[Cite as *Composite Concepts Co., Inc. v. Berkenhoff*, 2010-Ohio-2713.]

IN THE COURT OF APPEALS

TWELFTH APPELLATE DISTRICT OF OHIO

WARREN COUNTY

COMPOSITE CONCEPTS CO., INC.,	:	
Plaintiff-Appellant,	:	CASE NO. CA2009-11-149
	:	O P I N I O N
- vs -		6/14/2010
	:	
BERKENHOFF GmbH, et al.,	:	
Defendants-Appellees.	:	

CIVIL APPEAL FROM WARREN COUNTY COURT OF COMMON PLEAS
Case No. 07CV69586

Buckley King, LPA, Daniel P. Carter and Heidi J. Milicic, 1400 Fifth Third Center, 600 Superior Avenue, Cleveland, Ohio 44114, for plaintiff-appellant

Frost Brown Todd LLC, William T. Robinson and Matthew C. Blickensderfer, 2200 PNC Center, 201 East Fifth Street, Cincinnati, Ohio 45202, for defendant-appellee, Berkenhoff GmbH.

Jenner & Block LLP, Richard J. Gray and John R. Schleppenbach, 353 North Clark Street, Chicago, Illinois 60654-3456, for defendant-appellee, Berkenhoff GmbH.

Squire, Sanders & Dempsey, LLP, Pierre H. Bergeron, Toby D. Merchant, Donald W. Herbe and Robert A. Amicone, 312 Walnut Street, Suite 3500, Cincinnati, Ohio 45202, for defendant-appellee, Global Trade Network, Inc.

YOUNG, J.

{¶1} Plaintiff-appellant, Composite Concepts Company, Inc. (CCC), appeals

a decision of the Warren County Court of Common Pleas staying the proceedings in its declaratory judgment action at the request of defendant-appellee, Berkenhoff GmbH.

{¶2} CCC is an Ohio corporation engaged in the electric discharge machining wire business, and owns a number of patents related to EDM wire. In November 2004, CCC entered into a "revised patent license agreement" with Global Trade Network, Inc. (GTN), an Ohio corporation engaged in the acquisition and marketing of EDM wire, wherein CCC granted GTN an exclusive license to design, make, produce, manufacture, sell and distribute EDM wire for which CCC holds patents in the United Kingdom, Germany, France, Switzerland and Italy. The agreement also granted GTN the right to sublicense its license.

{¶3} Shortly thereafter, GTN entered into a "Cross-License Agreement" with Berkenhoff GmbH, a German corporation that manufactures and markets EDM wire under the trade name "Bedra," wherein GTN granted Berkenhoff an exclusive license to CCC's EDM wire-related patents, and Berkenhoff, in turn, granted GTN a license to Berkenhoff's EDM wire-related patents. Paragraph 5 of the cross license agreement provided that "Berkenhoff and GTN shall take all necessary steps to ensure the maintenance of their respective patents for the duration of their lifetime and to work together to protect their respective patents against violations by third parties." The cross license agreement also contained an arbitration clause that stated, "Any dispute arising hereunder shall be resolved by an arbitration panel [sitting in Frankfurt, Germany] consisting of three arbitrators in accordance with the arbitration procedures as prescribed by the German Institute of Arbitration[.]"

{¶4} In December 2004, CCC, GTN and Berkenhoff entered into a "Side-

Agreement" that confirmed GTN was "the exclusive and unlimited licensee" of CCC's EDM wire patents and would "remain [so] in the future so long as GTN satisfies its obligations[.]" The side agreement also stated that "CCC hereby approves the [cross license agreement] dated 16, November 2004 between Berkenhoff and GTN."

{¶5} In January 2008, CCC brought an amended complaint in the Warren County Court of Common Pleas seeking a declaration that its side agreement with Berkenhoff and GTN was null and void as a result of their alleged failure to protect CCC's patents against infringement by third parties, and therefore CCC's revocation of GTN's exclusive license in CCC's patents was proper. GTN filed an answer and counterclaim to CCC's amended complaint and a cross-claim against Berkenhoff. Berkenhoff demanded arbitration against CCC and GTN with the German Institution of Arbitration in Cologne, Germany, and moved to stay the proceedings in the common pleas court pending arbitration in Germany.

{¶6} The magistrate sustained Berkenhoff's motion to stay the proceedings under the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, art. II, 21 U.S.T. 2517, more commonly known as the "New York Convention," which, the magistrate found, governed the arbitration clause in this case because of the "international aspect" of the parties' relationship. Applying the "federal substantive law of arbitration, including 'generally accepted principles of contract law,'" the magistrate determined that CCC should be equitably estopped from denying it is subject to the arbitration clause in the cross license agreement even though it is not a signatory to that agreement. The magistrate also determined that under the New York Convention, CCC was not permitted to raise an "unconscionability" defense to the enforcement of the arbitration clause.

{¶7} CCC filed objections to the magistrate's decision, and the trial court overruled them.

{¶8} CCC now appeals, assigning the following as error:

{¶9} Assignment of Error No. 1:

{¶10} "THE TRIAL COURT ERRED IN SUSTAINING THE MAGISTRATE'S DECISION STAYING ADJUDICATION OF CCC'S CLAIM FOR DECLARATORY JUDGMENT ASSERTED IN THE AMENDED COMPLAINT BECAUSE CCC NEVER AGREED TO ARBITRATE ITS DISPUTES WITH GTN OR BERKENHOFF."

{¶11} Assignment of Error No. 2:

{¶12} "THE TRIAL COURT ERRED IN SUSTAINING THE MAGISTRATE'S DECISION STAYING ADJUDICATION OF CCC'S CLAIM FOR DECLARATORY JUDGMENT ASSERTED IN THE AMENDED COMPLAINT UNDER THE DOCTRINE OF 'EQUITABLE ESTOPPEL' BECAUSE CCC DOES NOT SEEK ANY BENEFIT UNDER AN AGREEMENT CONTAINING AN ARBITRATION PROVISION."

{¶13} CCC's first and second assignments of error are closely related, and therefore we shall address them together.

{¶14} CCC argues the trial court erred in staying the proceedings in its declaratory judgment action because it never agreed to arbitrate its disputes with Berkenhoff and GTN. CCC also argues the trial court erred in finding that it should be equitably estopped from denying it is subject to the arbitration clause because it has never sought a *direct* benefit under the cross license agreement containing the arbitration clause. We disagree with these arguments.

{¶15} The New York Convention, which was ratified by the United States on September 30, 1970 and implemented by Chapter Two of the Federal Arbitration Act

in Section 201 et seq., Title 9, U.S.Code, requires signatory nations to enforce agreements to arbitrate that are governed by the Convention. See Article II of the New York Convention. A number of federal courts have found that where a nonsignatory seeks the *benefits* of an agreement containing an arbitration clause, the nonsignatory should be estopped from avoiding the *burdens* of the agreement, including the obligation to arbitrate any dispute arising under the agreement. See, e.g., *Zurich Am. Ins. Co. v. Watts Indus. Inc.* (C.A.7, 2005), 417 F.3d 682, 688; and *International Paper Co. v. Schwabedissen Maschinen & Analgen GmbH* (C.A.4, 2000), 206 F.3d 411, 418.

{¶16} CCC argues those cases are distinguishable from this one because CCC sought declaratory relief in its amended complaint not with regards to the cross license agreement between GTN and Berkenhoff, but only as to its patent license agreement with GTN and its side agreement with GTN and Berkenhoff, neither of which contains an arbitration clause. CCC contends that the trial court erred in finding that it was an intended third-party beneficiary under Berkenhoff and GTN's cross license agreement containing the arbitration clause, because it has never sought a *direct* benefit from that agreement, and is only benefiting *indirectly* from it. We find this argument unpersuasive.

{¶17} "In Ohio, to determine if a non-signatory to a contract may enforce certain promises contained in the agreement, courts must determine if the non-party was an intended beneficiary using the 'intent to benefit' test found in *Hill v. Sonitrol* [1988], 36 Ohio St.3d 36, 40 * * *[,] citing *Norfolk & Western Co. v. United States* [C.A. 6, 1980], 641 F.2d 1201, 1208 * * *. 'Under the "intent to benefit" test if the promise * * * intends that a third-party should benefit from the contract, then that third

party is an "intended beneficiary" who has enforceable rights under the contract. If the promisee has no intent to benefit a third party, then any third party beneficiary to the contract is merely an "incidental beneficiary," who has no enforceable rights under the contract. * * * [T]he mere conferring of some benefit on the supposed beneficiary by the performance of a particular promise in a contract [is] insufficient; rather, the performance of that promise must also satisfy a duty owed by the promisee to the beneficiary.' Id." *MCI WorldCom Network Services, Inc. v. W.M. Brode Co.* (N.D.Ohio 2006), 411 F.Supp.2d 804, 810.

{¶18} In this case, CCC's claim that the parties' side agreement is null and void is predicated on its claim that Berkenhoff and GTN breached their obligations under paragraph five of the cross license agreement "to ensure the maintenance of their respective patents for the duration of their lifetime and to work together to protect their respective patents against violations by third parties." CCC asserted in its amended complaint that while it was not a party to the cross license agreement, "CCC entered into the Side Agreement with the expectation that GTN and Berkenhoff would fulfill their respective obligations under the Cross License Agreement." Thus, CCC was effectively asserting in its amended complaint that it was an intended third-party beneficiary of the cross license agreement between Berkenhoff and GTN.

{¶19} Furthermore, CCC expressly approved of Berkenhoff and GTN's cross license agreement wherein those two parties obligated themselves to not allow CCC's patents to be infringed by third parties. The cross license agreement and side agreement were made within five weeks of one another. These facts further demonstrate that CCC was an intended third-party beneficiary of the cross license agreement and benefited directly from that agreement. Therefore, CCC should be

estopped from denying the burdens of the agreement, including the obligation to submit any disputes arising under the cross license agreement to arbitration in Germany. Consequently, the trial court did not err in applying the doctrine of equitable estoppel to preclude CCC from denying it was subject to the arbitration clause contained in the cross license agreement, even though it is not a signatory to the agreement. See *Zurich Am. Ins. Co.*, 417 F.3d at 688; and *International Paper Co.*, 206 F.3d at 418.

{¶20} Therefore, CCC's first and second assignments of error are overruled.

{¶21} Assignment of Error No. 3:

{¶22} "THE TRIAL COURT ERRED IN SUSTAINING THE MAGISTRATE'S DECISION STAYING ADJUDICATION OF CCC'S CLAIM FOR DECLARATORY JUDGMENT ASSERTED IN THE AMENDED COMPLAINT BECAUSE CCC'S DISPUTE WITH GTN AND BERKENHOFF IS NOT WITHIN THE SCOPE OF AN AGREEMENT WITH AN ARBITRATION CLAUSE."

{¶23} CCC argues that even if it is bound by the arbitration clause in the cross license agreement, it should not be required to arbitrate its claims for declaratory relief against Berkenhoff and GTN because the claims are not within the scope of the arbitration clause. We disagree.

{¶24} The arbitration clause in the cross license agreement states in pertinent part:

{¶25} "Any dispute *arising hereunder* shall be resolved by an arbitration panel consisting of three arbitrators in accordance with the arbitration procedure as prescribed by the German Institute of Arbitration *** to the exclusion of the courts of ordinary jurisdiction[.]" (Emphasis added.)

{¶26} "Where the arbitration clause is broad, only the most forceful evidence of a purpose to exclude the claim from arbitration will remove the dispute from consideration by the arbitrators." *Highlands Wellmont Health Service, Inc. v. John Deere Health Plan, Inc.* (C.A.6, 2003), 350 F.3d 568, 577. The Sixth Circuit Court of Appeals has held that "An arbitration clause requiring arbitration of any dispute arising out of an agreement is 'extremely broad.'" Id. at 578. "Some federal courts have drawn a distinction between arbitration clauses that require arbitration of all disputes "arising out of and relating to" and those that use the phrase "arising out of," deeming the former clauses to be "broad" and the latter ones "narrow." See, e.g., *Mediterranean Enterprises, Inc. v. Ssangyong Corp.* (C.A.9, 1983), 708 F.2d 1458, 1464. Relying primarily upon *Mediterranean Enterprises, Inc.,* CCC contends that the language used in the arbitration clause in this case covering "any dispute arising hereunder" is "narrow" language that indicates "the parties agreed to arbitrate disputes regarding the interpretation of the contract itself," but not matters independent of or collateral to the contract, such as CCC's claims for declaratory relief against Berkenhoff and GTN.

{¶27} However, we agree with the trial court that in keeping with the strong federal policy favoring arbitration, the better view is the one taken in *Highlands Wellmont Health Services, Inc.,* wherein the court held that the phrase "arising out of" covers all disputes "having their origin or genesis in the contract, whether or not they implicate interpretation or performance of the contract per se." Id., 350 F.3d. at 577-578, quoting *Sweet Dreams Unlimited, Inc. v. Dial-A-Mattress, International, Ltd.* (C.A.7, 1993), 1 F.3d 639, 642. See also, *Gregory v. Electro-Mech. Corp.* (C.A.11, 1996), 83 F.3d 382, 383-386. Therefore, we conclude the language "arising

hereunder" used in the arbitration clause in this case was broad enough to include CCC's claims for declaratory relief brought against Berkenhoff and GTN.

{¶28} Consequently, CCC's third assignment of error is overruled.

{¶29} Assignment of Error No. 4:

{¶30} "THE TRIAL COURT ERRED IN SUSTAINING THE MAGISTRATE'S DETERMINATION THAT THE NEW YORK CONVENTION GOVERNS BECAUSE THERE IS NO 'AGREEMENT IN WRITING.'"

{¶31} Assignment of Error No. 5:

{¶32} "THE MAGISTRATE ERRED IN DETERMINING THAT THE DEFENSE OF UNCONSCIONABILITY IS UNAVAILABLE."

{¶33} CCC's fourth and fifth assignments of error are closely related, and therefore we will address them together.

{¶34} CCC argues the trial court erred in determining that the New York Convention governs this dispute because there was no "agreement in writing" as required by the Convention since CCC was not a signatory to the cross license agreement containing the arbitration clause. CCC also argues that, since the Convention does not apply, the trial court also erred in determining that CCC was not permitted to raise an unconscionability defense to the enforcement of the arbitration clause against it. We disagree with these arguments.

{¶35} An agreement to arbitrate is governed by the New York Convention if: (1) it is in writing, (2) the place of the arbitration is in a country that is a signatory to the Convention, (3) the dispute arises out of a commercial relationship, and (4) at least one of the parties is not a citizen of the United States. *DiMercurio v. Sphere Drake Ins. PLC* (C.A.1, 2000), 202 F.3d 71, 74, fn. 2. While the New York

Convention requires there to be "an agreement in writing," the Convention does not require the writing to be signed by all of the parties if they are otherwise bound to it under customary principles of contract law, including the principles of equitable estoppel. See, e.g., *Borsack v. Chalk & Vermillion Fine Arts, Ltd.* (S.D.N.Y.1997), 974 F.Supp. 293, 299; *Best Concrete Mix Corp. v. Lloyd's of London Underwriters* (E.D.N.Y.2006), 413 F.Supp. 2d 182, 187; and *Smith/Enron Congeneration Ltd. P'ship v. Smith Cogeneration Internatl., Inc.* (C.A.2, 1999), 198 F.3d 88, 97-98.

{¶36} While CCC was not a signatory to the "agreement in writing" in this case, i.e., the cross license agreement containing the arbitration clause, it was seeking a benefit under that agreement and therefore should be estopped from denying both its obligation to arbitrate and the applicability of the New York Convention. Moreover, since the New York Convention applies, CCC cannot raise an unconscionability defense to the enforcement of the arbitration clause against it. See, e.g., *Bautista v. Star Cruises* (C.A.11, 2005), 396 F.3d 1289, 1302 (holding that unconscionability is not a recognized defense to enforcement of an arbitration agreement falling under the New York Convention since it would be impossible to develop a precise definition of "unconscionable" that would be acceptable to all of the signatory nations to the Convention).

{¶37} Therefore, CCC's fourth and fifth assignments of error are overruled.

{¶38} Judgment affirmed.

POWELL and HENDRICKSON, JJ., concur.