No. 17-

IN THE

Supreme Court of the United States

IQ PRODUCTS COMPANY,

Petitioner,

v.

WD-40 COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

The federal courts of appeals have held that when a contract incorporates certain common rules of private arbitration organizations, the parties have evinced a "clear and unmistakable" intent that arbitrators should decide the "gateway" issue of whether a particular dispute is covered by the agreement to arbitrate. In some circumstances, however, the dispute at issue has nothing to do with the contract containing the arbitration clause.

To avoid compelling arbitration of every dispute — no matter how far removed from the subject matter of such a contract — four circuit courts have adopted some version of the "wholly groundless" test, while two other circuits have rejected it.

The question presented is:

> Whether a court must grant a motion to compel arbitration of the gateway question of arbitrability, even where a contract containing an arbitration clause is unrelated to the parties' instant dispute, or whether the court should deny the motion where the arbitrability argument is "wholly groundless"?

RULE 14.1(b) PARTIES TO THE PROCEEDING

Petitioner IQ Products Company was the plaintiff in the district court and the appellant in the court of appeals.

Respondent WD-40 Company was the defendant in the district court and the appellee in the court of appeals.

RULE 29.6 CORPORATE DISCLOSURE STATEMENT

Petitioner IQ Products Company is a wholly owned subsidiary of IQ Holdings, Inc., a private company. There are no other parent or publicly held corporations owning 10% or more of the stock of Petitioner IQ Products Company.

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INTRODUCTION

Arbitration is a creature of contract. As this Court has long held, agreements to arbitrate — like all contracts — must be interpreted based on the parties' intent. The best expression of the parties' intent is the plain meaning of the words they used in a contract. And "unless the parties have clearly and unmistakably" delegated the decision of whether a dispute is arbitrable to an arbitration panel, a court must decide that question. *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 947 (1995).

In this case, the Fifth Circuit upheld arbitration of claims relating to products that were expressly excluded from the contract that contained parties' agreement to arbitrate. That decision highlights a recent, burgeoning circuit split concerning the proper standard for application of the foregoing principles to determine arbitrability of claims that are unrelated to the proffered arbitration agreement. Most courts of appeals (rightly or wrongly, *see* pp. 13-14 *infra*) have held that the incorporation into a contract of certain rules promulgated by major private arbitration organizations constitutes the parties' "clear and unmistakable" intent to delegate questions of arbitrability to arbitrators. That principle, however, does not address the question of *what* disputes are covered by such implied delegation clauses. That question has sharply divided the circuits.

In the most extreme view, the Tenth Circuit has held that all disputes between the parties — no matter how attenuated from the original contract —

must immediately be sent to arbitration for a determination of arbitrability. The Eleventh Circuit, in an opinion issued this fall, indicated a willingness to follow suit.

Conversely, four circuits (the Fifth, Sixth and Federal Circuits, with the Fourth Circuit's position now unclear) have employed some version of the "wholly groundless" test. Under this test, a case cannot be sent to arbitration unless, at a minimum, the court finds a plausible argument in favor of arbitration. Absent such a finding, the requisite "clear and unmistakable" intent to delegate the arbitrability decision to arbitrators does not exist.

Just weeks ago, the Fourth Circuit added further complexity to the circuit split. Although the panel there nominally adopted the wholly groundless test (as the Federal Circuit had previously done in cases governed by Fourth Circuit law), it interpreted the test as applying only to claims of arbitrability that are so frivolous as to be sanctionable.

The strongest formulation of the wholly groundless test, adopted by the Federal Circuit, places paramount importance on the contractual language and analyzes whether it is susceptible of any reasonable meaning that could bring a dispute within the agreement to arbitrate. Although the Fifth Circuit said in the decision below that it was applying the wholly groundless test, it ignored the "plain language" standard used by other courts. Proper application of that standard would have compelled a finding of non-arbitrability here because

the contract was expressly limited to products that are indisputably not at issue in this case.

The circuit split regarding the nature of judicial review for arbitration agreements with implied delegation clauses is a matter of national importance. This is particularly true as arbitration clauses become more and more prevalent. Under the standard applied below, there is uncertainty whether agreeing to arbitrate one type of dispute could make the parties subject to arbitration for every other dispute that might ever arise between them. And the outcome of that determination may vary depending in which circuit it arises. Review by this Court is needed to resolve these important, unsettled issues of arbitration law.

OPINIONS BELOW

The Fifth Circuit's opinion is reported at 871 F.3d 344 and is reprinted at App. 1a-15a.

The Magistrate Judge's report filed December 19, 2012, which recommended granting WD-40's motion to compel arbitration, is unreported and is reprinted at App. 45a-66a. The January 10, 2013 order of the U.S. District Court for the Southern District of Texas adopting the Magistrate Judge's report and compelling arbitration is unreported and is reprinted at App. 43a-44a. The Magistrate Judge's report filed June 10, 2016, which recommended granting WD-40's motion to confirm the arbitration award and denying IQ Products Company's motion to vacate the award, is unreported and is reprinted at App. 31a-42a. The August 25, 2016 opinion of the

U.S. District Court for the Southern District of Texas adopting the Magistrate Judge's report and confirming the arbitration award is unreported and is reprinted at App. 16a-30a.

JURISDICTIONAL STATEMENT

The Fifth Circuit panel filed its opinion on September 13, 2017. IQ filed a timely petition for rehearing en banc, which was denied on October 13, 2017. This Court has jurisdiction pursuant to 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Federal Arbitration Act ("FAA"), 9 U.S.C. §§ 1-16, provides in relevant part:

> A written provision in any maritime transaction or a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract or transaction, or the refusal to perform the whole or any part thereof, or an agreement in writing to submit to arbitration an existing controversy arising out of such a contract, transaction, or refusal, shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract.

9 U.S.C. § 2.

> In any of the following cases the United States court in and for the district wherein the award was made may make an order vacating the award upon the application of any party to the arbitration . . . (4) where the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made.

9 U.S.C. § 10(a).

STATEMENT OF THE CASE

For several decades, IQ and its predecessor were contract manufacturers of WD-40's widely used lubricating oil products packaged in spray containers. IQ sued WD-40 Company ("WDFC") on May 31, 2012, in the District Court for the Southern District of Texas, for claims solely relating to a dispute over the manufacture of WD-40 products that were made with a carbon dioxide propellant. App. 19a. On June 25, 2012, WDFC answered and moved to compel arbitration. *Id.* IQ objected on the grounds that the dispute was not arbitrable because the only contract between the parties that contained an arbitration clause had been specifically drafted to exclude carbon dioxide-propelled products.

On January 10, 2013, over IQ's objections, the district court adopted the magistrate judge's recommendation to grant WDFC's motion to compel arbitration. App. 45a, 43a. In the ensuing arbitration proceedings, IQ maintained its objection

to permitting the arbitrators to determine arbitrability of the dispute, and to the arbitration proceeding. The arbitrators found that all claims were arbitrable and ruled largely for WDFC on the merits. App. 20a.

Thereafter, WDFC filed a petition in the district court to confirm the award, while IQ moved to vacate it on the grounds that the parties' dispute was not arbitrable. The district court confirmed the arbitration award on August 25, 2016, again adopting the magistrate judge's recommendation over IQ's objections. App. 16a.

IQ timely appealed, and on September 13, 2017, the Fifth Circuit issued a decision affirming the district court. App. 2a. IQ's petition for rehearing was denied on October 13, 2017. App. 67a.

FACTUAL BACKGROUND

From 1960 until 1992, CSA Limited, Inc. ("CSA") served as a contract packager for several different types of WD-40 brand products. App. 17a, 32a. IQ purchased CSA in 1992 and took over manufacturing WD-40 products, which were produced according to specifications provided solely by WDFC. App. 17a.

At the time of IQ's purchase, CSA and WDFC used a system of purchase orders and invoices to govern their business relationship. *Id.* There was no other written contract between the parties until 1993, when the parties entered into an agreement

that obligated WDFC to indemnify IQ for any liability related to the defective design or packaging of WD-40 products. *Id.* The 1993 contract did not contain an arbitration clause.

In 1996, WDFC began developing a new WD-40 product. Unlike previous cans of WD-40, which used a mixture of propane and butane as the propellant, the new product was to use carbon dioxide propellant instead. App. 13a. The difference in propellants was a significant change, because using carbon dioxide necessitates a dramatic increase in the pressure inside cans of WD-40, thereby increasing the risk of explosion as well. Thus, although cans of WD-40 using the two different formulas had a similar external appearance, in reality they were entirely different products that required different and specific research and development ("R&D"), testing, and manufacturing and packaging specifications.

Also in 1996, WDFC proposed that the parties replace their longstanding purchase order-and-invoice system with a written contract covering all WD-40 products. IQ refused. At the time of these negotiations, IQ was aware that WDFC was planning to introduce the new carbon dioxide-propelled formula but was concerned that WDFC had not adequately addressed the significant engineering and R&D challenges associated with this change. App. 13a. Additionally, the proposed contract would have required IQ to comply with a set of specifications (formulation, manufacturing, and packaging) that WDFC had not yet then developed. IQ's Chief Executive Officer, Yohanne Gupta, described his

concerns in a March 12, 1996 letter to WDFC, in which he refused to enter into the proposed contract unless it was expressly limited to the WD-40 products using a propane/butane propellant that IQ had been packaging for several decades. App. 13a.

WDFC agreed to this limitation. Accordingly, the parties executed a Manufacturing License Agreement (the "1996 Agreement") with a handwritten notation on the first page that expressly limited the definition of the "Product" to which the Agreement applied to "a penetrating, lubricating spray product identified and labeled 'WD-40' based on ***propane/butane propelled*** formulation and specifications." App. 69a (emphasis added). This revision was initialed by both parties and dated April 10, 1996, the same date on which the 1996 Agreement was executed. App. 69a, 81a.

The 1996 Agreement is the only contract between the parties that contains an arbitration clause. The text of the arbitration clause provides, in relevant part, that "[a]ny controversy or claim arising out of, or related to ***this Agreement***, or any modification or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association." App. 78a (emphasis added). Thus, IQ agreed to arbitrate only those claims that are related to the 1996 Agreement, which was specifically and intentionally limited to WD-40 products using the propane/butane formula.

The 1996 Agreement also limited the manner in which it could be modified. It provided: "This Agreement may be amended or modified only by a

written instrument signed by an officer of both parties." App. 80a. It is undisputed that no such instrument exists.

Although the 1996 Agreement was never modified, the parties continued to do business together. This eventually included IQ's manufacturing of products with the carbon dioxide-propelled formula. App. 13a. As to those products, the parties followed the same purchase order-and-invoice system that had been in place for 30-plus years.

The instant dispute does not relate to the 1996 Agreement or propane/butane propelled products in any way. Rather, it originated in 2010, when a can of carbon dioxide-propelled WD-40 exploded in IQ's manufacturing facility. IQ's subsequent investigation revealed that cans of WD-40 manufactured using the carbon dioxide-propelled formula and specifications provided by WDFC were exhibiting deformation, *i.e.*, there were visible deformities in the valve area of the aerosol containers. App. 33a-34a. Under federal safety regulations which govern the manufacture and transport of aerosol products, any deformation renders a product unfit for transport and sale.

IQ informed WDFC of these issues in August 2011, and urged WDFC to take corrective measures to solve this critical safety issue. App. 34a. WDFC refused and demanded that IQ continue to produce non-compliant deformed and highly flammable WD-40 aerosol products; and threatened to terminate its business with IQ. *Id.* IQ refused to produce non-

compliant deformed products, and ceased all manufacturing of WD-40 aerosol products. *Id.*

IQ filed suit against WDFC on May 31, 2012. IQ's operative complaint alleged seven causes of action, all of which arose from disputes concerning carbon dioxide-propelled products. App. 34a-35a. None mentioned the 1996 Agreement, or alleged a breach thereof. Likewise, WDFC asserted five counterclaims, all of which related to disputes over carbon dioxide-propelled products. App. 35a. Collectively, the parties have alleged a dozen contract and tort claims against each other, but ***all*** of them involve products manufactured with the carbon dioxide-based formula and do not require any interpretation of the 1996 Agreement. In fact, WDFC terminated the 1996 Agreement as of January 6, 2012, before this suit was filed, and the arbitration clause was not listed as a provision that survived termination. App. 34a.

WDFC successfully moved to compel arbitration, notwithstanding IQ's objections that the parties had not agreed to arbitrate disputes involving carbon dioxide-propelled products. The arbitrators, unsurprisingly, upheld their own jurisdiction and went on to consider the merits of the parties' claims.

Following arbitration, WDFC sought confirmation of the arbitrators' award, and IQ sought to vacate it as exceeding the arbitrators' authority because the dispute was not arbitable. The district court adopted the magistrate judge's Report and Recommendation (the "Report") and confirmed the award on August 25, 2016. App. 16a. Neither the

Report nor the district court's opinion discussed the contractual limitation of the 1996 Agreement to propane/butane propelled products. Nor did either explain how the scope of the contract could have been expanded when the 1996 Agreement expressly required any modification to be made in a signed writing. App. 80a.

On appeal to the Fifth Circuit, the district court's decision was affirmed. App. 2a. While the Fifth Circuit purported to apply the "wholly groundless" test, it did so in a way that conflicts with the more stringent view of the Federal Circuit. The court found that although WD-40's argument contravened the plain, unambiguous text of the contract, it was nevertheless sufficiently plausible to warrant sending the threshold question of arbitrability to arbitration. App. 12a-15a.

REASONS FOR GRANTING THE WRIT

1. Federal courts of appeals are divided 4-2 regarding whether an assertion of arbitrability that is "wholly groundless" must nonetheless be sent to arbitration pursuant to an implicit delegation clause. Within the past year, the Tenth Circuit has required arbitration of arbitrability in all circumstances, and the Eleventh Circuit has indicated it is likely to take a similar approach. Conversely, the Fourth, Fifth, Sixth, and Federal Circuits have rejected the idea that an implicit delegation clause requires all disputes, no matter how attenuated from the parties' contract, be immediately sent to arbitration by adopting the "wholly groundless" test. As this case

shows, however, even when courts invoke this test there have been significant circuit conflicts about the type of claims it covers.

2. The Fifth Circuit erred in finding that WDFC's assertion of arbitrability was not "wholly groundless." On its face, the arbitration clause in the 1996 Agreement — the parties' only contract containing an arbitration clause — was tied to a contract expressly limited to products that are not at issue in this case. It is undisputed that no written modification of that contract exists, as required to expand the contract to apply to other products. The unrelated claims raised in this action should not have been sent to arbitration.

3. This question is of exceptional importance because it leaves thousands (and perhaps vastly more) contracts subject to uncertainty and undermines the FAA's goal of ensuring arbitration provisions are applied consistently and in accordance with the parties' intent. The nationwide circuit split regarding judicial review of arbitration agreements with implied delegation clauses will cause arbitrary outcomes and encourage forum-shopping.

4. This case is an ideal vehicle for deciding the nature of the test to apply in deciding whether questions of arbitrability must be sent to arbitration. The arbitration clause at issue here uses typical contractual language, and the lower courts ruled on the relevant issues as a matter of law.

I. COURTS OF APPEALS ARE SHARPLY DIVIDED ON THE APPLICATION OF THE WHOLLY GROUNDLESS TEST

Arbitration is an area of law frequently addressed by this Court in recent years. As this case exemplifies, various legal doctrines regarding judicial treatment of arbitration agreements have recently collided, creating a rapidly widening split among circuits that merits resolution by this Court.

In *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 947 (1995), this Court held that arbitrability is "an issue for judicial determination unless the parties clearly and unmistakably provide otherwise." In *Rent-A-Center, W., Inc. v. Jackson*, 561 U.S. 63, 68-69 (2010), this Court ruled that courts must enforce parties' agreement "to arbitrate 'gateway' questions of 'arbitrability,' such as whether the parties have agreed to arbitrate or whether their agreement covers a particular controversy." *Rent-A-Center* stands for the proposition that even where there are doubts about the applicability of an agreement to arbitrate, the existence of a delegation provision requires sending gateway questions to arbitration unless a party specifically challenges the delegation provision itself as void due to fraud or other invalidating causes. *Id.* at 72.

In the contract at issue in *Rent-A-Center*, the delegation provision was contained in the body of the arbitration clause. The Court did not have occasion to consider the situation where the arbitration clause merely incorporates by reference the rules of a private dispute resolution organization, such as the

American Arbitration Association Rules (the "AAA Rules").

The AAA Rules, like many other dispute resolution guidelines, grant an arbitrator "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 or to the arbitrability of any claim or counterclaim." AAA Rule 7.[1] Courts in most circuits have held that incorporating this broad authority implicitly constitutes "clear and unmistakable" agreement to arbitrate all gateway questions of arbitrability. *See, e.g.*, *Brennan v. Opus Bank*, 796 F.3d 1125, 1130 (9th Cir. 2015) ("Virtually every circuit to have considered the issue has determined that incorporation of the [AAA] arbitration rules constitutes clear and unmistakable evidence that the parties agreed to arbitrate arbitrability."); *Petrofac, Inc. v. DynMcDermott Petroleum Operations Co.*, 687 F.3d 671, 675 (5th Cir. 2012); *Fallo v. High–Tech Inst.*, 559 F.3d 874, 878 (8th Cir. 2009); *Awuah v. Coverall N. Am., Inc.*, 554 F.3d 7, 11 (1st Cir. 2009); *Contec Corp. v. Remote Sol., Co.*, 398 F.3d 205, 208 (2d Cir. 2005).

Similarly, courts of appeals have held that incorporating the JAMS Comprehensive Arbitration Rules & Procedures, which contain a similar provision regarding the broad authority of

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[1] *See* https://www.adr.org/sites/default/files/commercial_rules.pdf.

arbitrators,[2] is an implicit delegation of the right to determine arbitrability. *See Simply Wireless, Inc. v. T-Mobile US, Inc.*, 877 F.3d 522, 528 (4th Cir. 2017) ("We agree with our sister circuits and therefore hold that, in the context of a commercial contract between sophisticated parties, the explicit incorporation of JAMS Rules serves as 'clear and unmistakable' evidence of the parties' intent to arbitrate arbitrability."); *Belnap v. Iasis Healthcare*, 844 F.3d 1272, 1283 (10th Cir. 2017); *Cooper v. WestEnd Capital Mgmt., L.L.C.*, 832 F.3d 534, 546 (5th Cir. 2016); *Emilio v. Sprint Spectrum L.P.*, 508 Fed. App'x 3, 5 (2d Cir. 2013).

While the terms of the AAA and JAMS rules in themselves may be "clear and unmistakable" in delegating arbitrability decisions to arbitrators, incorporation by reference of a lengthy set of rules — the intricacies of which may well be unknown even to relatively sophisticated parties — is not the sort of "clear and unmistakable" agreement to arbitrate that should send every dispute between the parties to arbitration without at least some level of judicial review. *See Ashworth v. Five Guys Operations, LLC*, No. 16-cv-06646, 2016 WL 7422679, at *3 (S.D.W. Va. Dec. 22, 2016) ("Incorporation by reference of an obscure body of rules to show a clear and unmistakable intent to adhere to one rule specifically is preposterous . . . . How this could be considered clear and unmistakable can only be explained if the true meanings of 'clear' and 'unmistakable' are ignored."). Indeed, a stringent application of *Rent-A-*

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[2] *See* https://www.jamsadr.com/rules-comprehensive-arbitration.

Center to implicit delegation clauses would virtually wipe out all judicial review of arbitrability, because it is exceedingly difficult for a party to raise a challenge, such as fraud, that is specific to the incorporation clause itself. Thus, the effect of treating implicit delegation clauses in this manner would be to nullify this Court's decision in *First Options* that requires "clear and unmistakable" evidence of an agreement to arbitrate.

More broadly, if an implicit delegation clause automatically sent every dispute between the parties to arbitration, it would dramatically expand the scope of arbitration agreements beyond what the parties could have possibly intended. The Federal Circuit addressed this problem in adopting the "wholly groundless" test to "prevent[] a party from asserting any claim at all, no matter how divorced from the parties' agreement, to force an arbitration." *Qualcomm Inc. v. Nokia Corp.*, 466 F.3d 1366, 1371 (Fed. Cir. 2006). Under this test, if the parties have generally agreed to delegate questions of arbitrability to an arbitrator, a court must determine whether there is a "plausible" argument that arbitration is required for the claim at hand. *Id.*

The Sixth Circuit was the next court of appeals to expressly adopt the "wholly groundless" test. In *Turi v. Main Street Adoption Services, LLP*, 633 F.3d 496, 511 (6th Cir. 2011), the Sixth Circuit found that there was "no need for an arbitrator to decide the arbitrability of any of the plaintiffs' claims" where they were "not even arguably subject to arbitration" because the arbitration clause excluded the type of claims at issue.

The Fifth Circuit adopted the wholly groundless test in *Douglas v. Regions Bank*, 757 F.3d 460 (5th Cir. 2014). There, the court denied arbitration of the plaintiff's claim that a bank negligently allowed her attorney to embezzle funds from a trust account, where the only arbitration clause that the plaintiff had signed was in connection with the opening of a checking account unrelated to the errant lawyer's trust account. *Id.* at 461. The *Douglas* court explained that the wholly groundless test was derived from the principle that delegating the arbitrability of a claim under one contract "cannot possibly bind [a party] to arbitrate gateway questions of arbitrability in all future disputes with the other party, no matter their origin." *Id.* at 462.

While the Fifth Circuit continues to profess recognition of the test today, it has sharply limited its scope. In *Kubala v. Supreme Production Services, Inc.*, 830 F.3d 199, 201-03 & n.1 (5th Cir. 2016), the court characterized the wholly groundless test as "exceptional" and said that the mere presence of a delegation clause (inferred through incorporation of the AAA Rules) means that a "'motion to compel arbitration should be granted in almost all cases.'" *Id.* at 202. Similarly, last month the Fourth Circuit acknowledged the wholly groundless test, but adopted an exceedingly narrow interpretation of its scope. Rather than looking at the plausibility of the pro-arbitration argument, the Fourth Circuit considered only whether an assertion of arbitrability was "frivolous or otherwise illegitimate," to the point that it could be sanctioned under Rule 11. *Simply*

Wireless, 877 F.3d at 528-29 (quoting Fed. R. Civ. P. 11(b)).

In contrast, the Federal Circuit continues to apply a robust version of the test. In *Evans v. Building Materials Corp. of Am.*, 858 F.3d 1377, 1381 (Fed. Cir. 2017), the court found that defendant's assertion of arbitrability was "wholly groundless" where a contract requiring defendant to promote a specific product supplied by plaintiff included a provision to arbitrate all disputes arising under the agreement. Several years later, the plaintiff brought suit based on defendant's marketing of a different product, and the defendant sought to compel arbitration under the original contract. Applying Fourth Circuit law prior to *Simply Wireless*, the Federal Circuit held that because the lawsuit "challenge[s] actions whose wrongfulness is independent of the [contract's] existence," they were "plainly outside the arbitration provision" and therefore wholly groundless. *Id*. at 1381.

In another decision from the past year, the Tenth Circuit created a full-fledged circuit split by flatly rejecting the "wholly groundless" test. *See Belnap*, 844 F.3d at 1286. The court noted that "[n]either the Supreme Court nor our court has spelled out the next steps for a court when it finds clear and unmistakable intent to arbitrate arbitrability," but reasoned that because incorporation of the JAMS rules shows the "clear and unmistakable" intent to delegate arbitrability, a court "must compel the arbitration of arbitrability issues in *all* instances." *Id.* (emphasis in original). In so holding, the court stated that the "wholly

groundless" approach of other circuits "appears to be in tension with language of the Supreme Court's arbitration decisions — in particular, with the Court's express instruction that when parties have agreed to submit an issue to arbitration, courts must compel that issue to arbitration without regard to its merits." *Id.*

In rejecting the "wholly groundless" test, the Tenth Circuit court predicted that other courts would follow suit. In August, the Eleventh Circuit did just that in *Jones v. Waffle House, Inc.*, 866 F.3d 1257 (11th Cir. 2017), finding that "the wholly groundless exception is in tension with the Supreme Court's arbitration decisions" and thus should have "no place in" a court's analysis. While *Jones* did not involve an implicit delegation clause, it expressly stated that "[w]e join the Tenth Circuit in declining to adopt what has come to be known as the wholly groundless exception." *Id.* at 1269.

Thus, within the past year, a deep and intensifying split has developed among the courts of appeals on an important issue of federal law. Intervention by this Court is warranted to resolve the conflicting positions of the lower courts.

II. THE FIFTH CIRCUIT IMPROPERLY APPLIED A WEAKENED VERSION OF THE WHOLLY GROUNDLESS TEST

Arbitration is a matter of contract, and a party cannot be required to submit to arbitration of any matter it has not agreed to arbitrate. *AT&T Techs., Inc. v. Commcn's Workers*, 475 U.S. 643, 648 (1986).

Review in this case is necessary in order to ensure that lower courts follow this Court's long-standing direction that arbitration clauses should be "as enforceable as other contracts, *but not more so*." *Prima Paint Corp. v. Flood & Conklin Mfg. Co*., 388 U.S. 395, 404 n.12 (1967) (emphasis added); *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland Stanford Junior Univ.*, 489 U.S. 468, 478 (1989) (courts must "enforce privately negotiated agreements to arbitrate, like other contracts, in accordance with their terms").

This bedrock principle is precisely what the "wholly groundless" test was developed to protect, but it failed to do so here. The undisputed facts show that IQ never agreed to arbitrate the claims at issue. Any assertion to the contrary is wholly groundless because it is belied by the plain language of the parties' contract. The 1996 Agreement is one of many contracts between the parties, but it is the only contract that contains an arbitration clause. The Agreement relates to a single "Product," which the parties specifically defined as being "based on propane/butane propelled formulation and specifications." App. 69a. No product meeting that definition is at issue in this case.

Moreover, the 1996 Agreement provided that it could "be amended or modified only by a written instrument signed by an officer of both parties." App. 80a. It is undisputed that no such document exists. It is further undisputed that the applicable state law obligates courts to give effect to contractual clauses that limit a party's ability to modify the terms of the agreement by requiring a signed writing. *See*

Roseman v. Leventhal, No. B165357, 2004 WL 2491681, at *2 (Cal. Ct. App. Nov. 5, 2004) ("Oral modifications of written agreements are precluded if the written agreement provides for written modification.") (citation and internal punctuation omitted).

Nonetheless, the court of appeals found that WDFC's argument in favor of arbitrability was "plausible" because "the parties continued their business relationship after the formula transition without discussing the execution of another agreement." App. 13a. Further, the court noted that WDFC told IQ in July 2011 that it intended to terminate the 1996 Agreement, and IQ did not immediately object that the contract was no longer relevant to the parties' dealings. App. 13a-14a. Based on these two facts, the court found that WDFC's assertion of arbitrability was not "wholly groundless." App. 15a.

But the word "plausible" is stripped of meaning when it is applied to a dispute involving claims that have no relationship to the contract at issue, where the arbitration clause limits arbitration to claims arising from or related to the contract or a modification thereof. This error is particularly apparent because the undisputed evidence shows that the parties intended to exclude that very same product from the contract. App. 13a, 69a. As the Federal Circuit held in *Evans*, it is "wholly groundless" to claim the dispute here is arbitrable because the claims in this case "challenge actions whose wrongfulness is independent of the [contract's] existence." 858 F.3d at 1381. As such, the "wholly

groundless" test should have compelled the conclusion that this case did not belong in arbitration.

III. THE QUESTION PRESENTED IS OF GREAT NATIONAL IMPORTANCE

Parties to a contract rely on existing law to understand how the terms of their contract will be enforced. It is thus critical that such terms are applied consistently and uniformly.

This is especially true with agreements to arbitrate. As this Court has made clear, a key purpose of the FAA is to enforce arbitration agreements according to their terms. *See AT&T Mobility LLC v. Concepcion*, 563 U.S. 333, 339 (2011). Today, however, the treatment of arbitration agreements with implicit delegation clauses depends on the circuit in which they are interpreted. This inconsistent approach undermines the FAA's goal to create a uniform body of federal law governing arbitration.

If merely incorporating certain common arbitral rules into a contract were enough to require that every dispute between the parties must forever be sent to arbitration, it would upset parties' settled expectations. It also could lead to extreme consequences for those contractual counterparties who have less bargaining power, and less financial ability to hire experienced counsel to point out this hidden effect of choosing certain arbitration rules. And given the sharp conflict between circuits on the nature of the test to be applied, leaving this split

unresolved will lead to arbitrary outcomes and encourage forum-shopping.

The Court should address this critical issue to ensure that arbitration clauses are not so broadly construed that they wildly exceed any reasonable scope that the parties could have anticipated when agreeing to arbitrate a particular dispute.

IV. THIS CASE IS A PROPER VEHICLE TO DECIDE THE SCOPE OF THE WHOLLY GROUNDLESS TEST

This case presents an excellent platform for the Court to consider uniform national standards for judicial review of implied contractual delegation clauses. The arbitration clause at issue is typical, as is the contract's incorporation of the AAA Rules. Moreover, the language of the contractual limitation is unambiguous, which creates a clean case in which to test the application of the proper standard to apply to contracts containing implicit delegation clauses. Further, the factual record is straightforward and clearly presents the issue of contract interpretation as a matter of law.

CONCLUSION

For the foregoing reasons, IQ respectfully requests that its Petition for Certiorari be granted.

Dated: January 10, 2018

Respectfully submitted,

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APPENDIX

APPENDIX A

OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT, FILED SEPTEMBER 13, 2017

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 16-20595

Filed September 13, 2017
Lyle W. Cayce
Clerk

IQ PRODUCTS COMPANY,

Plaintiff-Appellant

v.

WD-40 COMPANY,

Defendant-Appellee

Appeal from the United States District Court
for the Southern District of Texas

Before HIGGINBOTHAM, GRAVES, and
HIGGINSON, Circuit Judges.

Appendix A

STEPHEN A. HIGGINSON, Circuit Judge:

Plaintiff-Appellant IQ Products Co. sued Defendant-Appellee WD-40 Co., and WD-40 filed a motion to compel arbitration. Over IQ's objections, the district court granted the motion, finding that the parties intended to arbitrate the "gateway issue" of whether their claims were arbitrable. After prevailing in arbitration, WD-40 filed a motion to confirm its award. IQ filed a motion to vacate the award on the ground that the arbitrators had exceeded their authority because the claims were not arbitrable. The district court denied IQ's motion to vacate and granted WD-40's motion to confirm. IQ appealed, and we now affirm.

I

WD-40 is a widely used household lubricant often packaged in aerosol cans. WD-40 Company produces a lubricant concentrate and develops specifications for the chemical formulas, packaging, and manufacturing of its products, but uses independent contract packagers to manufacture the products according to those specifications. In 1992, IQ Products Company, a longtime manufacturer of aerosol and non-aerosol consumer products, began serving as a contract packager for WD-40 branded products.

In 1996, WD-40 began to develop a new WD-40 formula using carbon dioxide as the propellant rather than propane/butane. Around the same time, WD-40 proposed that it and IQ enter into a written contract concerning WD-40 products. IQ had concerns about engineering challenges associated with replacing the

low-pressure propane/butane propellant with a high-pressure carbon–dioxide propellant. IQ described its concerns in a letter from IQ's Chief Executive Officer, Yohanne Gupta, about negotiation of the proposed agreement:

> As I am not aware of the extent of research and development work which WD-40 may have conducted already for the new formula, or the research and development work which WD-40 intends to conduct henceforth, and as I am not aware of the new specifications for the WD-40 product, I suggest that this Agreement be executed after this information is established. Otherwise, my agreeing to the Agreement at present will clearly not include the scope of work, cost of product, and IQ's responsibilities for the new formula WD-40 products.

IQ requested that the parties meet to discuss IQ's concerns.

At the parties' meeting on April 10, 1996, IQ agreed to execute the Manufacturing and License and Product Purchase Agreement (the "1996 Agreement"), but added a handwritten notation expressly limiting the definition of the "Product" to which the agreement applied to "a penetrating, lubricating spray product identified and labeled 'WD-40' based on propane/butane-propelled formulation and specifications." This revision was initialed by both parties and dated April 10, 1996, the same date the 1996 Agreement was executed.

Appendix A

The 1996 Agreement is the only contract between the parties that contains an arbitration clause. This clause provides:

> Any controversy or claim arising out of, or related to this Agreement, or any modification or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association . . . .

The 1996 Agreement also includes an integration clause, which states that the agreement "may be amended or modified only by a written instrument signed by an officer of both parties."

After receiving WD-40's assurances that it had performed extensive testing of the carbon dioxide-based formula, IQ began manufacturing WD-40 products with that formula and new specifications. The parties did not consider executing any other written agreement until 2011.

In 2011, WD-40 issued a Request for Proposal (RFP) to restructure its supply-chain business model and asked its packagers—including IQ—to bid for long-term supply agreements. WD-40 selected IQ's bid in July 2011, and gave written notice of its intent to terminate the 1996 Agreement to allow the parties to negotiate a new long-term agreement.

During the parties' negotiations of the new long-term agreement, IQ informed WD-40 that an internal audit had revealed a problem with WD-40's packaging specifications. IQ recommended that WD-40 address the alleged problem by revising its design and

specifications. IQ also expressed concerns about WD-40's quality control specifications and told WD-40 that it would need to raise prices to account for increased costs and expenses.

WD-40 did not agree with IQ's recommendations or proposed price increases, and negotiations over the long-term agreement broke down. In May 2012, WD-40 terminated the parties' business relationship.

II

IQ sued WD-40 on May 31, 2012 seeking over $40 million. The operative complaint alleged breach of contract and multiple tort claims in connection with WD-40's terminating the parties' business relationship. Specifically, IQ claimed that WD-40 breached the "Long-Term Agreement"—which IQ alleged the parties entered into when WD-40 accepted IQ's RFP bid in July 2011.

WD-40 filed an answer that included counterclaims and a motion to compel arbitration pursuant to the 1996 Agreement's arbitration clause. Over IQ's objections, the district court determined that the parties agreed to have the issue of arbitrability of the parties' dispute decided by the arbitrator and compelled arbitration, staying the case pending the arbitrator's decision on arbitrability.

An independent arbitrator determined that both parties' claims were arbitrable, and a three-arbitrator panel denied IQ's request for a redetermination of arbitrability. However, the panel allowed the parties to present evidence regarding arbitrability during the

hearing and reserved the right to consider its jurisdiction in the final decision. Several months later, the arbitration panel issued an interim order and again concluded that all of the parties' claims were arbitrable. The panel issued a final arbitration award in favor of WD-40 on November 6, 2015.

WD-40 moved to confirm the arbitration award in the district court. IQ filed a response and a motion to vacate the arbitration award, arguing that the arbitration panel lacked jurisdiction to arbitrate its claims. The district court granted WD-40's motion to confirm the arbitration award and denied IQ's motion to vacate. IQ appealed from both the January 10, 2013 order compelling arbitration and the August 25, 2016 final judgment.

III

We review de novo a district court's ruling on a motion to compel arbitration. *Janvey v. Alguire*, 847 F.3d 231, 240 (5th Cir. 2017); *Kubala v. Supreme Prod. Servs. Inc.*, 830 F.3d 199, 201 (5th Cir. 2016). Likewise, we also review de novo a district court's confirmation of an arbitration award. *Petrofac, Inc. v. DynMcDermott Petroleum Operations Co.*, 687 F.3d 671, 674 (5th Cir. 2012). The district court's factual findings, however, are reviewed for clear error. *First Options of Chi., Inc. v. Kaplan*, 514 U.S. 938, 947–49 (1995); *Janvey*, 847 F.3d at 240.

IV

IQ argues that the district court erred in granting the motion to compel arbitration on the issue of

arbitrability. According to IQ, the district court should have decided arbitrability and none of the claims at issue in this dispute is arbitrable.

A

In *Kubala v. Supreme Production Services, Inc.*, we outlined the framework for determining whether to submit the issue of arbitrability to arbitration. 830 F.3d at 201–02; *see also Reyna v. Int'l Bank of Commerce*, 839 F.3d 373, 378 (5th Cir. 2016). First, the court must determine "whether the parties entered into *any arbitration agreement at all*." *Kubala*, 830 F.3d at 201. This first step is a question of contract formation only—did the parties form a valid agreement to arbitrate some set of claims. *Id.* at 201–02. If the court finds there is a valid agreement to arbitrate, the second step is limited: the court must determine whether the agreement contains a valid delegation clause—"that is, if it evinces an intent to have the arbitrator decide whether a given claim must be arbitrated." *Id.* at 202. "Although there is a strong federal policy favoring arbitration, 'this federal policy favoring arbitration does not apply to the determination of whether there is a valid agreement to arbitrate between the parties.'" *Will-Drill Res., Inc. v. Samson Res. Co.*, 352 F.3d 211, 214 (5th Cir. 2003) (quoting *Fleetwood Enters. Inc. v. Gaskamp*, 280 F.3d 1069, 1073 (5th Cir. 2002)). "Courts should not assume that the parties agreed to arbitrate arbitrability unless there is 'clea[r] and unmistakabl[e]' evidence that they did so." *First Options,* 514 U.S. at 944 (alterations in original) (quoting *AT & T Techs., Inc. v. Commc'ns Workers*, 475 U.S. 643, 649 (1986)).

If the court finds that there is "clear and unmistakable" evidence that the parties intended to arbitrate arbitrability, and, thus, that there is a valid delegation clause, "the motion to compel arbitration should be granted in almost all cases." *Kubala*, 830 F.3d at 202. In some cases, however, the argument that a particular dispute is covered by the arbitration agreement will be so untenable that the district court may decide the "gateway" issue of arbitrability despite a valid delegation clause. *Douglas v. Regions Bank*, 757 F.3d 460, 462–63 (5th Cir. 2014). Accordingly, in *Douglas v. Regions Bank*, this court adopted a two-step test stating that the issue of arbitrability must be submitted to arbitration if (1) the parties "clearly and unmistakably" intended to delegate the power to decide arbitrability to an arbitrator; and (2) the assertion of arbitrability is not "wholly groundless." *Id.* at 462, 463. Stated differently, "even if the court finds that the parties' intent was clear and unmistakable that they delegated arbitrability decisions to an arbitrator, the court may make a second more limited inquiry to determine whether a claim of arbitrability is 'wholly groundless.'" *Id.* at 463 (quoting *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n*, 718 F.3d 1336, 1346–47 (Fed. Cir. 2013), *vacated as moot*, 134 S. Ct. 1876 (2014)); *see also Kubala*, 830 F.3d at 202 & n.1 (explaining that the "wholly groundless" inquiry is a "narrow exception" to the general rule that a valid delegation clause means that arbitrability must be arbitrated).

Here, there is no dispute at the first step in the *Kubala* framework: the 1996 Agreement contains an

arbitration clause, and IQ acknowledges that this arbitration clause covers some set of claims. The next step is to apply the two-prong *Douglas* test.

B

The first prong of the *Douglas* test asks whether the parties clearly and unmistakably intended to delegate the issue of arbitrability to the arbitrator. Here, IQ waived its challenge to the district court's conclusion on this prong by conceding it before the district court. In its motion to vacate the arbitration award, IQ noted that the district court "considered [the delegation issue] at length," and that "IQ does not challenge that aspect of the decision." Similarly, in its objections to the magistrate judge's recommendation on the motion to vacate, IQ stated that "[s]ince there was a clear delegation of the arbitrability determination in *Douglas*, as there is here, the outcome turned on the second step in the *Douglas* analysis." IQ may not argue

on appeal what it conceded to the district court. *See Keenan v. Tejeda*, 290 F.3d 252, 262 (5th Cir. 2002).[1]

C

At the second step of the *Douglas* test, the court must determine whether the assertion of arbitrability is "wholly groundless." 757 F.3d at 463–64. An assertion of arbitrability is not "wholly groundless" if "there is a legitimate argument that th[e] arbitration clause covers the present dispute, and, on the other hand, that it does not." *Id.* at 463 (quoting *Agere Systems, Inc. v. Samsung Elecs. Co.*, 560 F.3d 337, 340

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[1] Notwithstanding the existence of a delegation provision, IQ argues on appeal that in determining whether the parties clearly and unmistakably intended to delegate arbitrability to the arbitrator, "a court must first rule on whether the arbitration clause applies to the parties' particular dispute." IQ focuses on language in the Supreme Court's opinion in *First Options of Chicago, Inc. v. Kaplan*, where the Court explained that "the question 'who has the primary power to decide arbitrability' turns upon what the parties agreed about *that* matter." 514 U.S. at 943 (emphasis in original). IQ argues that the Court's emphasis on "that" "indicates that every possible dispute between the parties is not subject to a ruling on arbitrability by an arbitrator. If a contract does not apply to a particular matter, an arbitration clause cannot apply to a dispute that does not involve that subject." IQ's reliance on *First Options* is misplaced. Further context from that opinion makes clear that the phrase "that matter" refers to *the matter of arbitrability*, not the particular merits claims. *See* 514 U.S. at 943 (observing that the question of who decides arbitrability is answered by looking to whether the parties agreed to submit the question of arbitrability to arbitration). *First Options*, therefore, does not support IQ's argument that the court should consider the scope of the arbitration agreement at the first step of the *Douglas* test.

(5th Cir. 2009)). If the court finds the assertion of arbitrability to be wholly groundless, however, the court should not enforce the delegation clause. *Kubala*, 830 F.3d at 202 n.1.

The inquiry at the second step is limited, and cases in which an assertion of arbitrability is wholly groundless are rare:

> Such cases are exceptional, and the rule in *Douglas* is not a license for the court to prejudge arbitrability disputes more properly left to the arbitrator pursuant to a valid delegation clause. So long as there is a "plausible" argument that the arbitration agreement requires the merits of the claim to be arbitrated, a delegation clause is effective to divest the court of its ordinary power to decide arbitrability.

Id. Still, even though the inquiry at the second step is "limited," it "necessarily requires the courts to examine and, to a limited extent, construe the underlying agreement." *Douglas*, 757 F.3d at 463 (citation omitted).

The parties agree that the 1996 Agreement is governed by California law and that the panel should apply that state's contract law in its "limited" analysis of the scope of the arbitration provision. *See First Options*, 514 U.S. at 944. Under California law, "it is fundamental that a contract must be so interpreted as to give effect to the intent of the parties at the time the contract was entered into, and that whenever possible, that intention is to be ascertained from the writing alone." *Oakland-Alameda Cty. Coliseum, Inc. v.*

Oakland Raiders, Ltd., 243 Cal. Rptr. 300, 304 (Ct. App. 1988) (citing Cal. Civ. Code §§ 1636, 1639).

> The test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to the court to be plain and unambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the instrument is reasonably susceptible.

Pac. Gas & Elec. Co. v. G. W. Thomas Drayage & Rigging Co., 442 P.2d 641, 644 (Cal. 1968).

The first recital in the 1996 Agreement—which includes the handwritten insertion—defines the "Product" as "a penetrating, lubricating spray product identified and labeled 'WD-40' based on propane/butane-propelled formulation and specifications." The agreement grants IQ "a non-exclusive right to manufacture the Product" and details the parties' rights and obligations in connection with manufacturing and packaging the Product. The arbitration clause is expressly limited to claims "arising out of, or related to" the 1996 Agreement. "[E]ven under a very broad arbitration provision such as 'any controversy or claim arising out of or relating to this agreement,' . . . claims must 'have their roots in the relationship between the parties which was created by the contract.'" *Rice v. Downs*, 203 Cal. Rptr. 3d 555, 565 (Ct. App. 2016) (emphasis added) (citation omitted); *see also Berman v. Dean Witter & Co., Inc.*, 119 Cal. Rptr. 130, 133 (Ct. App. 1975). IQ argues that this language indicates that the parties intended to

arbitrate disputes "arising out of or relating to" only propane/butane-propelled products. Because the claims in this litigation relate to carbon dioxide-propelled products, IQ contends that the arbitration provision cannot possibly apply to this dispute.

IQ additionally points to the March 12 letter in which IQ expressed concerns about the development of the carbon dioxide-propelled product and appeared to condition executing the 1996 Agreement on limiting its scope to propane/butane-propelled products. IQ argues that this letter proves that the parties specifically negotiated for the 1996 Agreement to cover only propane/butane-propelled products.

On the other hand, WD-40 points to the parties' subsequent conduct as proof that the parties continued to operate under the 1996 Agreement after WD-40 replaced the propane/butane-propelled products with carbon dioxide-propelled products. IQ and WD-40 agree that the parties continued to produce propane/butane-propelled products for only a few months after executing the 1996 Agreement and then transitioned to carbon dioxide-propelled products. The 1996 Agreement specifies that it shall be ongoing until terminated, and the parties continued their business relationship after the formula transition without discussing the execution of another agreement.

WD-40 further points to correspondence between the parties referencing the ongoing validity of the 1996 Agreement. In a July 9, 2011 letter to IQ confirming the award of business, WD-40 gave "formal notice to terminate the [1996 Agreement] between the parties as

laid out in Section 13 of said agreement to allow us to re-negotiate the terms and conditions of the contract to reflect the future state of business between the parties." There is no evidence that IQ objected to the ongoing validity of the 1996 Agreement at this time. After negotiation of the long-term agreement began to break down in 2012, WD-40 sent several letters that again stated its understanding that the 1996 Agreement governed the parties' business relationship and that termination would proceed according to the 1996 Agreement's procedures. In response, IQ pointed to the handwritten revision in the 1996 Agreement, which IQ maintained limited the scope of the agreement.

Considering all the "objective manifestations of the parties' intent" properly before the district court,[2] "including the words used in the [1996 Agreement], as well as extrinsic evidence of such objective matters and the surrounding circumstances under which the parties negotiated [and] entered into the contract; the object, nature and subject matter of the contract; and the subsequent conduct of the parties," *see People v. Shelton*, 125 P.3d 290, 294 (Cal. 2006), there is a plausible argument that the parties intended for the 1996 Agreement, or an "extension" of it, to govern

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[2] IQ argues that WD-40's argument improperly relies on evidence that was not before the district court when the court decided the motion to compel. We have considered only materials in the record at the time the district court compelled arbitration in determining whether the assertion of arbitration is wholly groundless.

manufacturing and packaging carbon dioxide-propelled products after WD-40 transitioned formulas.

Therefore, WD-40's assertion that the parties' dispute "aris[es] out of, or relat[es] to [the 1996 Agreement]" is not wholly groundless. In light of the "exceptional" nature of the wholly groundless test and the competing, plausible interpretations of the 1996 Agreement's meaning and scope, we conclude that WD-40's assertion of arbitrability is *not* wholly groundless. Accordingly, we affirm the district court's order compelling arbitration.

V

IQ also argues that the district court erred in confirming the arbitration award and that the arbitration award should be vacated under 9 U.S.C. § 10(a)(4) because the arbitrators "exceeded their powers" by concluding that the dispute was arbitrable. In support, IQ reiterates its arguments against submitting the issue of arbitrability to arbitration. As explained above, the parties clearly and unmistakably delegated the gateway issue of arbitrability to arbitration, and the assertion of arbitrability was not wholly groundless. Thus, the arbitrators acted within their authority in deciding that the dispute was arbitrable, and the district court was correct to deny IQ's motion to vacate the award under § 10(a)(4).

VI

For the foregoing reasons, we AFFIRM the district court's order compelling arbitration and final judgment.

APPENDIX B

ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS ADOPTING MEMORANDUM & RECOMMENDATION, ENTERED AUGUST 25, 2016

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IQ PRODUCTS COMPANY,
CSA LIMITED, INC.,

Plaintiffs,

v. CIVIL ACTION H-12-1652

WD-40 COMPANY,

Defendant.

ORDER ADOPTING MEMORANDUM & RECOMMENDATION

Pending before the court is the Magistrate Judge's Memorandum & Recommendation (the "M&R"), recommending that defendant WD-40 Company's ("WD-40") motion to confirm arbitration award (Dkt. 66) be granted and plaintiff IQ Products Company's ("IQ") motion to vacate arbitration award (Dkt. 75) be denied. Dkt. 84. The court has reviewed the M&R, the objections to the M&R, the response, the reply, and the

applicable law. For the reasons set forth below, the court OVERRULES IQ's objections and ADOPTS the M&R.

I. BACKGROUND

On May 31, 2012, IQ and CSA Limited, Inc. ("CSA") brought this suit against WD-40, alleging breach of contract and multiple tort claims. Dkt. 7. IQ is a Houston-based producer, manufacturer, packager, and distributor of aerosol products. *Id.* at 4. WD-40 is a manufacturer of lubricant products with its principal place of business in San Diego, California. *Id.* Over the past 50 years, CSA (beginning in 1960 and continuing through 1992), and then IQ Products (from 1992 through May 2012) have collectively produced, packaged, and distributed from the Houston plant the well-known line of lubricant products sold worldwide under the trademarked brand "WD-40."[1] *Id.* at 1.

On June 16, 1993, IQ and WD-40 entered into a Defense and Indemnity Agreement (the "Indemnity Agreement"). *Id.* at 2. In February of 1996, the parties entered into a Manufacturing License and Product Agreement (the "1996 Agreement"). Dkt. 20, Ex.1. The

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[1] In August 1992, IQ Holdings, Inc., acquired CSA and assumed its role as packager of WD-40's products. Dkt. 7 at 11. In May 2008, CSA and IQ switched names, and CSA assumed agreements that had been entered into between IQ and WD-40. *Id.* at 12. IQ became "the operating face of the company" that "moved forward in the long-term supply relationship" with WD-40. *Id.* Both IQ and CSA are named as Plaintiffs in this action "in order to afford complete relief among the parties." *Id.*

1996 Agreement contained an arbitration provision, which stated, in part:

> Any controversy or claim arising out of, or related to this Agreement, or any modification or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association, in San Diego, California, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

Id. at 12. The 1996 Agreement is the only agreement between the parties that contains an arbitration provision. Dkt. 85 at 6.

Later in 1996, WD-40 converted the propellant used in its products from a propane/butane formulation to a carbon dioxide ("CO2") based composition. Dkt. 7 at 6. Months later, IQ began producing and packaging WD-40's CO2-based product. *See* Dkt. 79, Ex. 13.

In February 2011, IQ submitted a bid in response to WD-40's request for proposal concerning an ongoing supply relationship. Dkt. 7 at 13. On July 9, 2011, WD-40 announced the award of business to IQ. *Id.* Later in 2011, IQ conducted an engineering audit of WD-40's manufacturing specifications and allegedly "uncovered defects in design," of which it informed WD-40. *Id.* at 16. WD-40 chose not to implement any of IQ's design recommendations. *Id.* IQ also informed WD-40 that its discovery needed to be reported to government agencies, but WD-40 disagreed. *Id.* at 18–19.

As a result of the parties' disagreement, IQ invoked the Indemnity Agreement, requesting that WD-40 indemnify IQ against all losses, fines, penalties, and other damages arising from the alleged design defect. *Id.* at 19. WD-40 responded by indicating that it would end the business relationship and rebid the production of its products to another repackager. *Id.* On May 22, 2012, WD-40 terminated the relationship and discontinued further purchase orders. *Id.* at 20.

On May 31, 2012, IQ filed this action, asserting multiple causes of action in breach of contract and tort. Dkt. 7. On July, 30, 2012, WD-40 filed an answer that included counterclaims and a motion to compel arbitration. Dkt. 21. After hearing arguments on WD-40's motion to compel arbitration, on December 19, 2012, the Magistrate Judge issued a memorandum and recommendation (the "2012 M&R") recommending that WD-40's motion to compel arbitration be granted and that the case be stayed pending the arbitrator's decision on the issue of arbitrability. Dkt. 61. The 2012 M&R, which this court adopted over IQ's objections, granted arbitrators the authority to determine the gateway issue of arbitrability. *Id.* at 13; Dkt. 64 (order adopting 2012 M&R).

On July 8, 2013, an independent arbitrator determined that both parties' claims were arbitrable. Dkt. 66, Ex. 10 at 3. On January 22, 2014, a three-arbitrator panel denied IQ's motion requesting a reasoned opinion and redetermination of the arbitrability issues. Dkt. 66, Ex. 12. The panel stated that it would allow the parties to present further evidence regarding the arbitrability issue during the

hearing on the merits and reserved the right to consider the arbitrators' jurisdiction in their ultimate decision. *Id*. The parties proceeded to arbitration hearings on the merits, and evidence was presented by both parties regarding arbitrability. On May 14, 2015, the panel issued an interim award, which provided a detailed discussion on the arbitrability issue and concluded that all of the parties' claims were arbitrable. Dkt. 66, Ex. 3 at 15–24. On November 6, 2015, the panel issued its final arbitration award in favor of WD-40. Dkt. 66, Ex. 2.

On December 4, 2015, WD-40 moved to confirm the panel's arbitration award. Dkt. 66. On January 13, 2016, IQ filed a response to the motion and a motion to vacate the arbitration award, arguing that the arbitration panel lacked jurisdiction to arbitrate its claims. Dkt. 75. WD-40 filed a response on January 26, 2016. Dkt. 79. On June 10, 2016, the Magistrate Judge issued the pending M&R recommending that WD-40's motion to confirm the arbitration award be granted and IQ's motion to vacate be denied. Dkt. 84. On June 24, 2016, IQ filed objections to the M&R. Dkt. 85. On July 8, 2016, WD-40 filed a response to the objections (Dkt. 88), to which IQ filed a reply (Dkt. 89).

II. LEGAL STANDARDS

A. Review of a Magistrate Judge's Recommendation

For dispositive matters, the court "determine[s] de novo any part of the magistrate judge's disposition that has been properly objected to." Fed. R. Civ. P. 72(b)(3). "The district judge may accept, reject, or modify the

recommended disposition; receive further evidence; or return the matter to the magistrate judge with instructions." *Id.* "When no timely objection is filed, the court need only satisfy itself that there is no clear error on the face of the record in order to accept the recommendation." Fed. R. Civ. P. 72(b), Advisory Comm. Note (1983). For nondispositive matters, the court may set aside the magistrate's order only to the extent that it is "clearly erroneous or contrary to law." Fed. R. Civ. P. 72(a).

B. Motion to Vacate Arbitration Award

The Federal Arbitration Act (the "FAA") provides that, "within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected." 9 U.S.C. § 9. Under the FAA, four circumstances exist under which an arbitration award may be vacated: (1) the award was procured by corruption, fraud, or undue means; (2) there was evident partiality or corruption in the arbitrators; (3) the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy, or of any other misbehavior by which the rights of any party have been prejudiced; or (4) the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made. *Id.* § 10.

Appendix B

The party challenging an arbitrator's award carries a heavy burden. *BNSF Ry. Co. v. Alstom Transp., Inc.*, 777 F.3d 785, 788 (5th Cir. 2015). The standard of review of an arbitrator's decision is very narrow. *Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 510, 121 S. Ct. 1724 (2001) (holding that labor arbitration decision could not be overturned even if "serious error" shown); *Brabham v. AG Edwards & Sons, Inc.*, 376 F.3d 377, 380 (5th Cir. 2004). "When an arbitration award is at issue, the district court does not sit as an appellate court or a court of review, to decide the merits of the grievance or the correctness of the award." *Weinberg v. Silber*, 140 F. Supp. 2d 712, 718 (N.D. Tex. 2001), *aff'd*, 57 F. App'x 211 (5th Cir. 2003). It is not enough for a party to show that the arbitrator committed an error, or even a serious error. *Oxford Health Plans LLC v. Sutter*, 133 S. Ct. 2064, 2068 (2013). When evaluating a contract dispute, the sole question for review is whether the arbitrator actually interpreted the contract, not whether he construed it correctly. *Id*.

Moreover, the Supreme Court has ruled that, once a court determines that the parties agreed to submit arbitrability for determination in arbitration, the arbitrator's decision on that issue is subject to the same deference as a decision on the merits of the dispute:

> Did the parties agree to submit the arbitrability question itself to arbitration? If so, then the court's standard for reviewing the arbitrator's decision about that matter should not differ from the standard courts apply when they

> review any other matter that parties have agreed to arbitrate. *See AT & T Technologies, Inc. v. Communications Workers*, 475 U.S. 643, 649, 106 S.Ct. 1415, 1418, 89 L.Ed.2d 648 (1986) (parties may agree to arbitrate arbitrability); *Steelworkers v. Warrior & Gulf Nav. Co.*, 363 U.S. 574, 583, n. 7, 80 S.Ct. 1347, 1353, n. 7, 4 L.Ed.2d 1409 (1960) (same). That is to say, the court should give ***considerable leeway*** to the arbitrator, setting aside his or her decision only in certain ***narrow circumstances***. *See, e.g.*, 9 U.S.C. § 10.

First Options of Chi., Inc. v. Kaplan, 514 U.S. 938, 943, 115 S. Ct. 1920 (1995) (emphasis added).

The test for determining whether the parties agreed to submit the arbitrability issue to arbitration is well established. First, an agreement to have the arbitral tribunal decide arbitrability must be "clear and unmistakable." *Douglas v. Regions Bank*, 757 F.3d 460, 462 (5th Cir. 2014); *Petrofac, Inc. v. DynMcDermott Petroleum Operations Co.*, 687 F.3d 671, 675 (5th Cir. 2012); *Agere Sys., Inc. v. Samsung Elecs. Co.*, 560 F.3d 337, 339 (5th Cir. 2009). Second, if there is a clear and unmistakable intent, then the court must next determine if the assertion of arbitration is "wholly groundless." *Id.* The assertion of arbitrability "is not wholly groundless" if "there is a plausible and legitimate argument that the arbitration agreement covers the present dispute, and, on the other hand, a plausible and legitimate argument that it does not." *W.L. Doggett LLC v. Paychex, Inc.*, 92 F. Supp. 3d 593,

599 (S.D. Tex. 2015) (Hittner, J.) (citing *Douglas*, 757 F.3d at 463–64).

III. OBJECTIONS

IQ asserts that the arbitration award must be vacated because the arbitrators decided claims involving carbon-dioxide ("CO2") propelled products that IQ never agreed to arbitrate. Dkt. 85 at 6. IQ argues that the Magistrate Judge failed to properly apply the Fifth Circuit's test for determining whether WD-40's assertion of arbitration was "wholly groundless" and therefore erred in granting arbitrators the authority to determine the gateway issue of arbitrability. *Id*. at 16–19. Specifically, IQ contends that (1) the *Douglas* decision, which was issued after the 2012 M&R, requires this court to conduct a more thorough analysis in evaluating whether WD-40's argument in favor of compelling arbitration under the 1996 Agreement was "wholly groundless"; (2) the M&R improperly relied on the arbitrators' decisions; and (3) the Magistrate Judge failed to address several of IQ's arguments *against* compelling arbitration. Dkt. 85. For these reasons, IQ requests that the court vacate the arbitration award because "the arbitrators exceeded their powers, or so imperfectly executed them" under the FAA. *See* 9 U.S.C. § 10(a)(4). The court will address each objection in turn.

A. Whether the Assertion of Arbitrability is "Wholly Groundless" under *Douglas*

IQ argues that this court must reconsider its initial order compelling arbitration in light of the Fifth Circuit's 2014 *Douglas* decision. Dkt. 85 at 17.

However, *Douglas* did not alter or expand on the law that the Magistrate Judge originally applied in the 2012 M&R. Dkt. 61. In *Douglas*, the Fifth Circuit formally adopted the two step test that was cited by the Fifth Circuit in *Agere*. 757 F.3d at 463 (citing *Agere*, 560 F.3d 337). The test asks two questions: "'(1) did the parties unmistakably intend to delegate the power to decide arbitrability to an arbitrator, and if so, (2) is the assertion of arbitrability wholly groundless.'" *Id.* (citing *Agere*, 560 F.3d at 340). In the 2012 M&R, the Magistrate Judge applied this two step test and determined that (1) the parties clearly and unmistakably intended to delegate the power to decide arbitrability to an arbitrator by incorporating the arbitration rules of the American Arbitration Association ("AAA rules"); and (2) the assertion of arbitrability is *not* wholly groundless. Dkt. 61 at 13.

IQ does not challenge the Magistrate Judge's determination that there was a "clear and unmistakable" intent to have arbitrability decided in arbitration. *See* Dkt. 75 at 6 ("The Magistrate Judge's report in this case, adopted by this Court, considered that issue at length and IQ does not challenge that aspect of the decision."). Rather, IQ contests the Magistrate Judge's determination on the "wholly groundless" prong. Specifically, IQ complains that "the Magistrate Judge made the conclusory statement that 'Defendant's assertion of arbitrability is not wholly groundless'" and "the intervening *Douglas* decision now requires a full analysis of this issue." Dkt. 85 at 6.

In the pending M&R, the Magistrate Judge considered and rejected IQ's claim that the intervening

Douglas decision requires reconsideration of the court's initial "wholly groundless" analysis. After carefully reviewing *Douglas*, the court agrees that reconsideration is not warranted.

In *Douglas*, the plaintiff opened a checking account with a bank in 2002 and closed it less than one year later. 757 F.3d at 461. The plaintiff's agreement with the bank included an arbitration clause, with a delegation provision, that required arbitration of any disputes in any way relating to or arising from her agreement with the bank or her checking account. *Id*. at 462. In 2007, the plaintiff settled a car accident claim, but her funds were embezzled by her lawyer, who held the funds *in his account* at the successor to the Plaintiff's bank. *Id*. at 461. The plaintiff sued the bank for failing to prevent the fraud and the district court denied the bank's motion to compel arbitration. *Id*. The Fifth Circuit affirmed based on its finding that the assertion of arbitrability was "wholly groundless" because the events leading up to the plaintiff's claims against her bank—"a car accident, a settlement, and embezzlement of the funds through an account that a third party held with the bank— [had] nothing to do with [the plaintiff's] checking account opened years earlier for only a brief time." *Id*. at 464. The *Douglas* court rejected the argument that "every case involving an arbitration agreement with a delegation provision must, with no exceptions, be submitted for such gateway arbitration." *Id*. at 463. The court noted that it would be impractical to require the plaintiff "to go to the arbitrator, who would flatly tell her that this claim is not within the scope of the completely unrelated

arbitration agreement she signed many years earlier when opening a checking account and that she must actually go to federal court after all." *Id.* Therefore, because it was obvious that there was absolutely no connection between the plaintiff's claim and the arbitration agreement, the court determined that the bank's assertion of arbitrability was "wholly groundless." *Id.* at 464 (noting that the bank's "only theory that its claim of arbitrability [was] not wholly groundless [was] that there was a delegation provision"). However, in so ruling, the Fifth Circuit acknowledged that "the wholly groundless inquiry is supposed to be limited, **a court performing the inquiry may simply conclude that there is a legitimate argument** that [the] arbitration clause covers the present dispute, and, on the other hand, that it does not and, on that basis, leave [t]he resolution of [those] plausible arguments . . . for the arbitrator." *Id.* at 463 (emphasis added) (citations and internal quotation marks omitted); *see also Paychex*, 92 F. Supp. 3d at 599 (noting that the wholly groundless inquiry is supposed to be limited, and that "the resolution of the plausible and legitimate arguments regarding arbitrability must be reserved for the arbitrator").

This case presents vastly different circumstances than *Douglas*. Here, both sides appear to have plausible arguments regarding whether the 1996 Agreement covers the parties' claims. IQ complains that the M&R "does not examine or construe the 1996 Contract to any extent—in fact, it fails even to mention the relevant contractual language." Dkt. 89 at 6–7.

However, both the 2012 M&R and the pending M&R cite to the relevant provisions contained in the 1996 Agreement. Dkt. 84 at 2; Dkt. 61 at 3. Moreover, both M&Rs discuss the parties' disagreement regarding whether the arbitration provision contained in the 1996 Agreement covers the CO2-based product. Dkt. 84 at 2; Dkt. 61 at 3. In determining that the assertion of arbitrability was *not* wholly groundless, the Magistrate Judge noted in the 2012 M&R that there were complicated issues surrounding the gateway arbitrability issue, including "whether the arbitration agreement is still in effect, whether the parties' disputes fall within the scope of the arbitration agreement, and whether the arbitration agreement remains valid." Dkt. 61 at 12. The Magistrate Judge concluded that WD-40 had plausible arguments in favor of compelling arbitration and then properly reserved these issues for the arbitrators. Dkt. 61 at 12–13. Accordingly, IQ's objections related to the Magistrate Judge's "wholly groundless" analysis are OVERRULED.

B. The M&R Improperly Relied on the Arbitrators' Decisions

IQ argues that in concluding that the arbitration panel was empowered to decide the issue of arbitrability, the M&R improperly relied on the fact that multiple arbitrators decided the issue of arbitrability in favor of WD-40. Dkt. 85 at 6–7. However, as discussed above, the Magistrate Judge independently determined the arbitrability issue in her 2012 M&R prior to any of the arbitrators' decisions. Dkt. 61. The pending M&R summarizes the Magistrate

Judge's initial reasoning for concluding that WD-40's assertion of arbitrability was not wholly groundless and then correctly rejects IQ's claim that the *Douglas* decision requires reconsideration. Dkt. 84 at 7–10. As further support for her initial ruling, the Magistrate Judge points out that "[t]he fact that multiple arbitrators decided the issue of arbitrability in [WD-40's] favor provides *supplemental* evidence that there was a legitimate argument in favor of arbitrability." Dkt. 84 at 10 (emphasis added). Accordingly, IQ's objection that the M&R improperly relied on the arbitrators' decisions is OVERRULED.

C. IQ's Remaining Objections

IQ's remaining objections relate to the Magistrate Judge's alleged failure to address several of IQ's arguments *against* compelling arbitration. Dkt. 85. However, under *Douglas*, once a court determines that there is a plausible argument in favor of arbitration, as the court did here, the court must leave it to the arbitrator to resolve the parties' competing arguments regarding arbitrability. Because the court finds that the Magistrate Judge properly submitted the arbitrability issue to arbitration, the court need not address IQ's remaining objections. Consistent with this court's order, one arbitrator and a three-arbitrator panel determined that all issues, including arbitrability, were arbitrable. Dkt. 66, Exs. 3,10. The panel rejected each of IQ's arguments against arbitrabilty and examined at length why the parties' claims arose from and relate to the 1996 Agreement. Dkt. 66, Ex. 3 at 15–23. Moreover, IQ's primary objection—that the 1996 Agreement applied only to

propane/butane products and not to CO2 products—has already been considered and rejected by this court. *See* Dkt. 62 (IQ's objections to the 2012 M&R); Dkt. 64 (order adopting 2012 M&R in full). Therefore, all of IQ's objections to the M&R are OVERRULED.

IV. CONCLUSION

IQ's objections (Dkt. 85) are OVERRULED, and the M&R (Dkt. 84) is ADOPTED in full. Accordingly, WD-40's motion to confirm the arbitration award (Dkt. 66) is GRANTED and IQ's motion to vacate (Dkt. 75) is DENIED. A final judgment will issue consistent with this opinion.

Signed at Houston, Texas on August 25, 2016.

/s/

Gray H. Miller
United States District Judge

APPENDIX C

MAGISTRATE JUDGE'S MEMORANDUM & RECOMMENDATION, ENTERED JUNE 10, 2016

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IQ PRODUCTS COMPANY,
CSA LIMITED, INC.,

Plaintiffs,

v. CIVIL ACTION H-12-1652

WD-40 COMPANY,

Defendant.

MEMORANDUM & RECOMMENDATION

Pending before the court[1] are Defendant's Motion to Confirm Arbitration Award (Doc. 66) and Plaintiff's Motion to Vacate (Doc. 75). The court has considered the motions, the responses, all other relevant filings, and the applicable law. For the reasons set forth below,

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[1] This case was referred to the undersigned magistrate judge pursuant to 28 U.S.C. § 636(b)(1)(A) and (B), the Cost and Delay Reduction Plan under the Civil Justice Reform Act, and Federal Rule of Civil Procedure 72. Docket Entry No. 23.

the court **RECOMMENDS** that Defendant's motion be **GRANTED** and Plaintiff's motion be **DENIED**.

I. Case Background

Plaintiffs IQ Products Company ("IQ Products") and CSA Limited, Inc., ("CSA") brought this suit for damages and declaratory relief against Defendant, alleging breach of contract and multiple tort claims.

A. Factual Background

IQ Products[2] is a Houston-based producer, manufacturer, packager, and distributer of aerosol products.[3] Defendant is a manufacturer of lubricant products with its principal place of business in San Diego, California.[4]

In February 1996, the parties entered into the Manufacturing License and Product Purchase

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[2] In August 1992, IQ Holdings, Inc., acquired CSA and assumed its longstanding role as packager of Defendant's products. Doc. 7, Pls.' 1st Am. Compl., p. 11. In May 2008, CSA and IQ Products switched names, and CSA assumed agreements that had been entered between IQ Products and Defendant. *Id.* at p. 12. IQ Products became "the operating face of the company" that "moved forward in the long-term supply relationship" with Defendant. *Id.* Both IQ Products and CSA are named as Plaintiffs in this action "in order to afford complete relief among the parties." *Id.*

[3] *Id.* at pp. 1, 4.

[4] *Id.* at pp. 1, 4.

Agreement ("1996 Agreement").[5] The 1996 Agreement contained an arbitration provision, which stated, in part:

> Any controversy or claim arising out of, or related to this Agreement, or any modification or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association, in San Diego, California, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.[6]

Later in 1996, Defendant converted the propellant used in its products from a propane/butane formulation to a CO2-based composition.[7]

In response to Defendant's February 2011 Request for Proposal concerning an ongoing supply relationship, IQ Products submitted a bid.[8] On July 9, 2011, Defendant announced the award of business to IQ Products.[9] IQ Products subsequently performed an engineering audit and "uncovered defects in design," of

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[5] *See id.* at p. 10-11; Doc. 20-1, Ex. 1 to Def.'s Reply & Am. Mot. to Compel Arbitration, Mfg. License & Prod. Purchase Agreement, p. 1.

[6] Doc. 20-1, Ex. 1 to Def.'s Reply & Am. Mot. to Compel Arbitration, Mfg. License & Prod. Purchase Agreement, p. 12.

[7] Doc. 7, Pls.' 1st Am. Compl., p. 6.

[8] *Id.* at p. 13.

[9] *Id.*

which it informed Defendant.[10] Defendant chose not to implement any of IQ Products' recommendations.[11] IQ Products also informed Defendant that its discovery needed to be reported by Defendant to government agencies, but Defendant did not agree.[12]

As a result of this impasse, IQ Products requested that Defendant indemnify IQ Products against all losses, fines, penalties, and other damages arising from the alleged design defect.[13] Defendant indicated that it would end the business relationship and rebid the production of Defendant's products to another packager.[14] On May 22, 2012, Defendant terminated the relationship and discontinued further purchase orders.[15]

B. Procedural Background

On May 31, 2012, Plaintiff IQ Products filed this action, asserting multiple causes of action in breach of contract and tort, seeking declaratory relief, actual damages, punitive damages and attorneys' fees.[16] IQ Products amended its complaint on July 16, 2012,

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[10] *Id.* at p. 16.

[11] *Id.*

[12] *See id.* at pp. 18-19.

[13] *Id.* at p. 19.

[14] *Id.* at pp. 19-20.

[15] *Id.* at p. 20.

[16] *Id.* pp. 19-39.

adding CSA as a plaintiff and responding to Defendant's counterclaims.[17]

On July 30, 2012, Defendant responded to Plaintiffs' live complaint by filing an answer that included counterclaims and a motion to compel arbitration.[18] In August 2012, the court heard arguments on Defendant's motion to compel arbitration.[19]

On December 19, 2012, this court issued a memorandum and recommendation recommending that Defendant's motion to compel arbitration be granted and that the case be stayed pending an arbitrator's decision on the issue of arbitrability.[20] Plaintiff objected to the memorandum and recommendation, but on January 10, 2013, the memorandum and recommendation was adopted in full and this case was stayed pending arbitration.[21]

On April 30, 2013, Plaintiffs filed a request for an initial ruling on arbitrability.[22] On July 8, 2013, after an oral hearing, a single arbitrator determined that all

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[17] *See* Doc. 7, Pls.' 1st Am. Compl.

[18] *See* Doc. 21, Def.'s 1st Am. Answer & Countercls. Subject to its R. 12 Mots. & Mot. to Compel Arbitration.

[19] *See* Doc. 33, Min. Entry Dated Aug. 20, 2012.

[20] *See* Doc. 61, Mem. & Recommendation dated Dec. 19, 2012.

[21] *See* Doc. 62, Objs. to Mem. & Recommendation; Doc. 63, Order Adopting Mem. & Recommendation dated Jan. 10, 2013.

[22] *See* Doc. 79-6, Ex. 5 to Def.'s Resp. to Pl.'s Mot. to Vacate, Pls. Req. for an Initial Ruling on Arbitrability.

parties' claims were arbitrable.[23] IQ Products contested this result and filed a motion for a written opinion regarding arbitrability on November 15, 2013.[24] A three-arbitrator panel denied IQ Products' motion, but stated that it reserved the right to consider the arbitrators' jurisdiction in their ultimate determination.[25]

The parties proceeded to arbitration hearings on the merits, and evidence was presented by both parties regarding arbitrability. After two phases of hearings, the panel issued an interim award on May 14, 2015.[26] The interim award summarized the prior arbitrator's oral hearing and decision and agreed that the entire dispute was arbitrable.[27] On November 6, 2015, the panel issued its final arbitration award.[28]

On December 4, 2015, Defendant moved to confirm the panel's arbitration award.[29] IQ Products filed a

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[23] *See* Doc. 66-10, Ex. 9 to Def.'s Pet. to Confirm Arbitration, Order re: Arbitrability p. 3.

[24] *See* Doc. 79-7, Ex. 6 to Def.'s Resp. to Pl.'s Mot. to Vacate, Pls. Mot. for Reasoned Op. on Arbitrability.

[25] *See* Doc. 66-12, Ex. 11 to Def.'s Pet. to Confirm Arbitration, Order dated Jan. 22, 2014.

[26] *See* Doc. 66-3, Ex. 2 to Def.'s Pet. to Confirm Arbitration, Interim Award dated May 14, 2015 p. 54.

[27] *See* id. pp. 14-18.

[28] *See* Doc. 66-2, Ex. 1 to Def.'s Pet. to Confirm Arbitration, Final Arbitration Award dated Nov. 6, 2015 p. 8.

[29] *See* Doc. 66-2, Ex. 1 to Def.'s Pet. to Confirm Arbitration, Final Arbitration Award p. 8.

response to Defendant's motion and motion to vacate the arbitration award on January 13, 2016, arguing that the arbitration panel lacked jurisdiction to arbitrate its claims.[30] Defendant filed a motion in response to IQ Products' motion to vacate on January 26, 2016.[31]

II. Legal Standard

The Federal Arbitration Act (the "FAA") provides that, "within one year after the award is made any party to the arbitration may apply to the court so specified for an order confirming the award, and thereupon the court must grant such an order unless the award is vacated, modified, or corrected." 9 U.S.C. § 9. Under the FAA, four circumstances exist under which an arbitration agreement may be vacated: (1) the award was procured by corruption, fraud, or undue means; (2) there was evident partiality or corruption in the arbitrators; (3) the arbitrators were guilty of misconduct in refusing to postpone the hearing, upon sufficient cause shown, or in refusing to hear evidence pertinent and material to the controversy, or of any other misbehavior by which the rights of any party have been prejudiced; or (4) the arbitrators exceeded their powers, or so imperfectly executed them that a mutual, final, and definite award upon the subject matter submitted was not made. 9 U.S.C. § 10.

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[30] *See* Doc. 75, Pl.'s Mot. to Vacate and Resp. in Opp'n to Def.'s Pet. to Confirm Arbitration.

[31] *See* Doc. 79, Def.'s Resp. to Pl.'s Mot. to Vacate.

The party challenging an arbitrator's award carries a heavy burden. *BNSF Ry. Co. v. Alstom Transp., Inc.*, 777 F.3d 785, 788 (5th Cir. 2015). The standard of review of an arbitrator's decision is very narrow. *Major League Baseball Players Ass'n v. Garvey*, 532 U.S. 504, 510 (2001) (labor arbitration decision could not be overturned even if "serious error" shown); *Brabham v. AG Edwards & Sons, Inc.*, 376 F.3d 377, 380 (5th Cir. 2004). "When an arbitration award is at issue, the district court does not sit as an appellate court or a court of review, to decide the merits of the grievance or the correctness of the award." *Weinberg v. Silber*, 140 F. Supp. 2d 712, 718 (N.D. Tex. 2001), aff'd, 57 F. App'x 211 (5th Cir. 2003). It is not enough for a party to show that the arbitrator committed an error, or even a serious error. *Oxford Health Plans LLC v. Sutter*, ___ U.S. ___, 133 S. Ct. 2064, 2068 (2013). When evaluating a contract dispute, the sole question for review is whether the arbitrator actually interpreted the contract, not whether he construed it correctly. *Id.*

III. Analysis

IQ Products argues that the arbitrators exceeded their powers by determining that all claims were arbitrable. IQ Products contends that this court's December 19, 2012 memorandum and recommendation incorrectly determined that the assertion of arbitrability was not "wholly groundless" and must reconsider the issue in the wake of a recent Fifth Circuit decision. Defendant responds that the court's prior recommendation was correct and that Plaintiffs cannot overcome the heavy burden necessary to vacate an award under the FAA.

The court first notes that its express orders granted arbitrators the authority to determine the gateway issue of arbitrability. First one arbiter and then a three-judge arbitral panel complied with the court's order and determined that all issues, including arbitrability, were arbitrable. Because this court specifically compelled the parties to arbitration for this determination, the arbitrators did not exceed their powers under Section 10(a)(4) of the FAA by finding the entire dispute was arbitrable.

IQ Products instead argues that this court must reconsider its December 2012 recommendation based on its interpretation of the Fifth Circuit's holding in *Douglas v. Regions Bank*, 757 F.3d 460 (5th Cir. 2014). In Douglas, the Fifth Circuit considered whether a gateway arbitration provision applied when the provision was within an agreement to open a checking account. Years later, the plaintiff filed suit against the bank's successor for negligence and conversion subsequent to alleged embezzlement from her account by a third party. *See id.* at 461. The court affirmed the district court's holding that the arbitrability provision did not apply, but on different grounds, focusing its discussion on whether the arbitration agreement was "relevant to the dispute at hand." *Id.* at 462.

The court cited favorably to the Federal Circuit's two-part test to determine whether a dispute is arbitrable because of the presence of a delegation provision. *Id.* at 464 (citing *Agere Sys., Inc. v. Samsung Elecs. Co.*, 560 F.3d 337 (5th Cir. 2009)) (noting that Agere implicitly relied on the Federal Circuit's two-part *Qualcomm, Inc.* test). The test involves

determining: "(1) did the parties 'unmistakably intend to delegate the power to decide arbitrability to an arbiter,' and if so, (2) is the assertion of arbitrability 'wholly groundless.'" *Id.* at 463 (quoting *Agere*, 560 F.3d at 337). The court found that the arbitration provision in Douglas was wholly groundless because the circumstances of the suit had "nothing to do with" the gateway arbitration provision connected to opening a checking account that had been closed a year later. *Id.* at 464.

IQ Products contends that its 1996 Agreement is similarly irrelevant to this case and the dispute should not have been sent to arbitration. Specifically, it argues that the products covered by the 1996 Agreement were limited and did not include those products that led to its dispute with Defendant. It maintains that although this court previously stated that Defendant's assertion of arbitrability was not "wholly groundless," that the court must now reconsider the issue following the Fifth Circuit's decision in *Douglas*.

Analyzing the "wholly groundless" standard in the wake of *Douglas*, this court has stated that an assertion of arbitrability "is not wholly groundless" if "there is a plausible and legitimate argument that the arbitration covers the present dispute, and, on the other hand, a plausible and legitimate argument that it does not." *W.L. Doggett LLC v. Paychex, Inc.*, 92 F. Supp. 593, 599 (S.D. Tex. 2015).

Here, although IQ Products maintains that the arbitration agreement did not apply to this dispute, Defendant has consistently argued that the provision

controlled all the parties' claims. Because a plausible and legitimate argument that the gateway arbitration applied existed, this court properly considered that the assertion was not wholly groundless. This court's prior recommendation recognized that the parties disputed the issue of arbitrability, and, citing the Fifth Circuit's decision in *Agere*, found that the provision was not wholly groundless.[32] The fact that multiple arbitrators decided the issue of arbitrability in Defendant's favor provides supplemental evidence that there was a legitimate argument in favor of arbitrability. The *Douglas* case does not present good cause for this court to reconsider its previous recommendation and order, and the court accordingly will not do so.

IQ Products has not made a legal argument that either the single arbitrator who issued a ruling on arbitrability or the final arbitral panel exceeded their authority or otherwise violated any of the other limited circumstances necessary for a court to vacate an arbitration award. *See* 9 U.S.C. § 10. IQ Products was given an opportunity to present its evidence related to the arbitrator's jurisdiction to multiple arbitrators, and the arbitrators found that they retained jurisdiction over the issue of arbitrability. IQ Products' complaint that the arbitrators reached a result contrary to its position does not provide grounds for vacating the arbitration award. Because Plaintiffs have not met their burden, the court **RECOMMENDS** that

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[32] Doc. 61, Mem. & Recommendation dated Dec. 19, 2012 p. 13 (citing *Agere*, 560 F.3d at 340).

Defendant's Motion to Confirm its Arbitration Award be **GRANTED**.

IV. Conclusion

Based on the foregoing, the court **RECOMMENDS** that Defendant's Motion to Confirm its Arbitration Award be **GRANTED** and Plaintiffs' Motion to Vacate be **DENIED**.

The Clerk shall send copies of this Memorandum and Recommendation to the respective parties who have fourteen days from the receipt thereof to file written objections thereto pursuant to Rule 72(b) and General Order 2002-13. Failure to file written objections within the time period mentioned shall bar an aggrieved party from attacking the factual findings and legal conclusions on appeal.

The original of any written objections shall be filed with the United States District Clerk electronically. Copies of such objections shall be mailed to opposing parties and to the chambers of the undersigned, 515 Rusk, Suite 7019, Houston, Texas 77002.

SIGNED in Houston, Texas, this 10th day of June, 2016.

APPENDIX D

ORDER OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF TEXAS ADOPTING MAGISTRATE JUDGE'S MEMORANDUM AND RECOMMENDATION, ENTERED JANUARY 10, 2013

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IQ PRODUCTS COMPANY,
CSA LIMITED, INC.,

Plaintiffs,

v. CIVIL ACTION H-12-1652

WD-40 COMPANY,

Defendant.

ORDER ADOPTING MAGISTRATE JUDGE'S MEMORANDUM AND RECOMMENDATION

Having reviewed the Magistrate Judge's Memorandum and Recommendation dated December 19, 2012 (Dkt. 61), the objections, and the response to the objections, the court is of the opinion that the Memorandum and Recommendation be adopted by this court. Therefore, it is ORDERED that the Memorandum and Recommendation (Dkt. 61) is hereby ADOPTED by the court. Defendant's amended motion to compel arbitration (Dkt. 20) is GRANTED. This case

is STAYED pending the arbitrator's decision, and all pending motion are DENIED without prejudice to reurge if any of the case is to be resolved in this forum. Accordingly, this case is ADMINISTRATIVELY CLOSED unless and until the parties notify the court that the arbitrator has determined that the court is the appropriate forum for any of the case.

It is so ORDERED.

Signed at Houston, Texas on January 10, 2013.

/s/

Gray H. Miller
United States District Judge

APPENDIX E

MAGISTRATE JUDGE'S MEMORANDUM AND RECOMMENDATION, ENTERED DECEMBER 19, 2012

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

IQ PRODUCTS COMPANY;
CSA LIMITED, INC.,

Plaintiffs,

v. CIVIL ACTION H-12-1652

WD-40 COMPANY,

Defendant.

MEMORANDUM AND RECOMMENDATION

Pending before the court[1] are numerous motions, including Defendant's Amended Motion to Compel Arbitration (Doc. 20). The court has considered the motion to compel, the parties' briefs, all other relevant filings, and the applicable law. For the reasons set forth below, the court **RECOMMENDS** that

[1] This case was referred to the undersigned magistrate judge pursuant to 28 U.S.C. § 636(b)(1)(A) and (B), the Cost and Delay Reduction Plan under the Civil Justice Reform Act, and Federal Rule of Civil Procedure 72. Docket Entry No. 23.

Defendant's Amended Motion to Compel Arbitration be **GRANTED**.

If the undersigned's recommendation is adopted, this action should be stayed[2] pending the arbitral tribunal's decision on whether the parties' disputes are subject to arbitration. The court further **RECOMMENDS** that all other pending motions be **DENIED** at this time with leave available upon request to refile any relevant motion in the event that any or all of the case is to be resolved in this forum.

I. Case Background

Plaintiffs IQ Products Company ("IQ Products") and CSA Limited, Inc., ("CSA") brought this suit for damages and declaratory relief against Defendant, alleging breach of contract and several tort claims.

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[2] Defendant did not request a stay but, rather, sought dismissal. Because the court finds referral to arbitration appropriate on the preliminary issue of arbitrability, the court finds a stay of this action to be the better course.

Appendix E

A. Factual Background

Plaintiff IQ Products[3] is a Houston-based producer, manufacturer, packager, and distributer of aerosol products.[4] Defendant, which has its principal place of business in San Diego, California, manufactures a line of lubricant products.[5] After a personal injury lawsuit against Defendant and Plaintiff IQ Products was filed in 1993, the parties entered into an indemnity agreement.[6] Then, in February 1996, the parties entered the Manufacturing License and Product Purchase Agreement ("1996 Agreement").[7] The 1996 Agreement contained an arbitration provision, which stated, in part:

> 18. Any controversy or claim arising out of, or related to this Agreement, or any modification

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[3] In August 1992, IQ Holdings, Inc., acquired CSA and assumed its longstanding role as packager of Defendant's products. Doc. 7, Pls.' 1st Am. Compl., p. 11. In May 2008, CSA and IQ Products switched names, and CSA assumed agreements that had been entered between IQ Products and Defendant. *Id.* at p. 12. IQ Products became "the operating face of the company" that "moved forward in the long-term supply relationship" with Defendant. *Id.* Both IQ Products and CSA are named as Plaintiffs in this action "in order to afford complete relief among the parties." *Id.*

[4] *Id.* at pp. 1, 4.

[5] *Id.* at pp. 1, 4.

[6] *Id.* at pp. 5-6.

[7] *See id.* at p. 10-11; Doc. 20-1, Ex. 1 to Def.'s Reply & Am. Mot. to Compel Arbitration, Mfg. License & Prod. Purchase Agreement, p. 1.

> or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association, in San Diego, California, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.[8]

Later in 1996, Defendant converted the propellant used in its products from a propane/butane formulation to a CO2-based composition.[9]

In response to Defendant's February 2011 Request for Proposal concerning an ongoing supply relationship, Plaintiff IQ Products submitted a bid.[10] On July 9, 2011, Defendant announced the award of business to Plaintiff IQ Products.[11] Plaintiff IQ Products subsequently performed an engineering audit and "uncovered defects in design," of which it informed Defendant.[12] Defendant chose not to implement any of Plaintiff IQ Products recommendations.[13] Plaintiff IQ Products also informed Defendant that its discovery needed to be reported by Defendant to government agencies, but Defendant did not agree.[14]

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[8] Doc. 20-1, Ex. 1 to Def.'s Reply & Am. Mot. to Compel Arbitration, Mfg. License & Prod. Purchase Agreement, p. 12.

[9] Doc. 7, Pls.' 1st Am. Compl., p. 6.

[10] *Id.* at p. 13.

[11] *Id.*

[12] *Id.* at p. 16.

[13] *Id.*

[14] *See id.* at pp. 18-19.

As a result of this impasse, Plaintiff IQ Products requested that Defendant indemnify Plaintiff IQ Products against all losses, fines, penalties, and other damages arising from the alleged design defect.[15] Defendant indicated that it would end the business relationship and rebid the production of Defendant's products to another packager.[16] On May 22, 2012, Defendant terminated the relationship and discontinued further purchase orders.[17]

B. Procedural Background

On May 31, 2012, Plaintiff IQ filed this action, raising the following causes of action: 1) breach of contract; 2) negligence; 3) breach of the indemnity agreement and right to specific performance; 4) fraudulent misrepresentation and fraudulent inducement to perform under contract; 5) negligent misrepresentation; 6) economic duress and coercion; and 7) declaratory judgment.[18] In addition to declaratory relief and actual damages, Plaintiff IQ sought punitive damages and attorneys' fees.[19]

Defendant filed an answer on June 25, 2012, that included multiple motions and counterclaims.[20]

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[15] *Id.* at p. 19.

[16] *Id.* at p. 19-20.

[17] *Id.* at p. 20.

[18] *See* Doc. 1, Pl. IQ Products' Orig. Compl., pp. 19-37.

[19] *Id.* pp. 37-39.

[20] *See* Doc. 6, Def.'s Orig. Answer & Countercls. Subject to Its R. 12 Mots. & Mot. to Compel Arbitration.

Therein, Defendant argued the following motions: 1) to dismiss or transfer due to improper venue; 2) to join CSA as a necessary party; 3) to strike for failure to state a claim for negligence, negligent misrepresentation, fraudulent inducement, breach of the indemnity agreement and right to specific performance, declaratory judgment, and punitive damages; 4) to strike as redundant, immaterial, impertinent or scandalous references to the alleged design defect and to suggested changes; and 5) to compel arbitration.[21] Additionally, Defendant raised the following counterclaims: 1) fraud/misrepresentation; 2) negligent misrepresentation; 3) breach of contract; and 4) declaratory judgment.[22] Defendant sought attorneys' fees under applicable law and pursuant to the 1996 Agreement.[23]

Plaintiff IQ amended pursuant to Federal Rule of Civil Procedure ("Rule") 15(a)(1) and made several changes, the most significant of which was the addition of CSA as a plaintiff.[24] At the same time, Plaintiff IQ separately filed a motion to dismiss Defendant's counterclaims.[25]

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[21] *Id.* at pp. 1-13.

[22] *Id.* at pp. 35-39.

[23] *Id.* at pp. 39-40.

[24] *See* Doc. 7, Pls.' 1st Am. Compl.

[25] *See* Doc. 9, Pl. IQ's Mot. to Dismiss Countercls.

Defendant amended its answer and counterclaims, adding an affirmative defense and a conversion claim.[26] Contemporaneously, Defendant amended its motions to dismiss and motion to compel and filed an additional motion to dismiss on Plaintiffs' economic duress and coercion claims.[27] Defendant subsequently amended with leave of court its counterclaims to remove certain factual allegations.[28]

In August 2012, the court heard arguments on Defendant's motion to compel arbitration.[29]

II. Legal Standard

The Federal Arbitration Act ("FAA") provides that a "written provision in . . . a contract evidencing a transaction involving commerce to settle by arbitration a controversy thereafter arising out of such contract . . .

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[26] *See* Doc. 21, Def.'s 1st Am. Answer & Countercls. Subject to Its R. 12 Mots. & Mot. to Compel Arbitration.

[27] Doc. 16, Def.'s Mot. to Dismiss Pls.' Econ. Duress & Coercion Cls.; Doc. 17, Def.'s Reply & Am. 12(b)(6), 12(f), & Mot. to Dismiss for Lack of Subject Matter Jurisdiction; Doc. 18, Def.'s Reply & Am. 12(b)(6) Mot. to Dismiss Pl.'s Breach of Indemnity Agreement & Related Declaratory Action Cls.; Doc. 19, Def.'s Reply & Am. 12(b)(6) Mots. to Dismiss Pl.'s Negligence, Negligent Misrepresentation, Fraud, and Punitive Damages Cls. as Barred by the Economic Loss R.; Doc. 20, Def.'s Reply & Am. Mot. to Compel Arbitration & to Change Venue.

[28] *See* Doc. 39, Mot. for Leave to File 2d Am. Counter Compl.; Doc. 44, Order Dated Sept. 21, 2012; Doc. 45, Def.'s 2d Am. Countercls. Subject to Its R. 12 Mots. & Mot. to Compel Arbitration.

[29] *See* Doc. 33, Min. Entry Dated Aug. 20, 2012.

shall be valid, irrevocable, and enforceable, save upon such grounds as exist at law or in equity for the revocation of any contract." 9 U.S.C. § 2. The FAA provides for stays of proceedings upon request when an issue in the proceeding is referable to arbitration and for orders compelling arbitration when one party has failed or refused to comply with an arbitration agreement. *See* 9 U.S.C. §§ 3-4. Dismissal of a case is appropriate "when all of the issues raised in the district court must be submitted to arbitration." *Alford v. Dean Witter Reynolds, Inc.*, 975 F.2d 1161, 1164 (5th Cir. 1992).

In deciding whether to compel a party to arbitrate, courts perform a two-step inquiry: (1) "whether [the] parties agreed to arbitrate;" and (2) "whether [a] federal statute or policy renders the claims nonarbitrable." *Dealer Computer Servs., Inc. v. Old Colony Motors, Inc.*, 588 F.3d 884, 886 (5th Cir. 2009). The first step has two parts: (1) "whether a valid agreement to arbitrate exists;" and (2) "whether the dispute falls within that agreement." *Id.* at 886.

As is apparent from the statutory language, arbitration is contractual, and the FAA embodies a policy guaranteeing enforcement of private contractual arrangements. *Will-Drill Res., Inc. v. Samson Res. Co.*, 352 F.3d 211, 214 (5th Cir. 2003); see also *Houston Gen. Ins. Co. v. Realex Grp., N.V.*, 776 F.2d 514, 516 (5th Cir. 1985) ("This Act [FAA] establishes a strong national policy favoring arbitration whenever the parties opt for that method of dispute resolution."). Although the question of whether the parties have agreed to arbitrate a dispute is ordinarily for the court

to decide, the parties are free to agree to arbitrate arbitrability. *See Reed v. Fla. Metro. Univ., Inc.*, 681 F.3d 630, 633 (5th Cir. 2012) (noting that the court generally decides arbitrability); *Petrofac, Inc., v. DynMcDermott Petro. Operations Co.*, 687 F.3d 671, 675 (5th Cir. 2012) (noting that who has the power to decide arbitrability is dictated by the terms of the parties' agreement). An agreement to have the arbitral tribunal decide arbitrability must be clear and unmistakable. *Petrofac, Inc.*, 687 F.3d at 675.

III. Analysis

The parties offer a host of cogent arguments in support of their opposing positions. Unfortunately, neither party addresses *Petrofac, Inc.*, a recent Fifth Circuit opinion that clearly applies to the court's analysis of the pending motion. *See Petrofac, Inc.*, 687 F.3d at 675. As explained below, *Petrofac, Inc.* dictates that this case be sent to arbitration on the issue of arbitrability.

A. *Petrofac, Inc.*

In *Petrofac, Inc.*, the Fifth Circuit reviewed the trial court's confirmation of an arbitration award. *Id.* at 673. The arbitration agreement stated that the parties agreed to resolve claims under their contract through binding arbitration "conducted by the American Arbitration Association [("AAA")] under its Construction Industry Arbitration Rules." *Id.* at 673, 674. The rules granted the arbitrator 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." *Id.* at 675. The

court joined several other circuits in explicitly holding that this "express adoption" of the AAA rules in an arbitration agreement constitutes "clear and unmistakable evidence that the parties agreed to arbitrate arbitrability." *Id.* The court determined that the arbitration panel properly made the decision on arbitrability and that the lower court properly confirmed the panel's award. Id. at 675, 676. The opinion noted that the decision complied with the circuit's "prior suggestions that the incorporation of AAA Rules may be sufficient to show that the parties to those agreements intended to confer that power on the arbitration panel." *Id.* at 675, n.2 (quoting *DK Jt. Venture 1 v. Weyand*, 649 F.3d 310, 317 n.9 (5th Cir. 2011) (internal quotation marks omitted)).

In that opinion, the Fifth Circuit cited cases from the First, Second, Eighth, Eleventh, and Federal Circuits in support of its conclusion.[30] *See id.* at 675. The First Circuit case, *Apollo Computer, Inc. v. Berg*, 886 F.2d 469, 470-71 (1st Cir. 1989), involved the court's review of a district court's denial of a request to stay an arbitration proceeding in which the International Chamber of Commerce's ("ICC") Court of

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[30] The court also acknowledged a Tenth Circuit opinion in which that court, without discussing the issue of the incorporation of the AAA rules specifically, found that an agreement to have disputes resolved in arbitration "in accordance with the Commercial Arbitration Rules of the [AAA]" did not clearly and unmistakably evidence the intent to have an arbitrator decide arbitrability. *Petrofac, Inc.*, 687 F.3d at 675 (citing *Riley Mfg. Co. v. Anchor Glass Container Corp.*, 157 F.3d 775, 780 (10th Cir. 1998)); *see also Riley Mfg. Co.*, 157 F.3d at 777 n.1.

Arbitration determined that, pursuant to its rules, the arbitrator should resolve arbitrability. The parties had agreed that their contract disputes would be settled by arbitration in accordance with the ICC rules of arbitration. *Id.* at 473. The ICC rules authorized the arbitrator to make decisions regarding his jurisdiction, including questions concerning the validity of the arbitration agreement. *Id.* The First Circuit held that the parties agreed to be bound by the ICC rules, which "clearly and unmistakably" granted the arbitrator the power to decide the existence and validity of a prima facie agreement to arbitrate. *Id.*

Similarly, the other cases cited favorably in the *Petrofac, Inc.* decision applied the same logic to the incorporation of the AAA rules. *See Fallo v. High-Tech Inst.*, 559 F.3d 874, 878 (8th Cir. 2009); *Qualcomm Inc. v. Nokia Corp.*, 466 F.3d 1366, 1372-73 (Fed. Cir. 2006); *Terminix Int'l Co., LP v. Palmer Ranch Ltd. P'ship*, 432 F.3d 1327, 1332-33 (11th Cir. 2005); *Contec Corp. v. Remote Solution Co.*, 398 F.3d 205, 208 (2d Cir. 2005). The *Fallo* opinion involved the review of a partial denial of a motion to compel arbitration where the arbitration clause in the relevant contract stated that claims arising out of the contract "shall be settled by arbitration in accordance with the Commercial Rules of the [AAA]." *Fallo*, 559 F.3d at 876, 877. The court found that, by incorporating the AAA rules, the parties necessarily adopted the AAA jurisdictional rule that gave the arbitrator the authority to decide arbitrability. *See id.* at 878-79. The Eighth Circuit stated: "We find the district court erred when it held that it had the authority to determine the question of

arbitrability because the parties' incorporation of the AAA Rules is clear and unmistakable evidence that they intended to allow an arbitrator to answer that question." *Id.* at 880.

The courts deciding *Qualcomm Inc.*, *Terminix International Co.*, and *Contec Corp.* all reached the same conclusion, to wit, that incorporation of the AAA rules amounted to clear and unmistakable evidence of the intent to have an arbitrator decide arbitrability. *See Qualcomm Inc.*, 466 F.2d at 1368, 1373 (reaching that conclusion upon review of a denial of a stay of litigation pending arbitration because the parties agreed that disputes were to be "settled by arbitration in accordance with the arbitration rules of the [AAA]"); *Terminix Int'l Co.*, 432 F.3d at 1329, 1332 (reaching that conclusion upon review of a denial of a motion to compel because the parties agreed that disputes were to be "conducted in accordance with the Commercial Arbitration Rules then in force of the [AAA];" *Contec Corp.*, 398 F.3d at 207, 208 (reaching that conclusion upon review of a decision to dismiss a suit in favor of arbitration because the parties agreed that disputes would "be determined by arbitration . . . in accordance with the Commercial Arbitration Rules of the [AAA]").

The opinions relied on by the *Petrofac, Inc.* court do not have identical procedural or factual backgrounds, reflecting how broad the effect of contracting parties' agreements to conduct or settle their disputes under or in accordance with the AAA rules. And the *Petrofac, Inc.* opinion itself gave no indication that the incorporation of the AAA rules was limited to specific contract language or applied only to certain procedural

scenarios or to specific challenges to arbitration clauses. The court can find no reason that the *Petrofac, Inc.* holding does not apply in this case, despite the failure of either party to discuss it.

The parties' dispute regarding whether this case should proceed to arbitration centers on issues of whether the arbitration agreement is still in effect, whether the parties' disputes fall within the scope of the arbitration agreement, and whether the arbitration agreement remains valid.[31] These are complicated issues that are specifically placed in the hands of the arbitrator by AAA Commercial Arbitration Rule 7(a),[32] which states, "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."

Because Defendant's assertion of arbitrability is not wholly groundless and is based on the issues covered by the AAA jurisdictional rule, the court finds that the parties agreed to have arbitrability decided by an arbitrator. *Cf. Agere Sys., Inc. v. Samsung Elec. Co.*, 560 F.3d 337, 340 (5th Cir. 2009) (citing *Qualcomm Inc.*, 466 F.3d at 1371 for the proposition that a "wholly groundless" assertion of arbitrability should not be

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[31] Plaintiffs do not challenge the existence of an arbitration agreement but only whether it has continued validity or applies to the disputes in issue. *Cf. DK Joint Venture 1*, 649 F.3d at 317 (explaining that courts, not arbitrators, must decide whether the parties entered into any arbitration agreement at all).

[32] The AAA Commercial Arbitration Rules are available online at http://www.adr.org.

referred to arbitration). Without expressing any opinion on the merits of the parties' arguments related to existence, scope, or validity of their arbitration agreement, the court compels the parties to arbitration.

B. Waiver of the Right of Arbitration

In light of the foregoing, the court need not address the vast majority of the parties' other arguments. Waiver, though, remains a viable argument that warrants consideration because a decision in Plaintiffs' favor on waiver obviously would negate the need for a referral to arbitration.

"The question of what constitutes a waiver of the right of arbitration depends on the facts of each case" and is an issue to be decided by the court. *Petroleum Pipe Americas Corp. v. Jindal Saw, Ltd.*, 575 F.3d 476, 480 (5th Cir. 2009) (quoting *Walker v. J.C. Bradford & Co.*, 938 F.2d 575, 576 (5th Cir. 1991)). Like any contract right, arbitration can be waived, explicitly or implicitly, by agreement to resolve the dispute in court. *Price v. Drexel Burnham Lambert, Inc.*, 791 F.2d 1156, 1158 (5th Cir. 1986). Waiver occurs "when the party seeking arbitration substantially invokes the judicial process to the detriment or prejudice of the other party." *Petroleum Pipe Americas Corp.*, 575 F.3d at 480 (quoting *Walker*, 938 F.2d at 577).

Invoking the judicial process means litigating the specific claim or claims that the party seeks to arbitrate. *Republic Ins. Co. v. PAICO Receivables, LLC*, 383 F.3d 341, 344 (5th Cir. 2004). However, "merely taking part in litigation," absent a detriment to the

other party, does not amount to waiver. *In re Bruce Terminix Co.*, 988 S.W.2d 702, 704 (Tex. 1998). The court looks for, at a minimum, some overt act in court that demonstrates the party's interest in resolving in the dispute through litigation, not arbitration. *Petroleum Pipe Americas Corp.*, 575 F.3d at 480 (quoting *Republic Ins. Co.*, 383 F.3d at 344).

"Prejudice," in this context, means "the inherent unfairness in terms of delay, expense, or damage to a party's legal position that occurs when the party's opponent forces it to litigate an issue and later seeks to arbitrate the same issue." *Id.* (quoting *Republic Ins. Co.*, 383 F.3d at 346). The Fifth Circuit found three nonexclusive factors to be particularly relevant in reaching a decision on prejudice: (1) whether discovery on the arbitrable claims had occurred; (2) whether the party opposing arbitration had been required to expend time and money to defend against a motion for summary judgment; and (3) whether the party asserting a right to arbitrate did so timely. *Id.* (quoting *Republic Ins. Co.*, 383 F.3d at 346). The presumption in these cases favors arbitration, placing a heavy burden on the party that argues for waiver of a right to arbitrate, increasingly so when a timely arbitration demand was made. *Republic Ins. Co.*, 383 F.3d at 344, 346-47; *see also Petroleum Pipe Americas Corp.*, 575 F.3d at 480 (quoting *Republic Ins. Co.*, 383 F.3d at 344).

On June 25, 2012, Defendant filed its original answer and counterclaims, which it indicated were

subject to several motions included therein.[33] One of the included motions was a motion to compel arbitration.[34] Defendant filed nothing else until one week after Plaintiffs filed an amended complaint; at which time, Defendant notified the court that it intended to amend its answer, counterclaims, and motions in response to Plaintiffs' amended complaint.[35] Defendant amended its answer and counterclaims and separately filed several motions, including an amended motion to compel arbitration (filed in combination a reply to Plaintiffs' response to the original motion).[36] All but one of the contemporaneously filed motions

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[33] *See* Doc. 6, Def.'s Orig. Answer & Countercls. Subject to R. 12 Mots. & Mot. to Compel Arbitration.

[34] *See id.*

[35] *See* Doc. 14, Letter from David Medack Dated July 23, 2012.

[36] *See* Doc. 16, Def.'s Mot. to Dismiss Pls.' Econ. Duress & Coercion Cls.; Doc. 17, Def.'s Reply & Am. 12(b)(6), 12(f), & Mot. to Dismiss for Lack of Subject Matter Jurisdiction; Doc. 18, Def.'s Reply & Am. 12(b)(6) Mot. to Dismiss Pl.'s Breach of Indemnity Agreement & Related Declaratory Action Cls.; Doc. 19, Def.'s Reply & Am. 12(b)(6) Mots. to Dismiss Pl.'s Negligence, Negligent Misrepresentation, Fraud, and Punitive Damages Cls. as Barred by the Economic Loss R.; Doc. 20, Def.'s Reply & Am. Mot. to Compel Arbitration & to Change Venue; Doc. 21, Def.'s 1st Am. Answer & Countercls. Subject to Its R. 12 Mots. & Mot. to Compel Arbitration.

were amended versions of the earlier motions to dismiss.[37]

During July and August 2012, Defendant also communicated with the court by filing a notice of appearance, a certificate of interested parties, and a request that the action be tried before the district judge.[38] On August 20, 2012, Defendant's counsel appeared in court to argue the motion to compel.[39] In addition to filing replies and other briefs related to the pending motions, Defendant responded to dispositive motions filed by Plaintiffs.[40] Defendant sought and received leave to amend its counterclaims again.[41]

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[37] *See* Doc. 16, Def.'s Mot. to Dismiss Pls.' Econ. Duress & Coercion Cls.; Doc. 17, Def.'s Reply & Am. 12(b)(6), 12(f), & Mot. to Dismiss for Lack of Subject Matter Jurisdiction; Doc. 18, Def.'s Reply & Am. 12(b)(6) Mot. to Dismiss Pl.'s Breach of Indemnity Agreement & Related Declaratory Action Cls.; Doc. 19, Def.'s Reply & Am. 12(b)(6) Mots. to Dismiss Pl.'s Negligence, Negligent Misrepresentation, Fraud, and Punitive Damages Cls. as Barred by the Economic Loss R.

[38] *See* Doc. 15, Notice of Appearance; Doc. 22, Certificate of Interested Parties; Doc. 32, Req. to Proceed Before Dist. J.

[39] *See* Doc. 33, Min. Entry Dated Aug. 20, 2012.

[40] *See* Docs. 36, 37, 41, 42, Def.'s Replies; Doc. 38, Def.'s Supplement; Doc. 40, Def.'s Resp. to Pl.'s Mot. to Dismiss Def.'s Am. Countercls.; Doc. 49, Def.'s Resp. to Pl.'s Mot. to Dismiss Def.'s 2d Am. Countercls.

[41] *See* Doc. 39, Mot. for Leave to File 2d Am. Counter Complaint; Doc. 44, Order Dated Sept. 21, 2012; Doc. 45, Def.'s 2d Am. Countercls. Subject to Its R. 12 Mots. & Mot. to Compel Arbitration.

In late October 2012, Defendant filed a motion, supported by exhibits, to strike a notice submitted by Plaintiffs and replied to Plaintiffs' response to the motion.[42] Defendant further participated in the litigation by taking part in the joint discovery/case management plan, ordering a transcript of the court's hearing, and filing a notice of disclosure.[43]

Notwithstanding the fact that Defendant has been an active participant in the lawsuit, many of its contacts with the court have been necessary to protect its rights as the case proceeded. Defendant asserted a right to arbitration immediately upon filing suit and has persisted in seeking dismissal in favor of arbitration. Defendant filed motions to dismiss and counterclaims at the time it filed its first answer and amended those motions and counterclaims, as well as filing an additional motion to dismiss after Plaintiffs amended their complaint. Although Defendant has sought dismissal of various claims on the merits and asserted claims of its own, Defendant's contemporaneous assertion of a right to arbitration and pursuit thereof signifies that the motions to dismiss and the counterclaims were sought in the alternative.

Defendant's activities in this case are not as significant as those that other courts have found to constitute waiver of arbitration. For example, in

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[42] *See* Doc. 52, Def.'s Mot. to Strike; Doc. 53, Exs.; Doc. 60, Def.'s Reply.

[43] *See* Doc. 54, Jt. Disc./Case Mgmt. Plan; Doc. 55, Tr. Order Form; Doc. 58, Notice of Disclosure.

Republic Insurance Company, the plaintiff filed suit for a declaration of rights related to a settlement agreement without asserting the right to arbitration, raised affirmative defenses to counterclaims without asserting the right to arbitration, actively engaged in extensive discovery on all claims and counterclaims, filed two motions to compel discovery, amended its complaint, sought and opposed summary judgment on all issues in the amended complaint, and submitted pretrial materials and motions in limine on the counterclaims, all before asking the court to stay the proceedings and to compel arbitration on the defendants' counterclaims. *Republic Ins. Co.*, 383 F.3d at 343-45. The court affirmed the district court's waiver ruling, not because the plaintiff litigated claims that were not subject to arbitration, but because it engaged in court proceedings related to the very claims that it subsequently sought to compel arbitration. *Id.* at 345-46.

In contrast, the Fifth Circuit did not find that the defendant had waived its right to arbitration in *Keytrade USA, Inc. v. AIN TEMOUCHENT M/V*, 404 F.3d 891 (5th Cir. 2005). There, the defendant moved in the alternative for summary judgment and to compel arbitration. *Id.* at 897-98. The defendant participated in discovery by submitting a witness list for trial. *Id.* at 898. The court found that filing a motion to compel in the alternative when moving for summary judgment "remov[ed] all doubt as to waiver." *Id.* The court also reiterated the Fifth Circuit's position on participation in discovery, stating that "a party may participate in the discovery process so long as it does

not 'shower[] [the opposing party] with interrogatories and discovery requests.'" *Id.* (quoting *Steel Warehouse Co. v. Abalone Shipping Ltd. of Nicosai*, 141 F.3d 234, 238 (5th Cir. 1998)); *see also Republic Ins. Co.*, 383 F.3d at 347 (distinguishing cases that found no waiver by noting that, in each of those, the right to arbitrate was raised timely and after only a minimal amount of discovery on the arbitrable issues).

This case fits squarely within the cases in which the court found that the right to arbitration had not been waived. Applying the *Petroleum Pipe* factors, the court notes that there is no indication in the docket activity of substantial discovery, postdiscovery dispositive motions, delays caused by Defendant, or any indication of the relinquishment of its asserted right to arbitration. The court finds that, other than the motions to dismiss, Defendant's requests of the court have been routine and sought in order to protect its rights, not as a concession to have this court decide the merits of the parties' disputes. Defendant timely alleged a right to arbitration – in its very first contact with the court. Defendant's clear intent, evidenced by its contacts with the court, has been to exact an order compelling arbitration from the court.

After weighing all of the factors, including the FAA's policy favoring arbitration, the court finds that Defendant has not substantially invoked the judicial process to Plaintiffs' detriment. Regarding prejudice, Plaintiffs have been on notice of Defendant's position from the very start of the lawsuit. Any resulting inconvenience and/or expense suffered by Plaintiffs does not rise to the level of unfair prejudice necessary

to warrant waiver. Plaintiffs fail to carry their heavy burden of demonstrating waiver.

IV. Conclusion

Based on the foregoing, the court **RECOMMENDS** that Defendant's Amended Motion to Compel Arbitration be **GRANTED**. The parties are **ORDERED** to submit their controversy to arbitration in San Diego, California, per the 1996 Agreement.

The court further **RECOMMENDS** that all other pending motions be **DENIED** at this time and the case be **STAYED** pending the arbitral tribunal's decision on arbitrability.

The Clerk shall send copies of this Memorandum and Recommendation to the respective parties who have fourteen days from the receipt thereof to file written objections thereto pursuant to Rule 72(b) and General Order 2002-13. Failure to file written objections within the time period mentioned shall bar an aggrieved party from attacking the factual findings and legal conclusions on appeal.

The original of any written objections shall be filed with the United States District Clerk electronically. Copies of such objections shall be mailed to opposing parties and to the chambers of the undersigned, 515 Rusk, Suite 7019, Houston, Texas 77002.

SIGNED in Houston, Texas, this 19th day of December, 2012.

/s/

Nancy K. Johnson
United States Magistrate Judge

APPENDIX F

ORDER OF THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT DENYING PANEL REHEARING AND REHEARING EN BANC, ENTERED OCTOBER 13, 2017

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 16-20595

IQ PRODUCTS COMPANY,

Plaintiff-Appellant

v.

WD-40 COMPANY,

Defendant-Appellee

Appeal from the United States District Court
for the Southern District of Texas

ON PETITION FOR REHEARING EN BANC

(Opinion 9/13/17, 5 Cir., _____, _____ F.3d _____)

Before HIGGINBOTHAM, GRAVES, and
HIGGINSON, Circuit Judges.

Appendix F

PER CURIAM:

(✓) Treating the Petition for Rehearing En Banc as a Petition for Panel Rehearing, the Petition for Panel Rehearing is DENIED. No member of the panel nor judge in regular active service of the court having requested that the court be polled on Rehearing En Banc (FED. R. APP. P. and 5TH CIR. R. 35), the Petition for Rehearing En Banc is DENIED.

( ) Treating the Petition for Rehearing En Banc as a Petition for Panel Rehearing is DENIED. The court having been polled at the request of one of the members of the court and a majority of the judges who are in regular active service and not disqualified not having voted in favor (FED. R. APP. P. and 5TH CIR. R. 35), the Petition for Rehearing En Banc is DENIED.

ENTERED FOR THE COURT:

/s/
UNITED STATES CIRCUIT JUDGE

APPENDIX G

MANUFACTURING LICENSE AND PRODUCT PURCHASE AGREEMENT, EXECUTED FEBRUARY 5, 1996

MANUFACTURING LICENSE AND PRODUCT PURCHASE AGREEMENT

THIS MANUFACTURING LICENSE AND PRODUCT PURCHASE AGREEMENT ("Agreement") is entered into at San Diego, California as of February 5, 1996 by and between WD-40 COMPANY ("WD-40"), 1061 Cudahy Place, P.O. Box 80607, San Diego, CA 92138-0607, and IQ PRODUCTS COMPANY ("Packager"), 16212 STATE HIGHWAY 249 HOUSTON, TEXAS 77086.

RECITALS

A. WD-40 is engaged in the marketing and sale of a penetrating, lubricating spray product identified and labeled "WD-40" based on propane/butane propelled formulation and specifications (the "Product") which utilizes a proprietary formula technology developed by WD-40.

B. Packager is engaged in the business of packaging, warehousing, and distributing products such as the Product sold by WD-40.

C. WD-40 and Packager wish to formalize their agreements and relationship concerning the packaging of the Product by Packager, the purchase of the Product by WD-40 from Packager and arrangements

for shipment of the Product by Packager to WD-40's purchase order customers.

AGREEMENT

WD-40 and Packager agree as follows:

1. The term of this Agreement shall be ongoing subject to termination in accordance with Paragraph 13 or 14 herein below.

2. WD-40 hereby grants Packager a non-exclusive license to manufacture the Product solely for the purposes of this Agreement. WD-40 agrees to purchase the Product manufactured by Packager in accordance with the terms of this Agreement and Packager shall have no right to sell the Product to any other party. WD-40 reserves the right to specify any other packager for the purchase of the Product by WD-40 for shipment to any of WD-40's customers without regard to historical ordering and shipping practices.

3. WD-40 will provide Packager with packaging specifications and a quality control manual which Packager agrees to incorporate into existing in-house quality control procedures. Packager agrees to manufacture the Product according to Good Manufacturing Practices (GMP) as defined in the WD-40 Quality Control Manual. In addition to WD-40's own written standards and procedures presently set forth in the WD-40 Quality Control Manual, WD-40 reserves the right to provide additional written standards and procedures to be followed by Packager to assure quality control.

4. Packager shall purchase all required components and materials for its own account. Certain materials, including the basic Product in concentrate form, shall be purchased from WD-40. Such items are specified on Exhibit A attached hereto at the prices specified thereon. Such items and pricing shall be subject to change upon thirty (30) days' written notice from WD-40. The remaining components and materials shall be purchased by Packager from suppliers approved by WD-40. In order to assist Packager in obtaining the best terms and conditions for the purchase of such items, WD-40 may act as Packager's purchasing agent but cannot issue purchase orders in the Packager's name. All invoices for payment to WD-40 shall be paid within thirty (30) days of receipt by Packager.

5. Packager shall maintain inventory control of all components, materials and the finished Product. Packager shall be responsible for all shrinkage and production losses incurred in connection with such inventory control. Defective components, materials, and finished product shall be handled per WD-40's Quality Assurance Manual. Packager agrees to provide WD-40 with records of its inventory as may be reasonably requested from time to time. Effective with the implementation of this agreement, WD-40 will not require Packager to bring into Packager's warehouse more than a 120 day supply of any standard SKU component or material.

6. WD-40 agrees to submit purchase orders to Packager for the finished Product according to the price schedule set forth on Exhibit B attached hereto. The price schedule may be adjusted by Packager on 30-

days written notice to WD-40 to account for changes in Packager's material and component costs and reasonable increases in overhead. Notice of price increases shall be supported by evidence of such increases in material and component costs and/or overhead.

7. WD-40's purchase orders shall be in the form of straight bills of lading providing specifications for delivery to WD-40's customers. Packager shall invoice WD-40 for the Product according to the price schedule on Exhibit B upon shipment in accordance with such bills of lading. WD-40 agrees to pay all such invoices within ten (10) days of receipt. Packager agrees to maintain sufficient inventory to fill WD-40's regular volume of orders providing a target for shipment within three working days of receipt of such orders. WD-40 will provide forecasts to Packager of any anticipated increases or decreases in its order volume. WD-40 will make reasonable effort to provide such forecasts to Packager sufficiently in advance as will enable packager to reasonably produce inventory of product for the forecasted requirements. Packager shall be responsible for all direct costs incurred by WD-40 as a result of shipping errors except for those errors attributable to erroneous information provided by WD-40 or WD-40's customers.

8. Packager shall maintain title to the finished Product at all times until such title and risk of loss has passed to WD-40's customers in accordance with the agreed terms for shipment. WD-40's standard practice will be to ship its Product to its accounts "F.O.B. Origin". Packager shall maintain adequate special

perils property insurance coverage to protect its inventory of components/ materials and finished Product. Packager shall provide WD-40 with evidence of this insurance coverage at each annual renewal and notice of cancellation of such insurance shall be provided to WD-40 at least thirty (30) days prior to the effective date of such cancellation.

9. WD-40 agrees to defend, indemnify and hold Packager and its owners, directors, officers, agents, employees, successors and assigns harmless from and against any and all claims, losses, damages, fines, causes of action, suits and liability of every kind, including all expenses of litigation, court costs and attorney fees for injury to or death of any person or for damage to any property caused in whole or in part by the Product and/or its formulation or by the design, manufacturing specifications, labeling, marketing or distribution of the Product or from the alleged failure of WD-40 to warn any person of any aspect of the Product. It is the intention of the parties hereto that the indemnity provided for herein is indemnity to be provided by WD-40 to indemnify and protect Packager from the consequences of any defect in WD-40's design of the Product, its manufacturing specifications, distribution or any failure to warn, or negligence of WD-40 in the selection of product packaging specifications. WD-40 will provide Packager verification of their liability insurance coverage, with the Packager named as an additional insured when WD-40 Company receives evidence of Packager's liability insurance naming WD-40 Company as an additional insured.

10. Packager agrees to defend, indemnify and hold WD-40, its directors, officers, agents, employees, successors and assigns harmless from and against any and all claims, losses, damages, causes of action, suits and liability of every kind, including all expenses of litigation, court costs and attorney fees, for injury to or death of any person, or for damage to any property caused by, arising out of or in connection with Packager's performance of the terms of this Agreement. It is the intention of the parties hereto that the indemnity provided for herein is indemnity to be provided by Packager to indemnify and protect WD-40 from the consequences of any defect or negligence in Packager's entire packaging process, including but not limited to failure to follow WD-40's packaging specifications as detailed in this agreement.

11. Packager agrees to maintain Workers' Compensation Insurance providing Employer's Liability coverage (with a minimum limit of $1,000,000 per occurrence). Packager agrees to maintain general liability insurance and products liability insurance (with a minimum aggregate limit of $4,000,000 per occurrence) designating WD-40 as an additional insured thereon (as per ISO form CG2010 Additional Insured - Owners, Lessees, or Contractors (Form B)). Packager shall provide WD-40 with evidence of such insurance at each annual renewal as may reasonably be requested, and notice of cancellation of any such policy shall be provided to WD-40 at least thirty (30) days prior to the effective date of such cancellation. In safeguarding the Product and the chemical concentrate, Packager shall also take all necessary

precautions to avoid environmental damages and the indemnification provided in Paragraph 10 above shall extend to such damages or claims arising out of environmental protection considerations unless such claims or damages arise out of product defects or faulty packaging specifications for which WD-40 accepts responsibility and will provide indemnification to Packager under Paragraph 9 above.

12. For so long as this Agreement shall remain in effect, Packager agrees to refrain from the manufacture, sale or distribution of any "house branded" product that is competitive with WD-40's Product in use or application by end user customers. House branded products shall be defined as products developed by Packager or licensed for sale or distribution under Packager's label or under the label of any affiliated entity. Packager agrees to notify WD-40 of the existence of any agreement, arrangement or activity concerning the provision of packaging services by Packager for any party for a product competitive with WD-40's Product. Packager's notification to WD-40 regarding competitive products is only necessary for such products that have annual volumes exceeding 50,000 cans. Packager's notice of such activity does not include the requirement that Packager reveal any specific information deemed confidential in agreements between the Packager and other companies.

13. Other than for a non-cured breach, this Agreement may be terminated by either party, with or without cause, with such termination effective six months after written notice delivered to the other party. In the event of such termination, the parties

agree to work together to control Packager's remaining inventory such that shipments may be made on behalf of WD-40 through the termination date without interruption and to limit the amount of remaining inventory as of the effective termination date. WD-40 agrees to repurchase, including freight, any unused components and materials including chemical concentrate at Packager's cost and remaining inventory of finished Product at the prices in effect upon notice of termination.

14. Upon breach of this Agreement by either party, the other party shall provide written notice of such breach and the party in breach shall have ten (10) days from delivery of such notice to cure such breach if possible. If such breach is not cured within such time, the other party shall have the option to terminate this Agreement effective immediately upon delivery of notice of termination.

(a) If WD-40 terminates this Agreement, WD-40 shall have no obligation to purchase unused components or materials or any finished Product provided, however, that WD-40 shall have the option to purchase Packager's inventory of finished Product at Packager's direct product cost. These rights shall be in addition to damages otherwise recoverable by WD-40.

(b) If Packager terminates this Agreement, in addition to any other damages recoverable by Packager, Packager shall have the right to complete the packaging of the Product with any components and materials then on hand for resale of the finished Product to WD-40 at the prices in effect at the time of

termination and to sell at its cost plus freight all remaining components and materials to WD-40.

(c) Unpaid invoices of either party shall bear interest at the rate of twelve percent (12%) per annum from the date due and a late payment penalty of five percent (5%) of the unpaid amount shall be payable for any payment that is more than fifteen (15) days overdue.

15. Neither party shall be deemed to be in default of this Agreement to the extent that performance of their obligations or attempts to cure any breach are prevented by reason of any act of God, fire, natural disaster, accident, act of government, sabotage of materials or supplies or any other cause beyond the control of such party.

16. The waiver of any breach of the terms of this agreement shall not constitute the waiver of any other or further breach hereunder, whether or not of a like kind or nature.

17. Packager agrees to maintain the confidentiality of WD-40's Product technology, including any Product formulation information provided to Packager for its use under this Agreement, and packaging specifications designated as confidential by WD-40, as well as all Product cost, production and volume information and WD-40's customer lists. Packager agrees to use such information solely for purposes of this Agreement. Any such information provided to Packager in computer readable form shall, after receipt, be appropriately protected from unauthorized access. Upon termination of this Agreement, unless

required to be retained by law, all confidential information and historical data shall be purged from all of Packager's computer systems and/or returned to WD-40 as WD-40 may specify in writing. Packager shall not disclose any such confidential information or data to anyone other than those persons required for Packager to carry out the purposes of this Agreement or unless required to so disclose by law in which case the Packager shall first notify WD-40. Packager shall obtain appropriate confidentiality agreements from any persons to whom access to this confidential information and data is given.

18. Any controversy or claim arising out of, or related to this Agreement, or any modification or extension thereof, shall be settled by arbitration in accordance with the Arbitration Rules of the American Arbitration Association, in San Diego, California, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. The award shall be binding and conclusive on each of the parties, and it may be sued on or enforced by the party in whose favor it runs in any court of competent jurisdiction at the option of the successful party. All costs of arbitration shall be initially divided equally between the parties. The arbitrator shall have the power to grant temporary, preliminary or permanent injunctive relief, or any extraordinary relief, where necessary and appropriate. Notwithstanding the foregoing, if a party is desirous of seeking immediate equity, such as temporary and/or preliminary injunctive relief, such party may seek relief in a court within the county of San Diego, California having

jurisdiction thereof. In such event, the parties shall thereafter promptly proceed to arbitration as set forth above.

19. In any arbitration or action at law or in equity pertaining to this agreement, the prevailing party shall be entitled to an award of reasonable attorney's fees, costs (including costs of arbitration), and necessary disbursements in addition to any other relief to which such party may be entitled.

20. All notices, requests, demands or other communications to or upon the respective parties hereto shall be deemed to have been duly delivered three (3) business days after mailing if sent by First Class Mail, postage prepaid, and one (1) business day after dispatch if made by telex, cable or facsimile transmission to the party to which such notice, request, demand or other communication is required or permitted to be given or made under this Agreement addressed as follows:

If to WD-40:

1061 Cudahy Place
P.O. Box 80607
San Diego, California 92138-0607
Facsimile Number: (619) 275-5823

If to Packager:

Name: _____
Address: _____
City: _____
State/Zip: _____
Facsimile Number: _____

Appendix G

21. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

22. If any provision in this Agreement i s held by a court of competent jurisdiction to be invalid, void 1 or unenforceable, the remaining provisions shall nevertheless continue in full force without being impaired or invalidated in any way.

23. This Agreement and each of its provisions .shall be binding on the successors and assigns of each of the parties hereto.

24. This Agreement represents the entire and integrated agreement between the parties hereto and supersedes all prior negotiations, representations or agreements, either oral or written, between the parties. This Agreement may be amended or modified only by a written instrument signed by an officer of both parties.

25. Packager may not assign, delegate, or grant to any person, firm, corporation or any other entity the rights granted herein without prior written approval from WD-40. In no event shall any such approved assignment, delegation or transfer relieve Packager from any of its obligations hereunder.

Appendix G

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

WD-40 COMPANY

By _____/s/_____
Gerald C. Schleif, President

"WD-40"

IQ PRODUCTS COMPANY

By _____/s/_____ 4/10/96

"Packager"