

**THE ART OF SOFTWARE, INC. and MILA KANDIBUR, Plaintiffs, v.
GLOBAL TRADE TECHNOLOGIES, INC., Defendant.**

95 C 2009

**UNITED STATES DISTRICT COURT FOR THE NORTHERN
DISTRICT OF ILLINOIS, EASTERN DIVISION**

1995 U.S. Dist. LEXIS 8267

June 15, 1995, Decided

June 16, 1995, DOCKETED

COUNSEL:

For ART OF SOFTWARE, INC., THE, MILA KANDIBUR, plaintiffs: Mary Catherine Merz, Mary Catherine Merz, Esquire, Oak Park, IL. Frederic D Abramson, Attorney at Law, Gaithersburg, MD.

For GLOBAL TRADE TECHNOLOGIES, INC., defendant: Steven B. Varick, McBride, Baker & Coles, Chicago, IL. William H Crispin, Dean R Brenner, Crispin & Brenner, P.L.L.C., Washington, DC.

JUDGES:

Charles P. Kocoras, United States District Judge

OPINION BY:

Charles P. Kocoras

OPINION:

MEMORANDUM OPINION

CHARLES P. KOCORAS, District Judge:

This matter is before the court on the defendant's motion to dismiss pursuant to Rules 12(b)(1) and 12(b)(6) of the Federal Rules of Civil Procedure. Alternatively, the defendant moves for summary judgment. For the reasons set forth below, we grant the defendant's motion to dismiss.

BACKGROUND

The plaintiffs, The Art of Software, Inc. ("TAOS") and Mila Kandibur ("Kandibur"), filed a six-count Complaint for Declaratory Relief against the defendant, Global Trade Technologies, Inc. ("Global"), seeking, in effect, to declare a written agreement between the parties a nullity and to stay an arbitration proceeding commenced by Plaintiffs TAOS and Kandibur. Organized in 1992, Defendant Global endeavors to commercialize automated position management systems for financial institutions. Prior to September 1993, Global contracted with the Bank of Detroit ("NBD") to provide its services to NBD. To better fulfill its obligations to NBD, Global shortly thereafter entered into an oral agreement with the plaintiffs, experts in the field of computer software development, to serve as consultants for the project.

Both individually and as president of Plaintiff TAOS, Kandibur researches, develops, markets, and teaches innovative means of developing computer systems. Pursuant to the oral agreement with Global, the plaintiffs were to "lend their skill and expertise and otherwise participate in various marketing, personnel and capital raising activities." See Complaint P 19. The plaintiffs allege that at some point during Plaintiffs' performance under the oral agreement, Global realized that the oral agreement did not provide for ownership of the products delivered by Plaintiffs, thus placing Global in breach of its contract with NBD. See *Id.* at P 21. To remedy this, the defendant created a "writing" which assigned the ownership of the plaintiffs' various products to Defendant Global. The plaintiffs allege that the writing served to "induce

Plaintiffs to transfer ownership by creating an illusion of a long-term work relationship in order to deprive Plaintiffs of access to an appropriate judicial forum at which Plaintiffs could adequately protect their rights." See *Id.* at P 22. According to the complaint, Global represented to Kandibur that the writing's purpose was merely to satisfy potential investors and that it would not be considered a real contract. See *Id.* at P 26. After engaging an attorney to examine the writing, on or about February 22, 1994, Kandibur, as the president of TAOS, signed the writing. When problems subsequently arose between the parties, Kandibur and TAOS, pursuant to an arbitration provision contained within the writing, filed a demand for arbitration. That arbitration proceeding is still pending. See *Id.* at P 40. Several months later, ostensibly dissatisfied with the arbitration process, the plaintiffs also filed the present six-count declaratory action in federal court, seeking to stay the arbitration proceedings and to declare the following: 1) that the writing is not a contract; 2) that the arbitration clause was fraudulently induced; 3) that the arbitration clause limited arbitration to the time during which the parties had an on-going work relationship; 4) that the dispute exceeds the scope of the arbitration clause; 5) that a grand scheme of fraud invalidates the writing; and 6) that it is reasonable and just for this court to accept jurisdiction.

DISCUSSION

The defendant filed the present motion seeking either dismissal of the plaintiffs' complaint pursuant to Rules 12(b)(1) and 12(b)(6) of the Federal Rules of Civil Procedure or summary judgment in its favor. Because there exists a threshold issue of whether or not the plaintiffs may properly bring this case pending arbitration, we will focus our attention on whether the plaintiffs' case is properly before us. In addressing a motion to dismiss for lack of subject matter jurisdiction, a district court may look beyond the complaint and view any extraneous evidence submitted by the parties to determine whether subject matter jurisdiction in fact exists. *Gervasio v. U.S.*, 627 F. Supp. 428, 430 (N.D.Ill. 1986); 5A Wright & Miller, Federal Practice and Procedure at § 1350 (1990); see also *Schaefer v. Transportation Media, Inc.*, 859 F.2d 1251, 1253 (7th Cir. 1988). On a Rule 12(b)(1) Motion to Dismiss, the plaintiff bears the burden of establishing that the jurisdictional requirements have been met. *Kontos v. United States Dep't of Labor*, 826 F.2d 573, 576 (7th Cir. 1987). When the party moving for dismissal under Rule 12(b)(1) challenges the factual basis for jurisdiction, the nonmoving party must support its allegations with competent proof of jurisdictional facts. *Id.*; *Western Transp. Co. v. Couzens Warehouse & Distributors, Inc.*, 695 F.2d 1033, 1034 (7th Cir. 1982). Affidavits and other relevant evidence may be used to resolve the factual dispute regarding the court's jurisdiction. *Kontos*, 826 F.2d at 576.

The plaintiffs in the present case initiated the arbitration proceeding which they now seek to have stayed. The defendant maintains that by additionally filing in this court, the plaintiffs are engaging in forum shopping. In support of this argument, the defendant points out that virtually all of the claims which the plaintiffs assert before this court have already been brought before the arbitrator. If this is indeed the situation and the case is properly before the arbitrator, then we lack jurisdiction over the matter and the plaintiffs' action must be dismissed¹ dependent upon the legal validity of the writing. Put simply, if the matter is properly before the arbitrator, then it is not properly before this court.

It is not disputed that the arbitration clause contained in the "writing" is generally broad in its scope. Regarding the resolution of disputes, Paragraph 12 of the writing provides:

Any claim, controversy or dispute arising out of or relating to this Agreement or its breach that is not disposed of by written mutual agreement will be settled by arbitration in accordance with the then Commercial Arbitration Rules of the American Arbitration Association, before a single arbitrator in the Washington, D.C. metropolitan area. The arbitrator will apply the law of the State of Virginia, excluding its conflicts of laws provisions. The parties shall share the costs of the arbitration equally. The decision of the arbitrator will be final and conclusive upon the parties. Judgment upon an award rendered by the arbitrator may be entered in any court of competent jurisdiction. Pending the final resolution of any dispute under this Article 12, the Consultant will proceed diligently to perform this Agreement. Each party shall bear its own attorneys and legal costs.

¹ The plaintiffs assert that an issue exists as to whether the parties intended the writing to be a valid contract. Given the fact that the arbitration process has already been initiated, however, and given the fact that such process is still pending, the propriety of our hearing this case is not

See Defendant's Exhibit 5, P 12. The defendant notes that Counts I, III, IV, V, and VI of the complaint are matters which have either already been submitted to the arbitrator or are readily arbitrable under the language of the arbitration clause. In Count II of the complaint, however, the plaintiffs maintain that the arbitration clause was fraudulently induced by the defendant. Thus, the validity of the arbitration clause is hotly contested by the plaintiffs.

In *Prima Paint Corp. v. Flood & Conklin Manufacturing Co.*, 388 U.S. 395, 18 L. Ed. 2d 1270, 87 S. Ct. 1801 (1967), the Supreme Court decided the issue of when a claim of fraudulent inducement is properly before a court. An integrated contract between the parties existed in Prima Paint which included an arbitration clause (similar to the one presently before us), covering "any controversy or claim arising out of or relating to this Agreement." Prima Paint sought to resist arbitration, claiming that the entire agreement was induced by fraud. The Supreme Court thwarted Prima Paint's efforts, however, citing Section 4 of the United States Arbitration Act of 1925, 9 U.S.C. § 4, and reasoning that:

if the claim is fraud in the inducement of the arbitration clause itself—
an issue which goes to the "making" of the agreement to arbitrate—
the federal court may proceed to adjudicate it. But the statutory language
does not permit the federal court to consider claims of fraud in the
inducement generally. ... [A] federal court may consider only issues
relating to the making and performance of the agreement to arbitrate.

Prima Paint, 388 U.S. at 403-04. Thus, the court determines the existence of a contractual provision only when the claimed contractual invalidity goes to the arbitration clause itself. "Where the claim of invalidity goes to the entire contract containing the agreement to arbitrate, ... the issue is for an arbitrator to decide." *Schacht v. Beacon Ins. Co.*, 742 F.2d 386, 389 (7th Cir. 1984) (quoting *Matterhorn, Inc. v. NCR Corp.*, 727 F.2d 629, 630 n.3 (7th Cir. 1984)).

The plaintiffs in Count II attempt to circumvent the application of *Prima Paint* by alleging that the fraud in the inducement on the part of Global went to the arbitration clause. The allegations contained within the two paragraphs of Count II, however, belie the plaintiffs' efforts. Paragraph 45 of the complaint alleges that the defendant's "intent *in drafting the Writing* was to induce, through fraud and misrepresentation, Plaintiffs to forego legal and equitable remedies available through the courts and to assign various intellectual property rights to Defendant Global." See Complaint at P 45 (emphasis added). The language of the plaintiffs' allegation thus addresses fraudulent intent on the part of the defendant regarding the writing *in general*, not the arbitration provision specifically. Although the next paragraph attempts to narrow the charge to the arbitration clause, the allegation is wholly conclusory.² Furthermore, the remainder of the complaint, to the extent that it pertains to any purported fraud, makes it clear that any allegations of fraudulent inducement concern the writing as a whole, not the arbitration clause individually. Paragraph 22 of the complaint, for example, alleges:

... sometime after Defendant Global realized that it needed the
ownership of the various products owned by Plaintiffs, Defendant
Global and Verner Liipfert created a writing ("the Writing") that would
assign the ownership of Plaintiffs' various products to Defendant Global.
Defendant Global intended that the Writing would induce Plaintiffs to
transfer ownership by creating an illusion of a long-term work relationship
in order to deprive Plaintiffs of access to an appropriate judicial forum
at which Plaintiffs could adequately protect their rights.

See *Id.* at 22. Such an allegation concerns the defendant's alleged motivation behind creating the purportedly fraudulent writing. Inducing the plaintiffs to submit to unwanted arbitration is not the focus.

² Paragraph 46 (Count II) of the complaint states, "if the clause within the Writing were to constitute a contract to arbitrate. . . then such contract would be void as a matter of law because Plaintiff TAOS was fraudulently induced to agree to the clause." See Complaint at P 46.

Because the plaintiffs have failed to establish that the alleged fraud in the inducement applies uniquely to the arbitration clause, we must conclude that the plaintiffs' claims of fraud apply equally to all provisions of the writing.³ As such, if the arbitration clause is sufficiently broad to encompass a claim of fraudulent inducement, then the court is precluded from addressing that claim.

The arbitration clause in the present case requires arbitration of "any claim, controversy or dispute arising out of or relating to this Agreement." In *Prima Paint*, confronted with virtually identical contractual language, the Supreme Court held that where a claim of fraudulent inducement pertains to the entire agreement, the federal court may not consider it. See *Prima Paint*, 388 U.S. at 403-04. Because we find that such a circumstance exists here, Count II of the plaintiffs' complaint must be dismissed.

The defendant maintains that the remaining counts of the plaintiffs' complaint are likewise subject to dismissal, in that they are matters which have either already been submitted to the arbitrator or are readily arbitrable under the broad language of the arbitration clause. We agree. Although it is true that a party cannot be required to submit to arbitration any dispute which it has not agreed so to submit, the Supreme Court has stated that "an order to arbitrate [a] particular grievance should not be denied unless it may be said with positive assurance that the arbitration clause is not susceptible of an interpretation that covers the asserted dispute. Doubts should be resolved in favor of coverage." *United Steelworkers of America v. Warrior & Gulf Navigation Co.*, 363 U.S. 574, 582-83, 4 L. Ed. 2d 1409, 80 S. Ct. 1347 (1960). Where there exists a broad arbitration clause such as is found in the present case, absent "any express provision excluding a particular grievance from arbitration, ... only the most forceful evidence of a purpose to exclude the claim from arbitration can prevail. ..." *Id.* at 584-85.

Applying these principles to the present case, it is clear that the remaining five claims asserted by the plaintiffs are properly brought before the arbitrator. In Count I, the plaintiffs seek a declaration that the writing between the parties is not a contract. Such a claim, however, goes to the making of the agreement, and thus falls squarely within the province of the arbitration provision. Moreover, the issue as to whether the parties intended the writing to be a contract is at present before the arbitrator. See Defendant's Exhibit 3 at p. 1. Count I of the plaintiffs' complaint is therefore arbitrable and not properly before this court.

Count III of the plaintiffs' complaint similarly fails. Count III seeks a declaration that the arbitration clause limits arbitration to the time during which the parties had an on-going relationship. The defect of this claim is evident, however, considering the plain language of the arbitration clause, which provides only that if an arbitration proceeding is commenced while the contract is being performed, the Consultant is to continue work under the agreement pending the outcome of the arbitration. Because nowhere within the language of the arbitration clause is there a limitation of the sort which the plaintiffs purport to assert, Count III fails to state a claim.

Count IV of the plaintiffs' complaint seeks a declaration that the plaintiffs' copyright and trade secret misappropriation claims exceed the scope of the arbitration clause. As already indicated, the scope of the writing's arbitration provision is quite broad, encompassing any claim "arising out of or relating to this Agreement or its breach." Given this expansive language, it is clear that the plaintiffs' claims fall within the confines of the arbitration clause. The defendant hired the plaintiffs on account of the specialized knowledge and skills which the plaintiffs had to offer, and these factors are explicitly embodied in the writing. n4 As a result, any claims which arise out of or relate to the plaintiffs' specialized knowledge in relevant areas are explicitly subject to arbitration. The claims which the plaintiffs ultimately wish to assert in Count IV are therefore within the scope of the arbitration clause, and Count IV must be dismissed.

³ The fact that some of the terms of the writing may correspond to the terms of the original oral agreement does not diminish the point that the plaintiffs' fraudulent allegations pertain to the writing as a whole.

⁴ For example, the writing states in pertinent part: GTT acknowledges that it has chosen to work with the consultant because of the Consultant's specialized knowledge and skills, and that the Consultant's know how, trade secrets, and the Consultant's proprietary information remain the Consultant's property.

See Defendant's Exhibit 5 at P 8.

The plaintiffs allege in Count V that a grand scheme of fraud existed which serves to invalidate the writing. Because, similar to Count I, the underlying premise of this claim is the alleged fraudulent inducement of the plaintiffs to enter into the writing, Count V, for the same reasons set forth above in our discussion of Count I, warrants dismissal.

Finally, in Count VI, the plaintiffs allege that the court should accept jurisdiction because Plaintiff Kandibur, having signed the writing in her capacity as President of TAOS, is not a party to the writing between Plaintiff TAOS and Global. As a consequence, Kandibur contends that she is not subject to the arbitration clause of the writing or its constraints. The defendant maintains, however, that Kandibur should be estopped from asserting such a claim. The defendant notes that Kandibur voluntarily submitted her personal claims to arbitration, and when her standing was questioned for purposes of the arbitration proceeding, Kandibur claimed that she was indeed a party to the writing and that she merely did business as TAOS. To support this submission, the defendant produces a May 25, 1995 letter from the arbitrator, reiterating the arbitrator's position as to Kandibur's status as a party. In pertinent part, the letter states:

With regard to the question of Ms. Kandibur not being a party, let me again restate my earlier ruling on this matter. In filing the Demand for Arbitration on May 17, 1994, Claimant's counsel Mr. Daniel Kegan identified the Claimant as "Mila Kandibur dba The Art of Software." Ms. Kandibur is thus a party, and in fact is the initiating party to this arbitration.

See Defendant's Reply Exhibit 1. The arbitrator thus concluded that Kandibur is a proper party to the arbitration proceeding, and before the arbitrator, Kandibur has either presented or has had the opportunity to present each of her individual claims. Given this state of affairs, we agree that Kandibur should not be permitted to resubmit them here.

To summarize, virtually every claim brought to this court by Plaintiffs Kandibur and TAOS has been previously brought by these plaintiffs to the arbitrator where such claims are still pending. The plaintiffs have not shown that they were denied any available legal or equitable remedies as a result of the arbitration process, nor have they shown why their voluntary commencement of arbitration should be withdrawn. In that we find the plaintiffs' claims to be arbitrable, the plaintiffs' complaint must be dismissed.

CONCLUSION

For the reasons set forth above, the defendant's motion to dismiss the plaintiffs' complaint is granted.

Charles P. Kocoras

United States District Judge

Dated: June 15, 1995