

**UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT**

TES FRANCHISING, LLC D/B/A THE	:	
ENTREPRENEUR’S SOURCE,	:	
Plaintiff,	:	CIVIL ACTION NO.
	:	3:04cv219 (SRU)
v.	:	
	:	
ANTONIO LOVEMAN,	:	
EXPERTOS EN	:	
FRANQUICIAS S.A. DE C.V. and	:	
INTERNATIONAL CENTRE FOR	:	
DISPUTE RESOLUTION,	:	
Defendants.	:	

RULING ON PLAINTIFF’S REQUEST FOR INJUNCTIVE RELIEF

TES Franchising, LLC (“TES”) sued Antonio Loveman (“Loveman”), Expertos en Franquicias S.A. de C.V. (“Expertos”), and International Centre for Dispute Resolution (“ICDR”), seeking, among other things, to enjoin an arbitration proceeding pending against TES. TES was granted a temporary restraining order staying the arbitration pending this court’s decision on TES’s motion for preliminary injunction. Pursuant to Rule 65(a)(2), the court consolidated the hearing on TES’s motion for preliminary injunction with trial on the merits of TES’s prayer for injunctive relief (Counts I and II of the complaint). For the reasons set forth below TES’s claim for permanent injunctive relief is denied and judgment will enter in favor of the defendants on Counts I and II of the complaint.

I. Findings of Fact

Pursuant to Rule 52 of the Federal Rules, I find the following facts after reviewing the evidence presented by both parties.

A. Background

TES has developed a method (“the System”) for implementing, marketing and running franchises. The System consists of various pieces of intellectual property protected by copyright, trademark and trade secret law. The System is, itself, distributed using a franchise model.

In August 2002, Loveman entered into a franchise agreement with TES that allowed him exclusive use of the System in Mexico for an initial fee of \$75,000. The agreement was embodied in two documents – a Regional Franchise Agreement (“the RFA”) and a Consultant Franchise Agreement (“the CFA”) (collectively, “the Franchise Agreements”). The deal quickly went sour, and the parties took steps towards undoing it through a release agreement coupled with a refund of the franchise fee. The release was drafted, but never executed.

Sometime after entering into the Franchise Agreements, Loveman formed Expertos, a company that was also in the business of licensing franchising-method franchises.

On August 23, 2003, Expertos filed a demand for arbitration claiming, among other things, that TES had breached the Franchise Agreements by failing to honor its promise to grant Loveman exclusive use of the System in Mexico and by failing to provide Expertos with advisory assistance. Because TES, after a certain point, refused to participate in the arbitration, it was – prior to the entry of restraining order – about to be found in default.

On February 9, 2004, TES filed a complaint with this court in which it alleged, among other things, that Loveman had essentially used the Franchise Agreements as a means to steal TES’s intellectual property and use it in his own business, Expertos.

B. The Contracts

Both the RFA and CFA contain the following arbitration provisions:

20.01 Agreement to Arbitrate: All disputes and claims relating to this Agreement, the rights and obligations of the parties hereto, or any claims or causes of action relating to the performance of either party and/or the purchase of the franchise or goods by Regional Franchisee will be settled by arbitration by the American Arbitration Association in Connecticut in accordance with the Federal Arbitration Act and the Commercial Arbitration Rules of the American Arbitration Association

20.02 Selection of Arbitrator: The parties will select one arbitrator from the panel provided by the American Arbitration Association

20.03 Exceptions to Arbitration: Notwithstanding the foregoing, the arbitrator will have no jurisdiction over disputes relating to the ownership, validity, or registration of any mark, trade secret or copyright of Franchisor, and will have no authority to declare any mark, trade secret or copyright invalid, abandoned, misused, abused or otherwise affect the registration thereof or Franchisor's (or any affiliate's) rights thereof.

II. Discussion and Legal Conclusions

TES contends that: (1) this court is the appropriate body to determine whether or not Expertos' claims are arbitrable, and (2) those claims are not, in fact, arbitrable. Alternatively, TES argues that, if the claims are arbitrable (or if the question of arbitrability is given to the arbitrator), the arbitrator currently selected was selected in violation of the Franchise Agreements. I disagree with TES on all three contentions and conclude that (a) the question of arbitrability is given to the arbitrator, (b) even if it were not, Expertos' dispute is arbitrable, and (c) the selection of the arbitrator is not reviewable at this time and, even if it were, it was properly conducted.

A. Determination of Arbitrability

Although federal law creates a presumption in favor of submitting disputes to arbitration, the presumption is reversed when the question is whether the issue of arbitrability is subject to arbitration. First Options of Chicago, Inc. v. Kaplan, 514 U.S. 938, 944 (1995). The determination of arbitrability

is left to the court unless the parties “clearly and unmistakably” indicate otherwise. Id.; John Hancock Life Insurance Co. v. Wilson, 254 F.3d 48, 53 (2d Cir. 2001). Whether or not the parties have indicated their intent “clearly and unmistakably” is determined by the application of state-law contract principles. Bell v. Cendant Corp., 293 F.3d 563, 566 (2d Cir. 2002). This latter principle has been held by the Second Circuit to mean that a court should look specifically to a state’s arbitration law to determine whether a contract has given the question of arbitrability to the arbitrator. Id.

The Franchise Agreements both indicate, and the parties do not dispute, that they are to be interpreted under Connecticut law. Connecticut law is similar to federal law in that it presumes that the question of arbitrability is left to the court absent an indication that the parties have “clearly agreed” otherwise. City of Bridgeport v. Bridgeport Police Local 1159, 183 Conn. 102, 104 (1981). Additionally, the Connecticut Supreme Court has held that an all-inclusive arbitration clause, using language such as “all questions in dispute,” provides a sufficiently clear grant to the arbitrator of the authority to determine arbitrability. Id.

In this case, the parties dispute whether incorporation by reference of the American Arbitration Association’s (“AAA”) Commercial Arbitration Rules (“the AAA Rules”) – which contain a rule giving questions of arbitrability to the arbitrator¹ – constitutes a clear agreement to put such questions solely in the hands of the arbitrator. TES does not dispute that the AAA Rules are clear, but argues that whether or not the AAA Rules apply at all (including the rule on determination of arbitrability) hinges on

¹ Specifically, rule R-7(a) of the Commercial Arbitration Rules provides: “The arbitrator shall have the power to rule on his or her own jurisdiction, including any objections with respect to the existence, scope or validity of the arbitration agreement.”

a prior determination whether the dispute in question is arbitrable. Thus, TES argues, applying the AAA Rules to determine the question of arbitrability begs the question, which is whether the AAA Rules apply in the first place.

Though TES's argument is logical, it is foreclosed by the Second Circuit's holding in Shaw Group Inc. v. Triplefine International Corp., 322 F.3d 115 (2d Cir. 2003). In Shaw the Second Circuit held that the parties' intention to submit questions of arbitrability to the arbitrator was sufficiently evidenced by (1) the presence of a broad arbitration clause, submitting to arbitration "all disputes" arising out of the agreement, and (2) the incorporation of the International Chamber of Commerce rules, which – like the AAA Rules – commit questions of arbitrability to the arbitrator. Id. at 121-22. The Court indicated that either one of these facts, standing alone, would have been sufficient to show an intent to submit questions of arbitrability to the arbitrator. Id. at 121-23.²

In this case, both sufficient facts are present. The Franchise Agreements have broad language that commit to arbitration "all disputes and claims relating to this Agreement, the rights and obligations of the parties hereto, or any claims or causes of action relating to the performance of either party." And, as just noted, the agreements incorporate the AAA Rules, which commit questions of arbitrability to the arbitrator.

The Franchise Agreements are plain; any question of the appropriateness of arbitration can only

² It is true that Shaw applied New York law. I have not found (neither has TES indicated) any reason to think Connecticut law differs from New York law on this point. Compare Smith Barney Shearson Inc. v. Sacharow, 91 N.Y.2d 39, 45-46 (1997) (requiring "clear and unmistakable agreement to arbitrate arbitrability"), with City of Bridgeport, 183 Conn. at 104 (requiring evidence that "parties have clearly agreed to submit that question [of arbitrability] to arbitration").

be raised before the arbitrator. For that reason, TES's claim for injunctive relief cannot succeed.

B. Arbitrability of Expertos' Claims

Notwithstanding the conclusion just reached, if I were to decide the question of arbitrability, the outcome would not change. The Franchise Agreements leave no room for doubt that Expertos' claims must be arbitrated.

TES argues that Expertos' claims are not subject to arbitration because they fall within the intellectual property exception to the arbitration clause – Section 20.03 of the Franchise Agreements.³ This argument is without merit. Expertos has sought arbitration of a claim for breach of contract. It has not made any claim concerning the “ownership, validity, or registration of any mark, trade secret or copyright” of TES. Neither has it sought to have the arbitrator “declare any mark, trade secret or copyright [of TES] invalid, abandoned, misused, abused.” Nevertheless, TES argues that, because the contract breached is a contract that includes a license of its intellectual property, a claim of breach “relates” to intellectual property as that term is used in section 20.03.

In the first place, that interpretation of the contract is highly strained. If the mere fact that the Franchise Agreements license intellectual property was sufficient to make all claims arising out of the agreements subject to the arbitration exception, then the exception would swallow the rule. Each of the Franchise Agreements submits “all disputes and claims relating to this Agreement” to arbitration. In

³ This provisions states: “20.03 Exceptions to Arbitration: Notwithstanding the foregoing, the arbitrator will have no jurisdiction over disputes relating to the ownership, validity, or registration of any mark, trade secret or copyright of Franchisor, and will have no authority to declare any mark, trade secret or copyright invalid, abandoned, misused, abused or otherwise affect the registration thereof or Franchisor's (or any affiliate's) rights thereof.”

essence, TES argues that “all disputes and claims relating to this Agreement” relate to intellectual property and so are not subject to arbitration. TES’s reading would render the arbitration provision meaningless.

Moreover, even if I accepted TES’s broad reading of the word “relates,” TES still has not explained how an agreement to *license* intellectual property relates to claims of “*ownership*, validity or registration,” which is the focus of section 20.03. A contract to license intellectual property does not relinquish ownership of that property, neither does it call into question the validity of the property holder’s rights.

Finally, to the extent TES is arguing that there are practical reasons why the contract claims and intellectual property claims should be heard together, this argument gets it nowhere. The Supreme Court has explicitly held that the Federal Arbitration Act does not preclude the possibility that litigation will proceed in a piecemeal fashion when some claims are arbitrable and some claims are not. See Dean Witter Reynolds Inc. v. Byrd, 470 U.S. 213, 221 (1985); see also Collins & Aikman Products, Co. v. Building Systems, Inc., 58 F.3d 16, 20 (2d Cir. 1995) (calling “frivolous” arguments that arbitrable and non-arbitrable claims should not be separated).

For these reasons, even if I reached the question of arbitrability, it is perfectly clear from the Franchise Agreements that Expertos’ claims are properly in arbitration.

C. Selection of the Arbitrator

TES’s last argument is that, even if arbitration is appropriate, the selection of the arbitrator violated the Franchise Agreements. The Franchise Agreements state: “The parties will select one arbitrator from the panel provided by the American Arbitration Association.” TES claims that it was

not part of the arbitrator selection process, and so the arbitration has not proceeded in accordance with the contract because “the parties” have not selected the arbitrator. TES initially made this claim to the AAA, which ruled that the arbitrator was properly selected.

TES is now seeking what amounts to an interlocutory review of a decision by the arbitration board. I have no authority to make such a review. Under the Federal Arbitration Act, a District Court may not review the appropriateness of an arbitrator’s ruling prior to the issuance of an award. Michaels v. Mariforum Shipping, S.A., 624 F.2d 411, 414 (2d Cir. 1980). Only after the arbitrator has issued an award may a party move to vacate it – pursuant to 9 U.S.C. § 10 – or modify it – pursuant to 9 U.S.C. § 11.

It is, however, worth noting that there appears to be nothing improper about the way the arbitrator was selected. The Franchise Agreements provide for selection of one arbitrator by both parties from an AAA panel. The method of selection is not specified and so it is to be done in accordance with AAA Rules, because they are incorporated into the Franchise Agreements. This is exactly what was done. The fact that TES chose not to participate in the selection process neither invalidates the process nor renders the selection a breach of the Franchise Agreements.

For the aforementioned reasons, TES's motion for injunctive relief is DENIED. The clerk will enter judgment for the defendants on Counts I and II of the Complaint (doc. # 1). However, in order to allow TES time to prepare for, and participate in, the current arbitration proceedings, this order will not go into effect until 20 days after it is filed. At that point, the Temporary Restraining Order issued by this court (doc. # 13) will, by its terms, expire.

It is so ordered.

Dated at Bridgeport, Connecticut, this 20th day of April 2004.

/s/ Stefan R. Underhill
Stefan R. Underhill
United States District Judge