IN THE COURT OF CHANCERY OF THE STATE OF DELAWARE

IN AND FOR NEW CASTLE COUNTY

WILCOX & FETZER, LTD., a Delaware Corporation,	)	
Plaintiff,	)	
v.	)	Civil Action No. 2037-N
CORBETT & WILCOX,	)	
Defendant.	)	

MEMORANDUM OPINION

Submitted: May 12, 2006
Decided: August 22, 2006

Gregory V. Varallo, Esquire, Geoffrey G. Grivner, Esquire, RICHARDS, LAYTON & FINGER, P.A., Wilmington, Delaware, *Attorneys for Plaintiff*

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PARSONS, Vice Chancellor.

Pending before the Court is Defendant Corbett & Wilcox's motion to compel arbitration of Count I of the (first) Amended and Supplemental Complaint (the "Amended Complaint"). The motion presents a somewhat novel question: may Corbett & Wilcox compel Plaintiff Wilcox & Fetzer, Ltd. to arbitrate pursuant to an arbitration clause contained in an agreement to which the former is not a signatory. The parties' underlying dispute involves the use of trade names and alleged improper advertising behavior. Wilcox & Fetzer seeks to enjoin Corbett & Wilcox from using the name "Wilcox" in its trade name, an order requiring Defendant to take certain corrective measures and damages under the Uniform Deceptive Trade Practices Act ("UDTPA").[1] For the reasons stated below, the Court grants Corbett & Wilcox's motion to compel arbitration of Count I of the Amended Complaint.

I. BACKGROUND

A. The Parties and the Agreement

Wilcox & Fetzer is a Delaware corporation offering court reporting services in Delaware.[2] Corbett & Wilcox, like its predecessor Corbett & Associates, offers the same services in Delaware and is Wilcox & Fetzer's primary competitor.[3]

Robert W. Wilcox, Sr. and Kurt A. Fetzer were colleagues and joint shareholders in Wilcox & Fetzer for approximately 15 years. In 2004, Wilcox sold Fetzer his interest

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1 6 *Del. C.* §§ 2531-2536 (2005).

2 Am. & Supp. Compl. ¶ 3. For purposes of this motion, the Court accepts all well-pled allegations in the complaint as true. *Burton v. PFPC Worldwide, Inc.*, 2003 WL 22682327, at *1 (Del. Ch. Oct. 20, 2003) (internal citation omitted).

3 Am. & Supp. Compl. ¶ 5.

in Wilcox & Fetzer pursuant to a Stock Purchase Agreement (the "Agreement") and left the firm. Wilcox, individually and as trustee of the Robert W. Wilcox, Sr. Revocable Trust (the "Wilcox Trust"), and Fetzer, individually and on behalf of Wilcox & Fetzer, signed the Agreement.[4]

The Agreement provides Wilcox & Fetzer "a perpetual royalty free license to any and all rights . . . to the trade name Wilcox & Fetzer Ltd. or any other derivative or style thereof . . . ."[5] Conversely, the Agreement states "[t]here shall be no limitation against Wilcox using his own name."[6] Finally, the Agreement contains an arbitration clause that provides:

> [Wilcox & Fetzer] and [the Wilcox Trust] hereby agree that any and all disputes or controversies arising out of or relating to this Agreement (or any alleged breach thereof) or in connection with the transactions contemplated hereby shall be submitted to final and binding arbitration in accordance with the Uniform Arbitration Act (10 Del. C. Section 5701, et seq.) and, to the extent not inconsistent therewith, the Commercial Arbitration Rules of the American Arbitration Association ("AAA").[7]

Early in 2006, Wilcox became an employee of Corbett & Associates.[8] Shortly after Wilcox joined the firm, Corbett & Associates changed its name to "Corbett &

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4 Def.'s Mot. to Compel Arb. ("DOB") Ex. A ¶ 10(a) (internal quotations omitted). Likewise, Plaintiff's answering brief in opposition to the motion and Defendant's reply brief are cited as "PAB" and "DRB," respectively.

5 *Id.*

6 *Id.*

7 *Id.* ¶ 11(g).

8 Am. & Supp. Compl. ¶ 5.

Wilcox."[9] Wilcox & Fetzer soon complained to Corbett & Wilcox about the use of Wilcox's name in its trade name. In January and February 2006, Corbett & Wilcox issued certain press releases and promotional materials that Wilcox & Fetzer objected to as false and misleading. After some unsuccessful attempts to resolve the matter extrajudicially, Wilcox & Fetzer commenced this action on March 28, 2006.

B. Procedural History

Wilcox & Fetzer filed its complaint in conjunction with a motion to expedite proceedings. The Court denied that motion but set a prompt trial date. Corbett & Wilcox then filed this motion to compel arbitration. Before argument on that motion, Wilcox & Fetzer amended its complaint to clarify that the claim in Count I is rooted in the common law of trademarks. After oral argument and some discovery, Wilcox & Fetzer sought to amend the complaint again to substitute EVC, Inc., and ECRW, Inc., d/b/a Corbett & Wilcox as defendants. The Court granted that motion.[10]

The Amended Complaint contains two counts. Count I alleges that Corbett & Wilcox uses a "confusingly similar trade name [that] creates a likelihood of confusion in the market"[11] and "wrongfully dilutes the value of the license held by Plaintiff and misappropriates the value built up in the Wilcox & Fetzer name and mark."[12] Count II

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9 *Id.* ¶ 13.

10 Because the parties briefed and argued the motion to compel arbitration before the last amendment to the complaint, the Court will reference the (first) Amended and Supplemental Complaint and refer to Defendants as "Corbett & Wilcox."

11 Am. & Supp. Compl. ¶ 40.

12 *Id.* ¶ 43.

avers that the same actions and various promotional statements made by Corbett & Wilcox violate the UDTPA.

Wilcox & Fetzer seeks "preliminary and permanent injunctive relief such that all confusion regarding the identity of the two competing firms is mitigated" pursuant to both counts[13] and damages under the UDTPA. Specifically, Wilcox & Fetzer seeks a permanent injunction (1) enjoining Corbett & Wilcox from using the name "Corbett & Wilcox;" (2) enjoining Corbett & Wilcox from using advertising copy suggesting that it has merged or "joined forces" with Wilcox & Fetzer; (3) requiring Corbett & Wilcox to ensure that all paraphernalia containing the firm name contains the statement: "[FIRM NAME] is not affiliated in any way with Wilcox & Fetzer, Court Reporters"; (4) requiring Corbett & Wilcox to publish at its own cost various clarifying and retracting statements in several Delaware magazines; (5) requiring Corbett & Wilcox to send corrective correspondence directly to all Delaware government attorneys and all Cecil County, Maryland, attorneys; and (6) requiring Corbett & Wilcox to amend its website to distinguish the two firms. Wilcox & Fetzer also seeks treble damages and recovery of its attorneys' fees under the UDTPA.[14]

The parties briefed and argued Defendant's Motion to Compel Arbitration in April and May 2006. In connection with the pretrial conference on July 12, the Court informally advised the parties of its intent to grant the motion. This memorandum

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13 *Id.* ¶¶ 46, 52.

14 *Id.* ¶ 53.

opinion formalizes that ruling. In the meantime, the Court held a trial on the merits of Count II of the Amended Complaint on July 17–19, 2006. The parties post-trial briefs are due shortly.

II. ANALYSIS

A. Legal Standard

"The question of whether the parties have submitted a particular dispute to arbitration, *i.e.* the '*question of arbitrability*,' is 'an issue for judicial determination [u]nless the parties clearly and unmistakably provide otherwise.'"[15] The parties agree this Court should decide the substantive arbitrability of Wilcox & Fetzer's claims.[16]

Delaware public policy favors arbitration.[17] "[D]oubts concerning arbitrability should be resolved in favor of arbitrability when a reasonable interpretation in that direction exists."[18] "Nevertheless, arbitration is a mechanism of dispute resolution created by contract"[19] and "a party cannot be required to submit to arbitration any dispute

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15 *James & Jackson, LLC v. Willie Gary, LLC*, 2006 WL 659300, at *1 (Del. Mar. 14, 2006) (quoting *Howsam v. Dean Witter Reynolds, Inc.*, 537 U.S. 79, 83 (2002)).

16 Excerpt of Argument on Def.'s Mot. to Compel Arb. ("Argument") at 10–11.

17 *Willie Gary*, 2006 WL 659300, at *2.

18 *Ishimaru v. Fung*, 2005 WL 2899680, at *13 (Del. Ch. Oct. 26, 2005).

19 *Parfi Holding AB v. Mirror Image Internet, Inc.*, 817 A.2d 149, 156 (Del. 2002) (internal citation omitted).

which it has not agreed so to submit."[20] Thus, the policy favoring arbitration will not trump basic principles of contract interpretation.[21]

Where the parties dispute the arbitrability of a claim, this Court must first "determine whether the arbitration clause is broad or narrow in scope" and then "apply the relevant scope of the provision to the asserted legal claim to determine whether the claim falls within the scope of the contractual provisions that require arbitration."[22] Three questions thus present themselves here: 1) is the arbitration clause in the Agreement broad or narrow?; 2) is the claim in Count I within the scope of the arbitration clause?; and 3) may a nonsignatory to the Agreement compel a signatory to arbitrate under this set of facts?

B. Arbitration of Count I

1. The arbitration clause is broad

The arbitration clause requires arbitration of "any and all disputes or controversies arising out of or relating to this Agreement (or any alleged breach thereof) or in connection with the transactions contemplated hereby . . . ."[23] That is a broad clause.[24]

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20 *Delta & Pine Land Co. v. Monsanto Co.*, 2006 WL 1510417, at *3 (Del. Ch. May 24, 2006) (internal quotation omitted).

21 *OSI Sys., Inc. v. Instrumentarium Corp.*, 892 A.2d 1086, 1094 n.22 (Del. Ch. 2006) (quoting *Parfi Holding*, 817 A.2d at 156).

22 *Parfi Holding*, 817 A.2d at 155.

23 *See supra* n.7 and accompanying text.

24 *See Parfi Holding*, 817 A.2d at 155 (holding that an arbitration clause containing the words "any dispute, controversy, or claim arising out of or in connection with" a contract was broad).

As such, all possible claims "that touch on contract rights or contract performance" are within the scope of the arbitration clause.[25]

2. The arbitration clause encompasses the common law trade name claim

Wilcox & Fetzer argues that Count I is based upon a common law trade name claim and that its rights to use the name Wilcox & Fetzer arise from 15 years of use of that name. Further, Wilcox & Fetzer asserts that its common law trade name claim does not implicate the Agreement because its rights do not originate from it. Corbett & Wilcox counters that the arbitration clause of the Agreement governs the rights of Wilcox & Fetzer because any common law trade name claim it asserts against Corbett & Wilcox depends on the rights granted to both Wilcox & Fetzer and Wilcox under the Agreement.[26] According to Corbett & Wilcox, any action seeking to enjoin it from using the name Wilcox, is, in effect, an attack on Wilcox's rights to use his own name under the Agreement.[27]

In determining whether a claim fell within a similarly broad arbitration clause in *Parfi Holding*, the Delaware Supreme Court held that "[t]he Chancery Court should have concentrated on the similarity of the separate *rights* pursued by plaintiffs under the contract and the independent fiduciary duties rather than the similarity of *conduct* . . . ."[28] The court below had emphasized that the underlying facts of the two claims were

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25 *Id.*

26 DOB at 3–4.

27 DRB at 4.

28 *Parfi Holding*, 817 A.2d at 156 (emphasis in original).

identical. The Supreme Court held that the breach of fiduciary duty claims arose from statutory rights, while the contractual claims arose from an underwriting agreement; thus, the scope of the arbitration provision in the underwriting agreement did not encompass the fiduciary duty claims.[29] The Court noted, however, that the arbitration clause would have encompassed the fiduciary duty claims if they had "touch[ed] on" the obligations created by the underwriting agreement.[30]

Like the fiduciary duty claims in *Parfi Holding*, Wilcox & Fetzer's rights in its name arise from a noncontractual source, *i.e.*, the common law of trademarks. Unlike *Parfi Holding*, however, Wilcox & Fetzer's claim touches on the contractual obligations created by the Agreement. Any adjudication of Wilcox & Fetzer's common law trade name claim would inevitably require the Court to determine the rights of Wilcox & Fetzer and Wilcox pursuant to the Agreement. Specifically, the Court would have to determine whether the Agreement provides Wilcox the right to use his name in conjunction with any firm that might employ him, notwithstanding any common law rights Wilcox & Fetzer might otherwise have to prevent his use of "Wilcox" in a confusingly similar way. Similarly, the Court would have to determine the scope of Wilcox & Fetzer's rights pursuant to the Agreement's royalty free license to use the name Wilcox & Fetzer. The interrelationship of the common law and contract claims also can be seen in that a ruling in Wilcox & Fetzer's favor effectively would impose a limitation

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29 *Id.*

30 *Id.* at 157.

on the reservation by Wilcox in the Agreement of his right to use his name in competition with Wilcox & Fetzer. The Court thus concludes that Count I of the Amended Complaint is within the scope of the arbitration clause of the Agreement.

3. Nonsignatory Corbett & Wilcox may compel signatory Wilcox & Fetzer to arbitrate the latter's common law trade name claims

Corbett & Wilcox argues that Wilcox & Fetzer is equitably estopped from refusing to arbitrate its claim because Wilcox & Fetzer bases its trade name claim on its rights under the Agreement.[31] Wilcox & Fetzer cannot pick and choose the terms of the Agreement it would like to enforce, Corbett & Wilcox argues, without subjecting itself to enforcement of the Agreement's other terms.[32] Further, Corbett & Wilcox asserts that any common law claim made by Wilcox & Fetzer will impinge upon the rights of Wilcox under the Agreement.[33] Regardless whether Wilcox & Fetzer sues Corbett & Wilcox or Wilcox individually, the primary defense to its claim is that the Agreement allows Wilcox to use his name as he chooses.[34]

Wilcox & Fetzer responds that Corbett & Wilcox cannot enforce the arbitration clause because they did not sign and are not a party to the Agreement.[35] Wilcox & Fetzer asserts that the Agreement only tangentially relates to its claim against Corbett & Wilcox

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31 DRB at 4.

32 *Id.*

33 *Id.*; DOB ¶12.

34 DRB at 4; Argument at 1-2.

35 PAB at 6.

and stresses that Count I of the Amended Complaint sounds in common law trademarks, not breach of contract.[36] Moreover, Wilcox & Fetzer plays down the inclusion of the Agreement in its Amended Complaint as being only in support its common law trade name claim, and not to enforce any clause of the Agreement.[37] Thus, Wilcox & Fetzer denies "trying to have it both ways" and disputes the applicability of the doctrine of equitable estoppel to this case.

Like many jurisdictions, Delaware allows a nonsignatory to a contract to compel a signatory to arbitrate under an equitable estoppel theory.[38] This theory compels a signatory to arbitrate with a nonsignatory in two circumstances:

> *First, equitable estoppel applies when the signatory to a written agreement containing an arbitration clause must rely on the terms of the written agreement in asserting its claims against the nonsignatory.* When each of a signatory's claims against a nonsignatory makes reference to or presumes the existence of the written agreement, the signatory's claims arise out of and relate directly to the written agreement, and arbitration is appropriate. *Second, application of equitable estoppel is warranted when the signatory to the contract containing an arbitration clause raises allegations of substantially interdependent and concerted misconduct by*

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36 *Id.* at 9.

37 *See* Argument at 14 ("[Wilcox & Fetzer] cited the contract as a source – not the source, but a source – of rights here.").

38 *See, e.g.*, *Ishimaru*, 2005 WL 2899680; *Douzinas v. Am. Bureau of Shipping*, 888 A.2d 1146 (Del. Ch. 2006) (nominally applying Texas law, but observing that Texas law is similar to Delaware law); *see also Grigson v. Creative Arts Agency*, 210 F.3d 524 (5th Cir. 2000); *In re Humana Inc. Managed Care Litig.*, 285 F.3d 971 (11th Cir. 2002); *Int'l Paper Co. v. Schwabedissen Maschinen & Anlagen GMBH*, 206 F.3d 411 (4th Cir. 2000); *Hughes Masonry Co. v. Greater Clark County Sch. Bldg. Corp.*, 659 F.2d 836, 841 n.9 (7th Cir. 1981).

> *both the nonsignatory and one or more of the signatories to the contract. Otherwise the arbitration proceedings between the two signatories would be rendered meaningless and the federal policy in favor of arbitration effectively thwarted.*[39]

The *Grigson v. Creative Arts Agency*[40] equitable estoppel analysis applies here. In *Grigson*, a film owner and its producers sought damages from a movie's lead actors and their agents for tortious interference with the film's distribution agreement. The complaint alleged that the defendant actor and agent improperly induced the distributors to limit the distribution of the film because defendants viewed it as an improper exploitation of the actor's subsequent success. The agreement between the producers and distributors contained an arbitration clause, but the defendants were not parties to that agreement. The defendants moved to compel arbitration. In holding that the trial court had not abused its discretion by compelling plaintiffs to arbitrate with a nonsignatory, the appellate court focused on the interrelatedness and dependency of plaintiffs claim to the distribution agreement.[41] The court held that even though plaintiffs failed to name the distributor in the action, the claims necessarily alleged some wrongdoing by both a signatory (distributor) and nonsignatory (actors and their agents).[42]

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39 *Grigson*, 210 F.3d at 527 (quoting *MS Dealer Serv. Corp. v. Franklin*, 177 F.3d 942, 947 (11th Cir. 1999)) (emphasis in original) *cited approvingly in Ishimaru*, 2005 WL 2899680, at *1 n.1.

40 210 F.3d 524.

41 *Id.* at 527–29.

42 *Id.* at 529–30.

Here, Wilcox & Fetzer alleges, or its complaint fairly implicates, concerted wrongdoing by a signatory (Wilcox) and a nonsignatory (Corbett & Wilcox). Corbett & Wilcox defends on the basis that Wilcox & Fetzer contracted away any common law trade name rights they may have had to preclude Wilcox from using his own name in the court reporting business. Any analysis of whether Wilcox & Fetzer has a common law right to require such preclusion also must address whether it gave that right away in the Agreement. Moreover, Wilcox and Wilcox & Fetzer's rights are intertwined. Wilcox's rights may be adversely affected if the Court interprets Wilcox & Fetzer's rights under the Agreement. For example, if the Court rules that Corbett & Wilcox cannot use the name Wilcox, it would have the effect of limiting Wilcox's ability to use his own name, despite arguable assurances to the contrary in the Agreement.

The language of the Amended Complaint further illustrates the close interconnection of Wilcox & Fetzer's claims and the rights granted by the Agreement to Wilcox and Wilcox & Fetzer. In the very first paragraph of the Amended Complaint, labeled "Nature of Action," Wilcox & Fetzer states: "[t]his is an action brought to enjoin Defendant's ongoing use of the name 'Wilcox' in the firm name Corbett & Wilcox . . . ."[43] Thus, equitable estoppel applies because Wilcox & Fetzer's common law trade name claim is intertwined with or touches on the Agreement.

Further, equitable estoppel applies because Wilcox & Fetzer alleges concerted misconduct by both a nonsignatory (Corbett & Wilcox) and a signatory to the Agreement

[43] Am. & Supp. Compl. ¶ 1.

(Wilcox). For example, in its Second Amended & Supplemental Complaint, Wilcox & Fetzer avers that Corbett & Wilcox is the trade name for EVC, Inc. and ECRW, Inc., a court reporting firm owned by Wilcox and Ellie Corbett Hannum.[44] Hannum is the sole owner of EVC, Inc., which formerly traded as Corbett & Associates.[45]

For all of these reasons, the Court concludes that Corbett & Wilcox, a nonsignatory, can compel arbitration of Wilcox & Fetzer's common law trade name claim.[46]

III. CONCLUSION

Corbett & Wilcox's motion to compel arbitration succeeds on the theory of equitable estoppel. Thus, for the reasons stated herein, the Court grants Corbett & Wilcox's motion to compel arbitration of Count I of the Amended Complaint.

IT IS SO ORDERED.

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44 Second Am. & Supp. Compl. ¶ 5.

45 *Id.*

46 *Cf. Ishimaru*, 2005 WL 2899680 (holding that a nonsignatory to an agreement containing an arbitration clause could compel a signatory to arbitrate in part because resolving the named parties' dispute would require the Court to adjudicate the rights of an absent party who was a signatory to an agreement containing an arbitration clause).