claim or dispute you may have to the Company's Head of Human Resources ("HR") within 30 days after the facts giving rise to the claim or dispute. HR will promptly meet with you and attempt to resolve the matter. HR may invite other Company employees to participate in these discussions. You may be represented or assisted by a lawyer of your choice. If the matter is resolved by mutual agreement, the Company will reimburse you for the fees and expenses of your lawyer up to \$1,000.

b. If your claim or dispute is not resolved by mutual agreement within sixty days after you report it, it will be resolved by an independent arbitrator. The arbitrator will be selected by mutual agreement. If you and the Company cannot agree on an arbitrator, the Company will request the American Arbitration Association or other agreed arbitration group such as NASD Arbitration to appoint the arbitrator. The fees and expenses of the arbitrator and of the lawyers representing you and the Company will be paid as determined by the arbitrator. The arbitrator will decide whether and to what extent the AAA or NASD rules for the arbitrated resolution of employment disputes will be applicable. The decision of the arbitrator will be binding on both you and the Company and it will be final and not subject to appeal.

c. The types of claims and disputes that will be resolved under these procedures include all claims and disputes arising under this agreement or in connection with your employment by the Company; all claims arising from the terms and conditions of your employment; all claims arising from the termination of your employment; and all claims arising under any law prohibiting employment discrimination based upon any protected characteristic (e.g. age, race, sex national origin, religion disability status), including the Age Discrimination in Employment Act, Title VII of

the Civil Rights Act of 1964, the American with Disabilities Act, and the Pennsylvania Human Relations Act. *However, the Company retains the right to bring any claims to enforce any of its rights in paragraph 6 of this agreement directly in a court of competent jurisdiction and the Company need not arbitrate any such claims.* In that case, the Company may serve legal process on you by certified mail (return receipt requested) at the address you furnished to the Company in writing.

(Pl.'s Mem. Law Opp'n CooperNeff's Renewed Mot. for Order Compelling Arbitration and Staying Proceedings, Ex. A)(emphasis added). Thus, pursuant to this dispute resolution provision, CooperNeff asserts that Zimmer must submit all of his claims, including his copyright infringement and remaining state law claims to arbitration.<sup>7</sup>

### **III. STANDARD**

“Motions to compel arbitration are reviewed, in the first instance, under the well-settled summary judgment standard set forth in Fed. R. Civ. P. 56(c).” Bellvue Drug Co. v. Advance PCS, 333 F. Supp. 2d 318, 322 (E.D. Pa. 2004)(citations omitted). Thus, the moving party must prove through “pleadings, depositions, answers to interrogatories, and admissions on file, together with affidavits, if any . . . that there is no genuine issue of material fact and that the moving party is entitled to judgment as a matter of law.” FED. R. CIV. P. 56(c). Additionally, this Court “must consider all of the non-moving party’s evidence and construe all reasonable inferences in the light most favorable to the non-moving party.” Bellvue Drug Co., 333 F. Supp. 2d at 322 (citing Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 255 (1986); Versarge v. Township of Clinton, N.J., 984 F.2d 1359, 1361 (3d Cir. 1993)).

---

<sup>7</sup> According to CooperNeff, its state complaint is specifically allowed under the dispute resolution clause because its state complaint is its attempt to enforce its intellectual property rights discussed in paragraph 6 of the Employment Agreement.

#### **IV. DISCUSSION**

During oral argument, three issues were raised with respect to the instant Motion. Specifically, those three issues were whether the underlying Employment Agreement lacked consideration, whether the arbitration clause itself was unconscionable and whether CooperNeff had waived its right to compel arbitration. We will examine those three issues in turn making the following conclusions: the Employment Agreement did not lack consideration; the arbitration clause is unconscionable and; CooperNeff, by initiating its intellectual property claims against Zimmer in state court, waived its opportunity to force Zimmer into arbitration.

##### **A. CONSIDERATION**

Zimmer has consistently argued that the Employment Agreement lacks consideration and, therefore, the Employment Agreement's arbitration clause is inapplicable. CooperNeff's position on this issue is that the question of enforceability. Specifically, CooperNeff relies on Prima Paint Corp. v. Flood & Conklin Mfg. Co., 388 U.S. 395, 406-07 (1967), for the proposition that the arbitrator should decide this issue of consideration. However, CooperNeff's position is incorrect. The United States Court of Appeals for the Third Circuit ("Third Circuit") distinguished Prima Paint in Sandvik AB v. Advent Int'l Corp., 220 F.3d 99, 107 (3d Cir. 2000). The Third Circuit stated that where a party is asserting that a contract containing an arbitration clause is void, a court can properly consider the issue. Id. at 107. Thus, since Zimmer is asserting that the Employment Agreement is void for lack of consideration, this Court can properly consider the issue rather than the arbitrator.

If the Employment Agreement lacked consideration, then the arbitration provision would be inapplicable. It should be noted that state law will apply to determining this

issue. Bellvue Drug Co., 333 F. Supp. 2d at 326. Zimmer asserts that the Employment Agreement lacked consideration because it was signed approximately forty-five days after he began employment. In support of his position, Zimmer relies on cases arising out of the restrictive covenant context, which allow an employer to restrict an employee's employment after leaving their job. CooperNeff responds that Zimmer's argument is flawed because his reliance on restrictive covenant cases. CooperNeff principally relies on Harsco Corporation v. Zlotnicki, 779 F.2d 906 (3d Cir. 1985) for its position. In Harsco, a former employee argued that his employment agreement lacked consideration. Id. at 909. There, Zlotnicki assigned his patent rights over to Harsco in an employment agreement signed well after he began employment. Id. at 908. Zlotnicki urged the court to analogize Pennsylvania law on restrictive covenants to support his position that the consideration was inadequate in the assignment of his patent rights. Id. at 910. Ultimately, the Third Circuit found that "[t]he district court did not err in refusing to apply the rationale of the restrictive covenant cases and in rejecting the plaintiff's assertion that Pennsylvania courts equate patent and invention assignment agreements . . . to restrictive covenants in employment agreements." Id. (citations omitted). More specifically, the Third Circuit agreed with the District Court's holding that, "restrictive covenant cases differ from assignments of patent rights because restrictive covenants hamper a person's ability to earn a living, whereas patent assignments affect only property rights to patents." Id. The Third Circuit ruled that by Zlotnicki assigning his patent rights to Harsco, Harsco bounded itself to employ Zlotnicki for a reasonable period of time. Id. Thus, the Third Circuit determined that this reasonable period of time provided consideration for the agreement. Id. For similar reasons, this Court also finds that CooperNeff bound itself to employ Zimmer for a reasonable period of time,

and that such a reasonable period of employment provided the consideration needed for the Employment Agreement to be enforceable.

**B. UNCONSCIONABILITY**

During oral argument, this Court asked the parties to discuss whether the arbitration clause is unconscionable. At the outset, it should be noted that this Court can properly determine the issue of unconscionability. See Bellvue Drug Co., 333 F. Supp. 2d 332 n.6, In re Elcom Technologies Corp., No. 98-13343SR, 2001 WL 1843378, at \*13 (Bankr. E.D. Pa. March 26, 2001). Similar to the previous discussion of consideration, Pennsylvania law will apply to deciding this issue.

Pennsylvania law recognizes that both procedural and substantive unconscionability must be present for a court to determine that an arbitration clause is unconscionable. See Bellvue Drug Co., 333 F. Supp. 2d at 332 (citing Metalized Ceramics for Elecs. v. Nat'l Ammonia Co., 444 Pa. Super. 238, 248, 663 A.2d 762 (1995)). Procedural unconscionability pertains to the process in which an agreement is reached and the form of the agreement. See Alexander v. Anthony Int'l L.P., 341 F.3d 256, 265 (3d Cir. 2003). This element is normally satisfied if the agreement constitutes a contract of adhesion. Id. While a contract of adhesion is one where a party with excessive bargaining power presents a contract to the other party on a take it or leave it basis, courts have also stated that mere inequality in bargaining power is not enough to make a contract one of adhesion. Id. (citations omitted). This Court finds that procedural unconscionability is present in this case.

Upon Zimmer's decision to leave his previous employer and give up a significant amount of deferred compensation, Zimmer received and signed an offer letter with CooperNeff

in February of 2003. This offer letter stated:

Except as provided in this paragraph, this letter is not to be a binding legal document, as the agreement between the parties hereto on these matters will be embodied in the Employment Agreement referred to above. Until the Employment Agreement has been finally negotiated, signed and approved by BNP Paribas' global headquarters, either CooperNeff or you may at any time terminate further participation in negotiating the terms of your employment with CooperNeff.

(Letter from CooperNeff to Zimmer of 2/6/03, at 2). Thus, this offer letter to Zimmer stated that the Employment Agreement that was to govern Zimmer's employment still needed to be negotiated between the parties. However, it was only after Zimmer left his previous employment, gave up a significant amount of deferred compensation, began work at CooperNeff and worked at CooperNeff for approximately forty-five days, that CooperNeff then required him to sign the Employment Agreement as written, even though Zimmer had raised concerns regarding the Employment Agreement. Even after Zimmer had raised his concerns with the Employment Agreement, he was eventually forced to sign the Agreement or else be terminated.<sup>8</sup>

---

<sup>8</sup> This is best illustrated by the testimony of Andrew Sterge at the preliminary injunction hearing:

Q: Now, did you have a discussion with Mr. Zimmer, at some point about the fact that he hadn't signed his employment agreement?

A: I did.

Q: When was that?

A: I remember it as being in May, 2003.

Q: How do you remember that? How do you remember the date?

A: Steve asked me - - Steve told me he wanted to talk to me about something when we went on an offsite trip. And which I know was in May. We didn't get to it then, but we talked about - - then I found out right afterwards that the issue was his employment agreement and we talked about it

---

upon returning from that trip.

Q: Where was that trip to?

A: Las Vegas.

Q: And what did you learn about whether Dr. Zimmer had signed the agreement or not, what did you learn?

A: Well, I learned he hadn't signed it.

Q: What was your reaction to that?

A: I was surprised.

Q: Why were you surprised?

A: Well, I mean, its fairly standard. It doesn't seem like it's onerous in any way. It had been worked on for many years. And I was, you know, I was surprised that he was getting paid without having signed the document.

Q: Now, you said when you returned from this trip to Las Vegas, that's when you had the discussion with Mr. Zimmer?

A: That's what I recall, right.

Q: Can you tell me what transpired, to the best of your recollection, in that conversation?

A: Well, he said he hadn't signed it. That he was uncomfortable signing it and I asked why. And he was concerned that, you know, he was working on this model. He would get it developed and that it could be used without him. That he could be fired and we could get the benefit of his work without him being involved.

Q: What was your response to that?

A: Well, it was, you know, I mean basically, you know, that it seemed like a ludicrous thought that, you know, that I really valued his insight. I really valued his work, his hard work. And there's a lot of things I wanted to do with him. And the last thing I would do is fire anyone who has done good work. I mean, you know, aside from the fairness aspect, it just would be a very poor business decision.

Q: Did you tell him he didn't have to sign the contract?

A: No.

Q: Did you tell him he did have to sign the contract?

A: Yeah, right, I told him he had to sign the contract.

Q: Did you tell him what the consequences would be if he didn't sign the contract?

A: Yes.

Q: What were those consequences?

A: Well, you know, you can't work here, Steve, if you don't

Thus, not only was there an extreme inequality in bargaining position between Zimmer and CooperNeff at the time Zimmer signed the Employment Agreement, but after Zimmer complained about the Agreement, CooperNeff did not allow any opportunity for Zimmer to negotiate the Employment Agreement. Thus, CooperNeff did not act in accordance with the offer letter and forced Zimmer to either sign the Employment Agreement or be terminated. As such, this Court finds procedural unconscionability to be present.

Having found procedural unconscionability, we must now determine whether the arbitration clause is substantively unconscionable. The specific issue is whether an arbitration clause that allows one party a choice to litigate or arbitrate, but requires the other party to arbitrate all disputes is substantively unconscionable. CooperNeff relies on Harris v. Green Tree Financial Corporation, 183 F.3d 173 (3d Cir. 1999), and Blair v. Scott Specialty Gases, 283 F.3d 595 (3d Cir. 2002), for the proposition that this difference does not make the arbitration clause unconscionable. However, this Court views the arbitration clause as being substantively unconscionable based upon Lytle v. Citifinancial Services, Inc., 810 A.2d 643 (Pa. Super. Ct. 2002), as will be explained.

In both Harris and Blair, the Third Circuit had to determine whether an arbitration clause was enforceable where it gave one party access to the courts and limited the other party to arbitration. In Harris, the court stated that “[a]s long as the requirement of consideration is met,

---

sign the contract.

Q: What did you mean by that? Did that mean he would have to leave?

A: Well, yeah, you can't work here, you have to leave.

(Tr. 9/21/04, 163-65).

mutuality of obligation is present, even if one party is more obligated than the other.” 183 F.3d at 181. Indeed, the court in Blair cited to Harris for the same proposition. Blair, 283 F.3d at 604. The court in Harris noted the following, however, “[w]hile Pennsylvania courts appear not to have considered whether mutuality is required in arbitration agreements, Pennsylvania law, consistent with the most recent restatement of contracts, does not otherwise require both parties to an agreement to have equivalent obligations to satisfy the standard of mutuality of obligation.” 183 F.3d at 181. Since both Harris and Blair were decided, the Pennsylvania Superior Court (“Superior Court”) has had the opportunity to determine whether an arbitration clause that gives court access to one party and excludes court access to the other party is unconscionable. See Lytle, 810 A.2d at 662. In Lytle, the Superior Court stated that, “[u]nder Pennsylvania law, the reservation by [one party] of access to the courts for itself to the exclusion of the consumer creates a presumption of unconscionability, which in the absence of ‘business realities’ that compel inclusion of such a provision in an arbitration provision, renders the arbitration provision unconscionable under Pennsylvania law.” Id. at 665. In so ruling, the Superior Court expressly recognized that its holding was contrary to the Third Circuit’s decision in Harris, but found that the exclusion of access to the courts for one party created the presumption of unconscionability absent some business reality for this difference. Id. at 665 n.13.

Since Lytle, courts within this District have differed as to Lytle’s applicability. Some courts have refused to apply Lytle and have continued to apply Harris and Blair. See Aames Funding Corp. v. Sharpe, No. 04-4337, 2004 WL 2418284, at \*5 (E.D. Pa. Oct. 28, 2004); In Re Brown, 311 B.R. 702, 708-10 (Bankr. E.D. Pa. 2004); Choice v. Option One Mortgage Corp., No. 02-6626, 2003 WL 22097455 (E.D. Pa. May 13, 2003). However, at least

one court has followed the rule of law concerning unconscionability established in Lytle. See In re Mintze, 288 B.R. 95, 103 n.11 (Bankr. E.D. Pa. 2003)(following “Pennsylvania’s rule of law concerning unconscionability as newly established by Lytle).

In light of the above, the issue then becomes whether this Court is bound by the Third Circuit’s opinions in Harris and Blair when a subsequent state appellate court has contradicted the Third Circuit. As the United States Supreme Court has noted, “[w]here an intermediate appellate state court rests its considered judgment upon the rule of law which it announces, that is a datum for ascertaining state law which is not to be disregarded by a federal court unless it is convinced by other persuasive data that the highest court of the state would decide otherwise.” West v. Am. Tel. & Tel. Co., 311 U.S. 223, 237 (1940). More specifically, one court within the Third Circuit recently noted that “District courts in this Circuit have been inconsistent, but it has been written that a district court is bound by its court of appeals on questions of state law unless ‘later state court decisions indicate that the Court of Appeals’ earlier prediction of state law was in error.” Hittle v. Scripto-Tokai Corp., 166 F. Supp. 2d 159, 162 (M.D. Pa. 2001)(citing Stepanuk v. State Farm Mut. Auto. Ins. Co., No. 92-6095, 1995 WL 553010, at \*2 (E.D. Pa. Sept. 19, 1995)). Here, this Court is not strictly bound by the Third Circuit’s holdings in Harris and Blair in view of the Superior Court’s more recent alternative ruling in Lytle.

Based upon the Superior Court’s ruling in Lytle that a presumption of unconscionability arises where one party reserves sole access to the courts, we find that the arbitration clause in the Employment Agreement is presumed to be unconscionable. By giving CooperNeff the exclusive right to choose between judicial action or arbitration in intellectual

property disputes, yet forcing Zimmer to arbitrate all of his claims, the arbitration clause is presumed to be unconscionable. Additionally, this Court inquired at oral argument whether any business realities were present that would overcome this presumption of unconscionability. After hearing CooperNeff's arguments, we find that no business realities justify giving CooperNeff sole access to the courts. Finding that the arbitration clause is both procedurally and substantively unconscionable, the arbitration clause is unconscionable under Pennsylvania law and should not be enforced.

### **C. WAIVER (NON-TRADITIONAL)**

Even if the arbitration clause is not unconscionable, this Court finds that through its actions, CooperNeff has effectively waived its right to compel arbitration. First, we note that waiver is not to be lightly inferred. See Bellvue Drug Co., 333 F. Supp. 2d at 324 (citing PaineWebbber Inc. v. Faragalli, 61 F.3d 1063, 1068 (3d Cir. 1995)). The issue of waiver normally arises where a party opposing arbitration argues that the party seeking arbitration has waited too long to raise the issue. See id. at 325-26. However, this Court views CooperNeff's waiver as a completely different type of waiver. Specifically, we find that through CooperNeff's initiation of its judicial action against Zimmer, as well as continuing to pursue its purported rights to the Model in state court, it has waived any rights it had under the arbitration clause to compel arbitration. The Employment Agreement gave CooperNeff a choice to seek arbitration to enforce its purported intellectual property rights, or to file a judicial action, not both. CooperNeff made its choice to seek judicial action by filing and continuing to pursue its case in state court. Thus, Zimmer should be allowed to seek judicial action as well in his attempt to enforce the intellectual property rights that CooperNeff alleges are its own.

For the foregoing reasons we will enter the following Order.

