No.

IN THE
Supreme Court of the United States

WASTECARE CORPORATION
Petitioner,

v.

HARMONY ENTERPRISES, INC.
Respondent,

On Appeal from The United States Court of Appeals for the Eleventh Circuit
Case No. 19-12066

Wastecare Corporation's Petition for Writ of Certiorari to the United States Court of Appeals for the Eleventh Circuit

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PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

Whether an arbitration agreement that expressly carves out specific claims to be exempt from the provision clearly and unmistakably delegates arbitrability of those claims to the arbitrator by identifying arbitration rules for arbitrable claims.

LIST OF PARTIES AND RELATED CASES

All Parties to this action are identified in the case caption.

- Wastecare Corporation v. Harmony Enterprises, Inc., No. 2:18-cv-00120-RWS, U.S. District Court for the Northern District of Georgia, Gainesville Division. Judgment entered May 8, 2019.
- Wastecare Corporation v. Harmony Enterprises, Inc., No. 19-12066-EE, United States Supreme Court for the Eleventh Circuit. Judgment entered July 23, 2020.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of this Court's Rules, petitioner Wastecare Corporation states that it has no parent company, and no publicly held corporation owns 10% or more of its stock.

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PETITION FOR WRIT OF CERTIORARI

Wastecare Corporation petitions this Court for a writ of certiorari to review the judgment of the United States Court of Appeals for the Eleventh Circuit.

OPINIONS AND ORDERS BELOW

The opinion for the United States District Court for the Northern District of Georgia is reported at Docket No. 1:18-cv-00120-RWS. The opinion for the Eleventh Circuit Court of Appeals is located at 822 Fed. Appx. 892.

STATEMENT OF JURISDICTION

The Eleventh Circuit entered judgment on July 23, 2020 and denied Petitioner's timely request for rehearing on September 14, 2020. This Court issued an order on March 19, 2020 extending the deadline to file any petition for writ of certiorari from 90 days to 150 days. The Court has jurisdiction under 28 U.S.C. §1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Section 2 of the Federal Arbitration Act, 9 U.S.C. 2, provides:

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.

STATEMENT OF THE CASE

This case presents a significant, recurring legal question that is unresolved in the lower courts and warrants further review. Courts have reached varying and conflicting conclusions concerning the delegation of arbitrability when an arbitration provision expressly carves out and exempts specific claims. The Eleventh

Circuit's ruling contributes to the growing split among the courts about whether courts or arbitrators should decide the threshold question of arbitrability when the contract carves out specific claims from the arbitration provision and contains no express provision for delegation.

Petitioner is a Georgia corporation that pioneered an automatic trash compactor product ("ACR") in the 1990's. The ACR is a control mechanism that causes the unit to automatically compact trash and/or a door that automatically opens as people make waste deposits.

On June 8, 1998, Petitioner entered into a written distribution agreement with Respondent, a Minnesota company. The Distribution Agreement provided that Petitioner would handle the sales and marketing of the ACR product, while Respondent handled the ACR design, engineering, manufacturing, service, and warranty. The Distribution Agreement period was a disaster because of Respondent's poor production and mismanagement.

The parties' business relationship was on the cusp of a breakdown when, on January 7, 2005, the parties entered into the Licensing Agreement that now governs the business relationship. The Licensing Agreement contains the arbitration provision that is at issue on appeal before this Court. The arbitration clause states:

> [A]ny controversy or claim (**excepting claims as to which party may be entitled to equitable relief**) arising out of this Agreement . . . shall be settled by arbitration in accordance with the then current commercial rules of arbitration of the American Arbitration Association.

Doc. 1-1, Licensing Agreement, § 10.11 Arbitration. The Licensing Agreement further provides that interpretation of the Licensing Agreement will be governed by Illinois substantive law:

Pursuant to the Licensing Agreement, Respondent retained the design, engineering, manufacturing, service, and warranty responsibilities for ACRs. The Licensing Agreement also transferred the ACR sales and marketing responsibilities from Petitioner to Respondent. The

Licensing Agreement required Respondent pay Petitioner royalties based on units sold in the United States as well as internationally.

After entering the Licensing Agreement, Respondent entered into secret ventures with two new start-up competitors with the purpose of circumventing its royalty obligations to Petitioner under the Licensing Agreement. The Licensing Agreement contemplates sales of as many as 15,000 new ACRs; yet, in the next 12 years Respondent only reported sales of about 250 new ACRs.

Further, Respondent consistently failed to abide by the Licensing Agreement's reporting requirements when it provided late, incomplete, and inaccurate monthly and quarterly reports of its business activities. Worse, Respondent obstructed Petitioner's attempts to audit Respondent's ACR activities through accounting reconciliation. Petitioner's efforts to obtain information about Respondent's ACR sales and activities were repeatedly stonewalled at every turn.

As a result of Respondent's failure to abide by the agreement, Petitioner filed suit on May 17, 2018. Respondent moved to compel arbitration of the case despite Petitioner asserting equitable claims that are expressly exempt from the arbitration provision. The district court initially granted Respondent's motion to compel; however, Petitioner sought reconsideration and included an amended complaint. The district court granted Petitioner's motion for reconsideration, vacated its order compelling arbitration, and ordered the clerk to file Petitioner's Amended Complaint. The operative Amended Complaint asserts three traditional equitable claims: rescission of the Licensing Agreement; an accounting of royalties owed by to Petitioner by Respondent; and injunctive relief barring Respondent from competing in the United States for 10 years.[1] Petitioner does not assert any claim sounding in contract or tort, nor does Petitioner seek monetary relief.

[1] Petitioner's initial complaint asserted claims for declaratory judgment, an accounting, and injunctive relief.

REASONS FOR GRANTING THE WRIT

A. This case concerns an important and recurring question of law that remains unresolved and in conflict among the circuit courts.

When deciding whether parties agreed to "arbitrate arbitrability," courts generally apply ordinary state-law principles that govern the formation of contracts. *See Mastrobuono v. Shearson Lehman Hutton, Inc.*, 514 U.S. 52, 62-63 (1995). Under Illinois law, determination of who is to decide the question of arbitrability would require the court to "see whether the parties objectively revealed an intent to submit the arbitrability issue to arbitration." *First Options of Chi., Inc. v. Kaplan*, 514 U.S. 938, 944 (1995).

Questions of arbitrability are higher-order, gateway questions that are presumptively for the courts to decide, as courts cannot presume that such questions crossed the parties' minds. *Id.* at 945. This Court has recognized, "A party often might not focus upon that question or upon the significance of having arbitrators decide the scope of their own powers. And, given the principle that a party can be forced to arbitrate only those issues it specifically has agreed to submit to arbitration, one can understand why courts might hesitate to interpret silence or ambiguity on the 'who should decide arbitrability' point as giving the arbitrators that power, for doing so might too often force unwilling parties to arbitrate a matter they reasonably would have thought a judge, not an arbitrator, would decide." *First Options*, 514 at 945 (internal citations omitted).

Courts are not to assume that the parties agreed to arbitrate arbitrability unless there is clear and unmistakable evidence that they did so. *AT&T Technologies, Inc. v. Communications Workers*, 475 U.S. 643, 649 (1986). Assuming that parties agreed to arbitrate arbitrability "might too often force unwilling parties to arbitrate a matter they reasonably would have thought a judge, not an arbitrator, would decide." *First Options*, 514 U.S. at 945.

Here, there is no clear and unmistakable evidence that the parties intended to send the issue of arbitrability to an arbitrator. To the contrary, the parties clearly and expressly intended for matters of equitable relief to be an exception to arbitration as demonstrated by the carve out provision. Despite the arbitration provision having no express delegation language and containing a very clear exception for equitable claims, the Eleventh Circuit held the issue of arbitrability be delegated to an arbitrator. This decision conflicts with other circuits.

The Second Circuit considered an arbitration clause that incorporated the AAA rules and exempted certain claims from arbitration. *See NASDAQ OMX Grp., Inc. v. UBS Sec., LLC*, 770 F.3d 1010 (2d Cir. 2014). The Second Circuit found that the parties had not clearly and unmistakably delegated arbitrability "where a broad arbitration clause is subject to a qualifying provision that at least arguably covers the present dispute." *Id.* at 1031. Because there was ambiguity as to whether the parties intended to have arbitrability questions decided by an arbitrator—because the dispute arguably fell within the carve-out—the court held the arbitrability question was for the court to decide. *Id.*

The Eleventh Circuit's decision also conflicts with the Fifth Circuit's decision in *Schein* on remand. The Fifth Circuit held:

> The most natural reading of the arbitration clause at issue here states that any dispute, except actions seeking injunctive relief, shall be resolved in arbitration in accordance with the AAA rules. The plain language incorporates the AAA rules—and therefore delegates arbitrability—for all disputes except those under the carve-out. Given that carve-out, we cannot say that the Dealer Agreement evinces a 'clear and unmistakable' intent to delegate arbitrability.

Archer & White Sales, Inc. v. Henry Schein, Inc., 935 F.3d 274, 281–82 (5th Cir. 2019), cert. denied, No. 19-1080, 2020

WL 3146709 (U.S. June 15, 2020), and cert. granted, No. 19-963, 2020 WL 3146679 (U.S. June 15, 2020).

The Ninth Circuit has also considered the issue in *Oracle Am., Inc. v. Myriad Group A.G.*, 724 F.3d 1069 (9th Cir. 2013). The arbitration clause adopted arbitration rules delegating arbitrability issues to the arbitrator and contained a carve-out for certain intellectual property and licensing claims. The Ninth Circuit held that Oracle's carve-out argument conflated the scope of the arbitration clause with the question of who decides arbitrability because the claims carved-out by that agreement "ar[ose] out of or relat[ed] to" the Source License, and the agreement explicitly provided that any claim arising out of the Source License was subject to arbitration.

The court noted that the issue with Oracle's carve-out argument was that the two categories of exempted claims by definition were claims arising out of or relating to the Source License, which were explicitly subject to arbitration. *Id.* at 1076.

The conflict among the courts concerning the issues in this case has continued and has substantial case implications warranting the need for further review. This Court has also appeared to express interest in resolving the conflict by granting certiorari in *Schein*, supporting further review of Petitioner's case and this issue. Importantly, in *Schein*, the party seeking arbitration is not a signatory to the contract unlike the case at hand. Because this case presents the issue directly and the question is outcome determinative, this Court should

B. The Eleventh Circuit's Decision is fundamentally flawed and contravenes this Court's jurisprudence.

The Eleventh's Circuit's decision to reverse the district court and compel arbitration is not only in conflict with other circuits, but it is also based on a flawed analysis of this Court's precedent and an improper extension of this Court's recent decision in *Schein*.

The Eleventh Circuit upended the parties' intentions and circumvented the parties' contractual agreement. Importantly, the Licensing Agreement contains no language delegating the issue of arbitrability. Instead, the Eleventh Circuit relied on "implied delegation," which contradicts the requirement that the delegation of arbitrability be clear and unmistakable. The arbitration provision at issue identifies the rules applicable to arbitrable claims by stating only that non equitable claims "shall be settled by arbitration in accordance with the then current commercial rules of arbitration of the American Arbitration Association." Within the 46 pages of the AAA's published rules, one rule allows an arbitrator to determine the scope of his or her own jurisdiction.

Using this mere mention of rules applicable to arbitrable claims as evidence of a "clear and unmistakable" intent to delegate arbitrability of all claims to an arbitrator, especially in the face of a carve out provision, is an astronomical and illogical leap. The Eleventh Circuit's creation of implied delegation contravenes this Court's jurisprudence that courts are presumed to decide the threshold issue of arbitrability. There is a "strong procourt presumption as to the parties' likely intent." *AT&T Techs., Inc. v. Commc'ns Workers*, 475 U.S. 643, 649 (1986). A party seeking to compel arbitration can overcome that presumption only with "clear[] and unmistakabl[e]" evidence. *Id.* Requiring the proponent of arbitration to identify such evidence is important, because the issue of who should decide arbitrability is "rather arcane," and failure to meet that standard "might too often force unwilling parties to arbitrate a matter they reasonably would have thought a judge, not an arbitrator, would decide." *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 948 (1995). "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 (quoting *AT&T Techs.*, 475 U.S. at 649.).

While the Eleventh Circuit Panel acknowledged the carve-out provision, it improperly analyzed and applied this Court's recent decision in *Henry Schein, Inc. v. Archer & White Sales, Inc.*, 139 S. Ct. 524, 529 (2019). In *Schein*, this Court focused on the existence of the "wholly groundless" exception and whether it complied with the FAA. *Id.* In rejecting the wholly groundless exception, this Court made clear that it expressed "no view about whether the contract at issue in this case in fact delegated the arbitrability question to an arbitrator." *Id.* at 531. The Eleventh Circuit, however, ignored this Court's language and wrongly interpreted *Schein* to be dispositive of question concerning delegation of arbitrability. The Panel's clearly erroneous interpretation of *Schein* is further supported by this Court's recent grant of certiorari concerning the similar issue presented in this case. *Henry Schein, Inc. v. Archer & White Sales, Inc.*, --- S.Ct. ----, 2020 WL 3146679 (Mem); 207 L. Ed. 2d 1050 (June 15, 2020).

This Court has yet to address the issue of implied delegation, and this case provides the key channel for the Court to provide guidance on whether "implied delegation" constitutes clear and unmistakable delegation of arbitrability. Moreover, the extension of implied delegation to this type of case, where there is a clear and express intent to exclude these specific claims from arbitration, is untenable and implausible.

The district court correctly denied Respondent's motion to compel arbitration because the claims at issue are purely equitable and expressly excluded from the arbitration provision. A motion to compel arbitration requires the District Court to determine: (1) whether there is a valid written agreement to arbitrate; (2) if the dispute falls within the scope of the arbitration agreement; and (3) if the party asserting the claims has failed or refused to arbitrate the claims. *Caley v. Gulfstream Aero. Corp.*, 428 F.3d 1359, 1370 (11th Cir. 2005); *see, e.g., Elzinga & Volkers, Inc. v. LSSC Corp.*, 838 F. Supp. 1306, 1309 (N.D. Ind. 1993); *We Care Hair Dev., Inc. v. Engen*, 180 F.3d 838, 844 (7th Cir. 1999). Courts are to enforce arbitration agreements only when questions are answered affirmatively. *Dean Witter Reynolds, Inc. v. Byrd*, 470 U.S. 213, 218 (1985).

Applying the three-prong test outlined above, the second prong of the analysis is not met because Petitioner's claims are exempt from the scope of the Licensing Agreement's arbitration clause. The Licensing Agreement between the parties contains an arbitration clause which explicitly states, "[A]ny controversy or claim (excepting claims as to which a party may be entitled to equitable relief) arising out of this Agreement … shall be settled by arbitration …." (Doc. 1-1 Licensing Agreement § 10.11 Arbitration). Petitioner's Amended Complaint seeks only traditional forms of equitable relief – rescission, an accounting, and an injunction – and nothing else. Thus, by the express terms of the parties' Licensing Agreement, Petitioner's claims for equitable relief are excepted from arbitration.

In *Freeman v. Freyer*, plaintiffs brought an action in equity seeking an accounting for their share of profits obtained by the defendants from the sale of real property. The plaintiffs also sought an injunction enjoining the defendants from negotiating the plaintiffs' promissory note and, further, sought the return of their security deposit. The defendants challenged the courts equitable jurisdiction, but the court held that "[t]he remedy at law was not adequate under the circumstances . . . as the remedy was not as clear, complete, practical and efficient to the ends of justice and its prompt administration as the remedy in equity." Id. at 219.

Like Freeman, Petitioner is not seeking monetary damages but rather an accounting of royalties. Illinois law clearly recognizes a claim for an accounting as sounding in equity. *See Microtunneling v. Walsh Const. Co. of Illinois*, 747 N.E 2d 410, 417 (Ill. App. Ct. 2001) ("An accounting is an equitable action."). The parties clearly and expressly intended for equitable claims, such as an accounting, to be exempt from arbitration. Thus, the District Court properly determined that these well-settled equitable claims fall within the exception to arbitration found in the Licensing Agreement. The parties clearly intended this result.

The Eleventh Circuit's reasoning for compelling arbitration is significantly flawed and in direct contradiction to the express intentions of the parties. Merely identifying a set of rules that apply to arbitrable disputes in no way suggests that the parties clearly and unmistakably delegated arbitrability of claims that they expressly excluded from arbitration. The Court should grant certiorari in this case, and it should vacate the court of appeals' judgment compelling arbitration.

/s/ Leslie L. Pescia

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APPENDIX A

[DO NOT PUBLISH]

IN THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

No. 19-12066
Non-Argument Calendar

D.C. Docket No. 2:18-cv-00120-RWS

WASTECARE CORPORATION.,

Plaintiff-Appellee,

versus

HARMONY ENTERPRISES, INC.,

Defendant-Appellant.

Appeal from the United States District Court for the Northern District of Georgia

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(July 23, 2020)

Before JORDAN, BRANCH, and TJOFLAT, Circuit Judges.

PER CURIAM:

This appeal arises from a lawsuit between WasteCare Corporation ("WasteCare") and its partner in the sale and manufacture of automatic trash compactors

("ACR"), Harmony Enterprises ("Harmony"). When their two-decade business relationship proved unsuccessful, WasteCare filed suit against Harmony, seeking relief for Harmony's alleged violation of the parties' Licensing Agreement (the "Agreement"). In response, Harmony moved to stay the proceeding and compel binding arbitration pursuant to the Agreement's arbitration provision. The district court granted Harmony's motion, but upon WasteCare's motion for reconsideration and leave to file an amended complaint, vacated that order. Harmony now appeals. Because we find the district court erred in vacating its prior order compelling arbitration, we reverse.

I

WasteCare, a Georgia corporation, led the development of the ACR—an automatic trash compactor designed for restaurants chains, airports, and other public establishments. On January 7, 2005, it entered into the underlying Agreement with Harmony, a Minnesota corporation. The Agreement provided that Harmony would continue to manage the ACR design, manufacture, and service, as well as assume WasteCare's sales and marketing responsibilities. The Agreement further required Harmony to pay WasteCare royalties on all new ACRs that Harmony "caused to be sold."

On May 18, 2018, WasteCare filed a complaint in Georgia state court. The original complaint alleged that Harmony colluded with other ACR sellers to act as "secret sales arms" and sell WasteCare's ACRs in order to avoid paying WasteCare royalties. WasteCare also alleged that Harmony failed to comply with the monthly reporting requirement under the Agreement regarding new ACRs Harmony "has sold or has caused to be sold to any entity." Thus, WasteCare argued Harmony materially breached the Agreement and sought what it described as "equitable relief" for this breach. Specifically, WasteCare's original complaint requested: (1) "a declaratory judgment that . . . Harmony violated [the Agreement], . . ." (2) an accounting of royalties owed by Harmony to WasteCare pursuant to the Agreement, and (3) an injunction terminating Harmony's rights in the ACR product line "for a period of

10 years." Harmony successfully removed the case to the United States District Court for the Northern District of Georgia and then moved to stay proceedings and compel binding arbitration.

Harmony pointed to the arbitration clause in the parties' Agreement, which provides:

> In the event that any controversy or claim (excepting claims as to which party may be entitled to equitable relief) arising out of this Agreement cannot be settled by the parties hereto, such controversy or claim shall be settled by arbitration in accordance with the then current commercial rules of arbitration of the American Arbitration Association.

Harmony asserted the carveout for equitable claims did not apply because WasteCare's complaint mischaracterized its breach of contract claims as equitable ones.

WasteCare responded to the motion by noting that its complaint, "seeks only equitable relief and nothing else." The district court found "it is clear that [WasteCare] is attempting to assert breach of contract claims against [the] Defendant under the guise of an action for equitable relief." In so finding, the district court granted Harmony's motion to compel arbitration.

WasteCare then moved for reconsideration pursuant to Rule 54(b) of the Federal Rules of Civil Procedure[1] and, in the alternative, leave to file an Amended Complaint. **[Doc. 15.]** The Amended Complaint attached to the motion abandoned the request for declaratory relief, and instead requested: (1) rescission of the Agreement, (2) an accounting of the royalties Harmony owes, and (3) injunctive relief barring Harmony from competing in the domestic ACR industry for 10 years.

The district court granted *both* forms of relief. The district court explained that it "reviewed the proposed Amended Complaint . . . and [found] that it properly asserts cognizable equitable claims that appear to fall within the express exception provided by the parties' Licensing Agreement." Accordingly, the district court

[1] Rule 54(b) states, in relevant part, that "any order . . . may be revised at any time before the entry of a judgment adjudicating all the claims and all the parties' rights and liabilities."

allowed WasteCare to file the Amended Complaint and vacated its prior order compelling arbitration.

On appeal, Harmony asserts the district court "abused its discretion and committed clear error" by reconsidering its initial motion compelling arbitration and thereby improperly determining the issue of arbitrability.

II.

We review a district court's grant of a motion for reconsideration for abuse of discretion. *Region 8 Forest Serv. Timber Purchasers Council v. Alcock*, 993 F. 2d 800, 805–806 (11th Cir. 1993). "A district court by definition abuses its discretion when it makes an error of law." *Koon v. United States*, 518 U.S. 81, 100 (1996). "We review *de novo* both the district court's denial of a motion to compel arbitration and the district court's interpretation of an arbitration clause." *Jones v. Waffle House, Inc.*, 866 F.3d 1257, 1263 (11th Cir. 2017) (internal citations omitted). The grant of WasteCare's motion for reconsideration was effectively a denial of Harmony's motion to compel arbitration. We therefore review the district court's decision *de novo*.[2]

III.

The parties disagree as to whether it was appropriate for the district court to entertain WasteCare's motion for reconsideration in the first place.[3] But at the heart of this appeal is whether, by granting the motion for reconsideration and reversing its prior order compelling arbitration, the district court erred in determining the

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[2] Because we hold that the district court erred by making an error of law, whether we review this decision *de novo* or under an abuse of discretion standard does not, at bottom, affect the outcome. *See Koon*, 518 U.S. at 100 ("Little turns, however, on whether we label review of this particular question abuse of discretion or *de novo*, for an abuse-of-discretion standard does not mean a mistake of law is beyond appellate jurisdiction. . . . The abuse-of-discretion standard includes review to determine that the discretion was not guided by erroneous legal conclusions.").

[3] Harmony argues that the district court abused its discretion by considering WasteCare's motion for reconsideration even though its motion was untimely and "inappropriate." Harmony also claims that the district court abused its discretion by failing to provide an adequate explanation for its decision to grant the motion for reconsideration. Because we hold that the district court erred in granting the motion for reconsideration on other grounds, we need not reach those arguments here.

Harmony also makes a related argument that the district court abused its discretion in allowing WasteCare to amend its complaint because that amendment was futile. "The decision whether to grant leave to amend is committed to the sound discretion of the trial court." *Espey v. Wainwright*, 734 F.2d 748, 750 (11th Cir. 1984); *see also* Fed. R. Civ. P. 15(a)(2). Given that wide grant of discretion, we decline to find that the district court abused it here.

issue of arbitrability. Harmony argues that, under the Agreement, the question of the arbitrability of WasteCare's claims should have been submitted to the arbitration panel. We agree.

"Unless the parties clearly and unmistakably provide otherwise, the question of whether the parties agreed to arbitrate is to be decided by the court, not the arbitrator." *AT & T Techs., Inc. v. Commc'ns Workers of Am.*, 475 U.S. 643, 649 (1986). And "when the parties' contract delegates the arbitrability question to an arbitrator, a court may not override the contract . . . even if the court thinks that the argument that the arbitration agreement applies to a particular dispute is wholly groundless." *Henry Schein, Inc. v. Archer & White Sales, Inc.*, 139 S. Ct. 524, 529 (2019).

Here, the parties agreed to submit the issue of arbitrability to the arbitrators. As noted above, the Agreement's arbitration clause invokes the "current commercial rules of arbitration of the American Arbitration Association." Rule 7(a) of the American

Arbitration Association ("AAA") Commercial Rules, in turn, provides that "[t]he 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."[4] Am. Arbitration Ass'n, Commercial Rules, https://adr.org/sites/default/files/Commercial%20Rules.pdf. We have held that where the parties expressly incorporate the AAA rules into an arbitration provision, "this alone serves as a clear and unmistakable delegation of questions of arbitrability to an arbitrator." *JPay, Inc. v. Kobel*, 904 F.3d 923, 936 (11th Cir. 2018); *see also Terminix Int'l Co. v. Palmer Ranch LP*, 432 F.3d 1327, 1332 (11th Cir. 2005). Harmony and WasteCare therefore clearly and unmistakably delegated questions of arbitrability to an arbitrator.

WasteCare asserts *JPay* is inapposite because in that case we found intent to delegate questions of

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[4] The current version of the AAA rules has been in effect since October 1, 2013 and therefore applies to this dispute.

arbitrability to an arbitrator where the parties' agreement incorporated the AAA rules *and* included an express delegation of questions of arbitrability. This argument is unpersuasive. We expressly stated in *JPay* that the incorporation of the AAA rules "alone serves as a clear and unmistakable delegation of questions of arbitrability to an arbitrator" and that *either* the incorporation of the AAA rules *or* an express delegation "would amount to a clear and unmistakable delegation of questions of arbitrability to the arbitrator." *JPay*, 904 F.3d at 936.

The arbitration provision's carve-out for equitable relief does not affect this analysis. Although WasteCare's claims may indeed be equitable ones, that "confuses the question of who decides arbitrability with the separate question of who prevails on arbitrability." *Schein*, 139 S. Ct. at 531. In *Schein*, the Supreme Court considered an arbitration provision that included a carve-out for equitable relief and provided AAA rules would govern arbitration.[5] *Id.* at 528. The Court rejected the argument that the district court could determine the gateway question of arbitrability because the plaintiff's claims fit into the carve-out provisions, rendering the defendant's argument for arbitration "wholly groundless." *Id.* at 539. Citing *AT&T Technologies,* the Court held, '[j]ust as a court may not decide a merits question that the partoes have delegated to an arbitrator, a court may not decide an arbitrability question that the parties have delegated to an arbitrator." *Id. at 530; see also jones,* 866 F.3d at 1269 ("If the parties clearly and unmistakably intended to arbitration <u>all</u> gateway issues, then <u>all</u> gateway issues—regardless of how frivolous the court may deem them to be—should be arbitrated.) (emphasis in original). Here,

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[5] In full, the arbitration provision at issue in *Schein* provided:

Disputes. This Agreement shall be governed by the laws of the State of North Carolina. Any dispute arising under or related to this Agreement **(except for actions seeking injunctive relief and disputes related to trademarks, trade secrets, or other intellectual property of [Schein])**, shall be resolved by binding arbitration in accordance with the arbitration rules of the American Arbitration Association [(AAA)]. The place of arbitration shall be in Charlotte, North Carolina.

Schein, 139 S. Ct. at 528 (emphasis added).

the parties expressly delegated the arbitrability issue to an arbitrator. Thus, the arbitrator must decide whether WasteCare can litigate its claims in district court.[6]

Accordingly, the district court erred in granting reconsideration of its prior order compelling arbitration, which effectively denied Harmony's motion to compel. We, therefore, REVERSE the district court's reconsideration of its order compelling arbitration and REMAND with instructions that WasteCare's claims be referred to arbitration.

REVERSED and REMANDED.

[6] This Court, therefore, cannot address Harmony's argument that WasteCare's claims fall within the scope of the arbitration provision. That question must be resolved by the arbitrator.

APPENDIX B

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF GEORGIA
GAINESVILLE DIVISION

WASTECARE CORPORATION, Plaintiff, v. HARMONY ENTERPRISES, INC., Defendant.	CIVIL ACTION NO. 2:18-CV-120-RWS

ORDER

This case is before the Court on Plaintiff's Motion for Relief from Order [Doc. No. 15]. Plaintiff moves the Court for relief pursuant to Federal Rule of Civil Procedure 54(b) [Doc. No. 15]. However, Defendant argues that Plaintiff is actually seeking reconsideration of its earlier order [Doc. No. 14], and the Court agrees. Thus, the Court must consider Defendant's timeliness argument.

Motions for reconsideration are granted only in extraordinary circumstances, "namely the discovery of new evidence, an intervening development or change in the law, or the need to correct a clear error or prevent a manifest injustice." Deerskin Trading Post, Inc. v. United Parcel Serv. of Am., Inc., 972 F. Supp. 665, 674 (N.D. Ga. 1997). A motion for reconsideration may not be used to offer new legal theories or evidence that could have been presented previously, unless a reason is given for failing to raise the issue at an earlier stage in the litigation, Escareno v. Noltina Crucible & Refractory Corp., 172 F.R.D. 517, 519 (N.D. Ga. 1994) (citing O'Neal v. Kennamer, 958 F.2d 1044, 1047 (11th Cir.1992)), and such motions are not an opportunity for parties "to instruct the court on how the court 'could have done it better' the first time." Preserve Endangered Areas of Cobb's History, Inc. v. U.S. Army Corps of Engineers, 916 F. Supp. 1557, 1560 (N.D. Ga. 1995). Local Rule 7.2(E) provides that a motion for reconsideration must be filed within twenty-eight days after entry of the order or judgment for which the party seeks reconsideration. It is clear that Plaintiff's motion was not timely filed.

But the Court has discretion to consider the motion even though it is not timely filed, and the Court will do so. The Court has reviewed the proposed Amended Complaint [Doc. No. 15-1] and finds that it properly asserts cognizable equitable claims that appear to fall within the express exception provided by the parties' Licensing Agreement. Under these circumstances, the Court will allow the filing of the Amended Complaint.

As such, Plaintiff's Motion for Relief from Order [Doc. No. 15], which the Court construes as a Motion for Reconsideration, is GRANTED. The Court's previous order [Doc. No. 14] is hereby VACATED. The Clerk is DIRECTED to reopen the action, and the stay is LIFTED. The Clerk is also DIRECTED to file the proposed Amended Complaint [Doc. No. 15-1]. Defendant is ORDERED to respond to the Amended Complaint in accordance with the Federal Rules of Civil Procedure.

SO ORDERED this 8th day of May, 2019.

Richard W. Story

RICHARD W. STORY
United States District Judge

APPENDIX C

IN THE UNITED STATES COURT OF APPEALS

FOR THE ELEVENTH CIRCUIT

No. 19-12066-EE

WASTECARE CORPORATION,

Plaintiff - Appellee,

versus

HARMONY ENTERPRISES, INC.,

Defendant - Appellant.

Appeal from the United States District
Court for the Northern District of Georgia

ON PETITION(S) FOR REHEARING AND PETITION(S) FOR REHEARING EN BANC

BEFORE: JORDAN, BRANCH and TJOFLAT, Circuit Judges.

PER CURIAM:

The Petition for Rehearing En Banc is DENIED, no judge in regular active service on the Court having requested that the Court be polled on rehearing en banc. (FRAP 35) The Petition for Rehearing En Banc is also treated as a Petition for Rehearing before the panel and is DENIED. (FRAP 35, IOP2)

ORD-42

APPENDIX D

UNITED STATES DISTRCT COURT
NORTHERN DISTRICT OF GEORGIA
GAINESVILLE DIVISION

WasteCare Corporation,	**)**	
	)	
Plaintiff,	**)**	
	)	
v.	**)**	
	)	
Harmony Enterprises, Inc.,	**)**	**No. 2:18-cv-120-RWS**
	)	
Defendant.	**)**	

PLAINTIFF'S FIRST AMENDED COMPLAINT FOR EQUITABLE RELIEF

This action seeks equitable relief in the form of a declaratory judgment that defendant Harmony Enterprises, Inc. ("Harmony") violated a Rights Transfer Agreement ("Licensing Agreement") with plaintiff WasteCare Corporation ("WasteCare"), an accounting of royalties owed by Harmony toWasteCare pursuant to the Licensing Agreement, and an injunction terminating Harmony's rights in the Automatic Compacting Receptacle ("ACR") product line for a period of 10 years.

PARTIES

1. Plaintiff WasteCare is a corporation organized pursuant to the laws of the state of Georgia with its principal place of business in Gainesville, Georgia.

2. Defendant Harmony is a corporation organized pursuant to the laws of the state of Minnesota with its principal place of business in Harmony, Minnesota.

JURISDICTION AND VENUE

3. This Court has subject matter jurisdiction over this civil action under GA Const. art. VI, Section 4, ¶ 1.

4. This Court has personal jurisdiction over Harmony pursuant to O.C.G.A. § 9-10-91 because Harmony has transacted business within this State. Specifically, Harmony entered into multiple agreements with WasteCare, including the relevant Licensing Agreement, in Gainesville, Hall County, Georgia. Furthermore, Harmony has sufficient contacts with Georgia by soliciting business throughout the State and selling numerous ACRs to the Atlanta Airport, the University of Georgia, and other locations within the state of Georgia.

5. Since a substantial part of the events or omissions giving rise to WasteCare's claims occurred in Hall County, including the making of the Licensing Agreement, venue is proper in Hall County.

6. Section 10.11 of the Licensing Agreement states that "any controversy or claim (excepting claims as to which party may be entitled to equitable relief) arising out of this Agreement" are to be settled by arbitration in Chicago, Illinois. WasteCare is making equitable claims for relief, so this exception to the arbitration clause applies. As such, this Court has jurisdiction over this action and is the appropriate venue for this action.

APPLICABLE LAW

7. Section 10.10 of the Licensing Agreement states the laws of the "State of Illinois will govern all questions concerning the construction, validity and interpretation of this Agreement and the performance of the obligations imposed by this Agreement." Since this action concerns the interpretation and performance of the obligations imposed

by the Licensing Agreement, this Court should apply Illinois law.

FACTUAL ALLEGATIONS

8. The ACR product is an automatic trash compactor which has a control mechanism that causes the unit to automatically compact trash and/or a door that automatically opens as people make waste deposits. The ACR is designed to be implemented on a large scale basis by restaurant chains and other establishments with significant space open to the public. This includes fast food chains, airports, malls, government buildings, theme parks, and the like.

9. From 1995-1998, WasteCare pioneered the product concept, built product awareness and demand, both nationally and globally, and developed the ACR at great cost and obtained the first ever trademark for the product class (Smart-Pack). During that time, WasteCare worked with smaller manufacturers who did not have the capability to adequately manufacture the ACRs.

10. The time was well spent, however, as WasteCare was able to interact with engineering departments at many large corporations to refine ACR capabilities and build relationships with the largest potential buyers. This period involved significant amounts of travel, trade shows, and sales/marketing expenses on the part of WasteCare to create and sustain interest while the product was being refined.

A. Distribution Agreement Period

11. Due to market demand and the business relationships that WasteCare built, Harmony's President approached WasteCare and offered to manufacture the ACRs. Harmony's President represented that Harmony was ideally suited to manufacture this niche product.

12. On June 8, 1998, the parties signed a Distribution Agreement whereby WasteCare would handle all ACR sales and marketing, and Harmony would handle ACR design, engineering, manufacturing, service, and warranty.

13. Throughout the Distribution Agreement's negotiation, Harmony touted its 40 years of manufacturing experience and that the company would 'dominate' this product category.

14. Six years into the Distribution Agreement, however, Harmony manufactured ACRs exhibited very poor performance and were an embarrassment in the field, thereby causing low sales and much greater costs and losses to WasteCare.

15. Around this time, WasteCare discovered that Harmony grossly underbid the costs and design of the ACR. WasteCare learned that Harmony was losing $500 or more per unit. This gave Harmony an incentive to sabotage sales to prevent huge losses. Harmony was secretly and fraudulently telling customers that ACR breakdowns were due to WasteCare's design (even though Harmony was responsible for the design), and selling other Harmony products to these same customers (customers WasteCare had developed at great cost).

16. WasteCare suffered substantial losses and incurred significant costs to keep market demand alive because of Harmony's efforts to sabotage sales. In fact, several large corporations confirmed they would have purchased thousands of ACRs if the product simply would have worked.

B. Transition to Licensing Agreement

17. WasteCare was preparing a lawsuit against Harmony when Harmony asked that the parties transition to a Licensing Agreement where Harmony would assume all responsibilities, including sales/marketing, and pay a royalty to WasteCare. Harmony assured WasteCare that if it entered into the Licensing Agreement, Harmony could quickly sell thousands of ACRs, and it would not try to cheat WasteCare out of its royalties.

18. WasteCare and Harmony entered into the Licensing Agreement on January 7, 2005. A copy of this agreement is attached as Exhibit A.

19. Under the Licensing Agreement, Harmony continued to assume all rights and responsibilities in the

design, engineering, manufacture, service, and warranty of the ACRs, and also assumed all sales and marketing responsibilities of the ACR product lines.

20. Harmony further agreed to pay WasteCare a royalty of five percent on all new ACRs that Harmony sold or caused to be sold to any entity up to a chronological aggregate of 15,000 units in the United States, with a 'Minimum Unit Royalty' of $100 per unit for ACRs sold in the United States (CPI adjusted and currently $175+). For ACRs sold internationally, Harmony agreed to pay WasteCare a $65 per unit flat fee royalty. Under § 3.1(b)(ii) of the Licensing Agreement, Harmony is to pay WasteCare royalties until a 15,000 unit chronological aggregate is achieved in the U.S.

21. During the contract discussions, the timetable envisioned for Harmony to complete the 15,000 chronological aggregate units was no more than 10 years. In fact, it was expected to be much less than 10 years. Harmony had virtually no competition at the start of the Licensing Agreement, and the Smart-Pack ACR was the

only ACR that had been extensively refined by WasteCare not only during the three years of pioneering prior to the Distribution Agreement, but also six years thereafter during the Distribution Agreement phase. This allowed for nine years of development and perfecting the desired safety features, capabilities, and operational expectations of the marketplace.

22. During the contract discussions, Harmony emphasized having the enormous advantage of not having any competition, and stated that WasteCare was providing a great foundation and a valuable customer base. Harmony stated that this customer base was primed to purchase large quantities once Harmony was free of the cost issues and had control of the product line.

23. The average sales prices for ACRs range from $5,000-$7,000, meaning when Harmony reached the aggregate limit, WasteCare's expected royalties would be roughly $4 – $5 million for U.S. sales plus $500,000 – $1 million on international sales.

24. Harmony should have fulfilled the 15,000 units by now because it holds itself out as the global leader in manufacturing with respect to this particular product class involving the ACR technology. Further, Harmony – a 50-year veteran in the industry – touted how easy it would be to dominate this market based on how well-suited Harmony is for the product line (global customer base, supplier relationships, buying power, service network, etc.).

25. The parties are now 12 years into the Licensing Agreement, and Harmony reports that it is still basically at ground zero and nowhere near 15,000 units sold. Harmony has reported hardly any sales over the course of the Licensing Agreement, and most of what has been reported were orders that fell in Harmony's lap from the original sales of WasteCare both during the Distribution Agreement and before. Harmony has only reported about 250 new sales of ACRs that have been contributed by Harmony.

26. While Harmony's reported sales have languished, two start-up companies are outselling Harmony by the thousands and probably at a ratio of about 100 to 1 or more, despite having no prior experience in the industry and operating out of a small office space. Harmony should easily be able to outperform these start-ups in terms of capabilities, features, pricing, and closing ACR sales. It is clear that Harmony has not made a good faith effort to keep its commitment involving the 15,000 units which WasteCare relied on as a condition to entering the agreement. At Harmony's current reported sales rate, it would take over 500 years for the 15,000 units to be completed.

27. From the beginning of the Licensing Agreement, WasteCare received numerous serious buyer inquiries that it forwarded to Harmony. Many of these inquiries were from buyers who stated they had already done evaluations and a payback analysis on the ACR's and were calling to discuss orders. Out of these inquiries forwarded to Harmony by WasteCare (and excluding WasteCare's

customers prior to the Licensing Agreement who were calling to reorder or follow through on prior arrangements with WasteCare), WasteCare could only pinpoint six units in the entire 12-year period that were converted by Harmony.

C. Harmony's Collusion with Big Belly

27. In 2003, before the Licensing Agreement, WasteCare was approached by Big Belly, one of the above-mentioned start-up companies, about working together. Big Belly was in the process of getting funded and wanted to focus on solar outdoor ACRs. Big Belly and WasteCare discussed the idea of a cross licensing agreement where Big Belly would focus on the outdoor ACRs and WasteCare would focus on indoor ACRs. WasteCare made Harmony aware that WasteCare was working on this arrangement with Big Belly.

28. Immediately after signing the Licensing Agreement, several Harmony executives traveled to meet with Big Belly, and as time passed this meeting and subsequent frequent meetings became more and more secretive. It was

during this same time frame that Harmony told WasteCare it had discontinued production of outdoor ACRs, claiming that there was no demand for the product. This made no sense because outdoor ACRs had been extremely popular during the Distribution Agreement years and were in huge demand by many large organizations such as Walt Disney, who had been on the verge of buying several thousand outdoor ACR's on several occasions if the Harmony-manufactured product would have just worked.

29. Harmony's true reason for the discontinuation was that it had a secret deal with Big Belly. Harmony made Big Belly the single source provider of outdoor ACRs for over 10 years. During this time, Harmony worked with Big Belly to provide wireless monitoring systems for the outdoor ACRs at huge profit margins. In return, Harmony stayed out of the U.S. outdoor ACR market. From inception (which began around the same time as the Licensing Agreement began) through the first 10 years, Big Belly sold 30,000 outdoor ACRs. Since there can be roughly $350 - $500 in profit for each wireless monitoring system option,

these 30,000 machines made Harmony around $10 million at little cost or effort.

30. This also explains why Harmony and Big Belly were both promoting the wireless monitoring system feature under the same Smart Trash brand that was registered to Harmony. Harmony discontinued its use of the Smart Trash name during the time frame that WasteCare started pressing hard to get answers, and also during the time frame that a separate lawsuit (not involving WasteCare) was being pursued against Harmony pertaining to patent rights on the Wiresless Monitoring System. Harmony switched and began using the brand Insite Wireless. It made sense for Big Belly to keep the old brand because it had already sold 30,000 ACRs with the wireless monitoring system. At the same yearly sales rate as prior years, Big Belly has now sold over 35,000 outdoor ACRs.

31. By 2014 or even before, Harmony secretly manufactured outdoor ACRs and sold them internationally, all while telling WasteCare there was no demand for them and they had no plans to re-introduce

them into the market again. This was another collaboration by Harmony and Big Belly to circumvent royalties by capitalizing on the cross-licensing deal concept that WasteCare had been working on with Big Belly prior to the Licensing Agreement.

32. WasteCare found out about Harmony's dishonesty involving the outdoor ACRs because of the above-referenced patent infringement lawsuit that was filed against Harmony related to the wireless monitoring system. The lawsuit was quickly settled, but during this litigation it was revealed that Harmony had manufactured and sold 24 outdoor ACRs to the French Open that included the Wireless Monitoring Systems.

33. Harmony's President lied in an email and tried to convince WasteCare that the 24 ACR's were just put there on a one-month promotional engagement (which was an effort to cheat WasteCare out of royalties). WasteCare learned, however, that Harmony had not only been paid a 50 percent deposit for those machines a year earlier, but had also been paid in full at least six months prior to the

President's email. In order to re-introduce the Outdoor version, it would have taken several years of planning and re-testing while integrating the new outdoor exteriors and weatherproof components. Harmony kept this a secret from WasteCare and maintained all along that there would not be any Outdoor ACRs due to lack of market demand. Even more amazing is that in spite of the tremendous start-up costs that would have been incurred (for re-introducing the outdoor ACR version) Harmony has never reported any other outdoor ACR activity or sales to WasteCare.

34. Harmony, in efforts to justify to WasteCare why it had gifted Big Belly with single source status worldwide for the Outdoor ACRs, misrepresented to WasteCare that there was a patent involving the way the solar power activated the machine. This was not true.

D. Harmony's Collusion with Compaction Technologies

35. For the entire Licensing Agreement period, which includes the present day, Harmony has represented to

WasteCare that it has never added any innovations, versions, or "next generation" models to the ACR product line.

36. Harmony covertly began "next generation" initiatives as early as 2010, however, which turned into very secretive ventures involving units and innovations that had been in WasteCare and Harmony's joint plan for future ACR developments that would be introduced once Harmony got the product working correctly. Harmony began another initiative a couple years later that was featured in a *Minnesota Star Tribune* article on March 24, 2013.

37. Additionally, Compaction Technologies, Inc. ("CTI"), a Minnesota company that only started doing business in 2010, already has several ACR versions. All of these versions are ones that WasteCare spoke with Harmony about in confidence as "next generation" versions that could be pursued for their mutual benefit. Harmony provided this confidential information to CTI to set up secret revenue channels that allow Harmony to sell ACRs

to CTI at retail without having to incur costs related to sales/marketing, warranty/service, customer training, and administrative matters, all while stealing royalties from WasteCare.

38. In turn, CTI was able to drastically inflate the ACR normal price range and sell to the Federal Government at an additional 35 percent above retail (which was 35 percent above the going rate and 35 percent above Harmony's GSA listed pricing at that time). Senior level government procurement personnel confirmed this, stating that the Harmony ACR and the CTI-sold ACR were essentially the same machine, and that the purchase at the greatly inflated mark-up price was just for the base machine and did not include any options or extras. No reason was given for why the government purchased the 1,000 ACRs at the much higher price.

39. WasteCare previously received this inquiry (that resulted in the 1,000 ACR sale) by a government office. WasteCare forwarded the inquiry to Harmony, indicating that it was one of the best ACR inquiries ever received.

Harmony responded to WasteCare saying that the deal was "dead" (and never gave any further updates to WasteCare). WasteCare later discovered that CTI obtained this government contract (a $7 million order) in late 2013, despite being a start-up working from a very small office sharing space in an area zoned for offices only (not manufacturing). CTI was not GSA approved, so it had to get the contract via an "umbrella company" that was GSA approved.

40. WasteCare initially learned of CTI in late 2015 after forwarding a lead to Harmony involving a large chain customer (with intentions of purchasing large quantities). The customer already was testing ACR's with CTI, and test the Smart-Pack. Harmony was not willing to test against CTI, however, and pretended they did not know CTI. Sometime thereafter, WasteCare learned that the above-referenced $7 million deal, intended for the Smart-Packs a few years earlier, had been diverted to CTI. Prior to this, WasteCare did not even know CTI existed.

41. Harmony's ACR (representing years of development and fine-tuning) and CTI's ACR version have an identical appearance except for a tiny light above the door. This striking resemblance caused WasteCare to question the origin of CTI's ACR since there can be no denying that it looks like they both come from the same factory. WasteCare also questioned how it could be remotely possible for this start-up to have obtained the government contract, especially at a price that was a sudden jump of 35 percent above the going retail level that was established in the marketplace.

42. Harmony's collusion with CTI in getting the government contract is obvious because instead of putting the branding/labeling on those 1,000 ACRs at the Harmony factory (where employees would question the different trade name and telephone number being affixed to the product), Harmony shipped the ACRs to the government with no branding or service contact information. Upon delivery, the government had to apply a stick-on label with the CTI branding and service contact information. Also, a

top-level government procurement officer agreed that Harmony's ACR and CTI's ACR were virtually identical.

43. Further evidence that Harmony manufactured the 1,000 ACRs sold by CTI to the government is that CTI did not have the capability to undertake the task. This size of an order and the associated demands would create a heavy burden even for even a large manufacturer. As mentioned, at the time, CTI existed in a small office cubicle within a very small office sharing location zoned exclusively for "office" (not manufacturing) use. Harmony was the only company with the capability to fill such a large order. Since moving from the small office suite in early 2014, CTI continues to operate from a fairly small office suite zoned for "light manufacturing" (which does not encompass the type of stainless steel fabrication necessary for ACR production). Furthermore, according to U.S. Customs, CTI has never imported any ACR parts or assemblies.

44. Almost instantaneously from commencement CTI has displayed multiple versions of ACRs on its website, many of which were derived from WasteCare's ACR

pioneering efforts and contributions starting in 1995. These various ACR versions displayed on the CTI website are also ACR innovations and 'next generation' concepts that were discussed in confidence with Harmony and contemplated to be introduced as part of the Smart-Pack ACR product line under both the Distribution Agreement and the Licensing Agreement.

45. Manufacturing stainless steel products requires a tremendous amount of experience, infrastructure, specialty fabrication equipment, highly skilled personnel and know-how that very few manufacturers are willing to take on due to the extra demands. CTI, with no experience producing stainless steel products, has become the world leader in stainless steel bathroom ACR's almost overnight. (Harmony has provided stainless steel kitchen compactors for 30+ years, but has only reported six stainless steel ACR's in 12 years.)

46. CTI could not be filling these orders without Harmony manufacturing these many thousands of ACRs for them. On information and belief, Harmony has also

provided a performance and service guarantee on the ACRs sold by CTI.

47. Harmony, through its collusion with CTI, robbed WasteCare of \$350,000 - \$400,000 in royalties on one deal alone by sabotaging the \$7 million government contract, and has pilfered hundreds of thousands in other royalty payments as well.

E. Harmony Sabotages Potential Airport Deals & Other Willing Customers

48. Before the Licensing Agreement period (and even before the Distribution Agreement with Harmony), WasteCare worked with Hartsfield-Jackson Atlanta International Airport to have ACRs implemented throughout the airport, which was the first ACR sale to the airport industry. WasteCare also sold to the McCarran International Airport in Las Vegas during the Distribution Agreement period.

49. During the Licensing Agreement period, in late 2015, another large airport made an inquiry to WasteCare about purchasing 100 ACRs. This should have been an easy

deal to close, and WasteCare referred this inquiry to Harmony. Once again, Harmony found a way to intentionally botch or decline the opportunity in favor of secretive revenue channels that Harmony felt would not only allow them to avoid lots of ordinary 'cost of sales' expenses but would also allow them to avoid royalties. Big Belly got the $750,000 deal as single source provider.

50. On many other occasions there have been other Airports (as well as many other customers across all industries) pleading with Harmony for assistance in their efforts to pursue ACR purchases and evaluations, and Harmony either found ways to either squander the business away and/or divert it through alliances with others in which sales were never reported to WasteCare.

51. Harmony should have done many rollouts of hundreds and even thousands of ACRs by now based on the market demand and awareness of quick paybacks, yet they have never reported even a fraction of a rollout. Dating back to the early years of the Licensing Agreement and thereafter, Harmony has communicated to WasteCare both

verbally and in emails that there was no demand for the ACRs, even though Harmony knew this was not true and that Big Belly was selling several thousand per year. These lies were meant to justify the lack of sales and deceive WasteCare about what was really happening in the market.

F. Misrepresentations Regarding Lack of Sales and Bad Faith Attempts to Deny Royalties

52. Harmony repeatedly ignored WasteCare's questions, emails, and letters regarding ACR sales. Harmony, in a 2016 email, claimed the lack of sales was due to WasteCare's design. This made no sense because it is clear that since the Distribution Agreement, as well as the Licensing Agreement, Harmony has always been solely responsible for all ACR design and engineering (stated in section 2.1 of the Licensing Agreement).

53. Harmony also has denied royalties on the wireless monitoring systems and other options and assemblies that were incorporated with new ACR's being sold. The only exception to 3.1(b) was for incidentals that Harmony said

would be hard to track for accounting such as parts for service and warranty and those consumable items such as bag liners sold both with the initial sale and in the aftermarket.

54. This ‘incidentals’ sentence was added as Section 3.1(b)(1) which was only to be applied after first taking 3.1(b) into consideration. This was only added because Harmony said it would be helpful for their accounting if they did not have to track the small petty incidentals that did not amount to much money anyway. In spite of the meaning regarding these incidentals being obvious upon entering into the agreement, and even though it was clear that the wireless monitoring systems would be incorporated into initial ACR sales, Harmony stated in a March 2016 email that it was denying royalties on these systems because the systems’ data package or ‘air waves’ are not physically attached to the ACRs. The real reason for the royalty denials is Harmony knows that all those Wireless Monitoring Systems sold for the Big Belly

machines has contributed to the sale of tens of thousands of machines.

55. Section 3.1(b) of the Licensing Agreement states royalties are based on any new ACRs that "Harmony has sold or has caused to be sold to any entity" in a chronological aggregate of 15,000 units. This is WasteCare's core protection that WasteCare relied upon, as Harmony is fully aware. This means any Harmony activities associated with ACR sales are royalty bearing (except the insignificant incidentals per the incidentals sentence), including situations where Harmony provides compaction assemblies or other partial assemblies to a third party who then sells a complete ACR.

56. Section 3.1(b) is the controlling provision for royalties under the Licensing Agreement. The way the Licensing Agreement is constructed, before Harmony can consider whether an option or accessory bears royalties under 3.1(b)(1), it must first apply 3.1(b) to establish whether Harmony directly sold a new ACR or indirectly caused or contributed to a new ACR sale by a third party.

Since Harmony has contributed to the ACR sales of others such as CTI and Big Belly by providing various full and partial assemblies and wireless monitoring systems, Harmony knew it was supposed to report those sales as bearing royalties.

G. Harmony's Lack of Reporting

57. Harmony has not lived up to its reporting commitments under the Licensing Agreement. Section 3.2 of the Licensing Agreement states that Harmony is to provide WasteCare a monthly report of its business activities that are pertinent to an accounting of royalty payments. This includes new ACR sales Harmony has either made directly or has caused to be made indirectly by any third-party entity. This also includes complete or partial assemblies sold to third parties (for new ACR sales) with records of each invoice related to all such Sales involving ACR activities consistent with the royalty considerations under 3.1(b).

58. This core protection for WasteCare states ACRs which "Harmony has sold or has caused to be sold to any

entity," and references new ACRs sold by either Harmony or a third party in which Harmony has contributed in any way involving a chronological aggregate of 15,000 ACR's. This reporting is to include but is not limited to the date, name, and location of each purchaser, the sale amount, and the serial number assigned to each unit on each invoice. Harmony also is to provide WasteCare a quarterly report with a "cumulative chronological serial number listing" of all units sold or rented under each invoice.

59. There have been large discrepancies in the monthly reports compared to the quarterly reports. WasteCare pointed this out to Harmony and asked for clarification of the total chronological number of ACRs Harmony was claiming from the beginning of the Licensing Agreement through the second quarter of 2016. Harmony refused to update any data, and responded by saying the royalty reporting was "just a form" and insignificant.

60. In an email in January 2014, Harmony's President suggested to WasteCare that it was no longer necessary to send the reports since they were only selling five or six

ACRs per quarter. Prior to that, from around 2012 to 2014, WasteCare had offered to take the product line back on several different occasions with no penalty to Harmony. WasteCare even offered to pay Harmony a 5 percent royalty, but Harmony ignored all of those offers.

61. During the transition to the Licensing Agreement, Harmony told WasteCare that the ACR business would not be viable unless it was selling at least 1,000 ACRs per year. That is why the parties added section 8.1(c) to the Agreement, which allowed Harmony to exit the business without penalty by giving six months' notice to WasteCare. At the rate Harmony is reporting, there is no way the ACR product line could be even remotely worthwhile or profitable. Harmony has not exercised their option to exit the business because they are secretly selling ACRs through others and hiding the royalties that are due. Further, exercising their option would bar Harmony from the ACR industry for 10 years.

62. Harmony has never provided reports directly from its accounting as promised. Instead, Harmony has denied

WasteCare of its right to validate ACR activities through accounting reconciliation. Harmony has already confirmed and displayed their unwillingness to cooperate with generally acceptable audit guidelines. From October 2016 thru July 2017, and after nine months of back and forth between Harmony and a small law firm who attempted to make arrangements for conducting an audit, it was very clear that Harmony's approach was exercise a delay strategy of cryptic responses, half-truths, and outright lies in order to to thwart WasteCare's ability to undertake a successful audit.

63. The only thing Harmony has been willing to provide is copies of invoices on the original ACR version from before the Licensing Agreement took effect and just the complete machines, to the exclusion of all new versions, models, innovations, and partial assemblies that have contributed significantly to Harmony's ACR activities and income.

64. Harmony has complained repeatedly about the very simple reporting required by the Licensing Agreement. Harmony is often late with what little it reports and will

oftentimes change its position to reduce the amount of royalties paid. Harmony routinely shorts royalties to WasteCare on what little sales it does report. Harmony also continues to refuse to pay royalties that WasteCare pinpointed in 2016 when, pursuant to the Licensing Agreement, WasteCare requested copies of invoices. Even on small amounts of sales Harmony has actually reported, it has disputed a large percentage of options that are still unpaid, such as the wireless monitoring system and multiple bin ACRs. In summary, Harmony has engaged in a systematic, concerted effort to wear down WasteCare with the hope that WasteCare will eventually ask out of the Licensing Agreement or just give up.

H. Recap of Harmony's Fraudulent Scheme to Undermine the Licensing Agreement and to Destroy and Steal WasteCare's Property

65. Harmony has been deceptive since the beginning of the Licensing Agreement period. Harmony has intentionally diverted and sabotaged hundreds of ACR opportunities and sales leads that WasteCare referred to

Harmony. This conduct involves thousands, and possibly even tens of thousands, of units.

66. Harmony has secretly pursued other parties such as Big Belly and CTI to act as its secret ACR sales arm, in order to supply ACRs and ACR assemblies while avoiding sales and marketing costs, customer administrative and training costs, service costs, and most significantly, royalty costs. With Harmony's capability and experience, it should have reached 15,000 aggregate sales years ago. Instead, from the very beginning of the Licensing Agreement period Harmony sought to circumvent its royalty obligations, while also destroying WasteCare's royalty entitlements and the Smart-Pack product line.

67. Harmony has repeatedly lied about the reasons for its extremely low ACR sales, as well as its knowledge of and affiliations with Big Belly and CTI. Harmony has engaged in bad faith attempts to deny WasteCare its royalties and comply with the Licensing Agreement's reporting requirements.

68. The acts complained of constitute one or more breaches of Harmony's obligations under the Licensing Agreement. This conduct has damaged WasteCare and is the basis for WasteCare's prayer for the equitable relief described below.

COUNT I
(Rescission of the Contract)

69. WasteCare realleges all prior paragraphs of the complaint as if set forth fully herein.

70. Under Illinois law, rescission is an equitable remedy allowing a party to cancel a contract for, *inter alia*, a material breach.

71. A material breach is a breach of such a nature and importance that the contract would not have been entered into without the terms.

72. Harmony has, and continues to be in, material breach of the Licensing Agreement.

73. For example, Section 3.1(b) of the Licensing Agreement states Harmony will pay WasteCare a royalty of 5% on all new ACRs that Harmony sold or caused to be

sold in the United States, with a "Minimum Unit Royalty" of $100 per unit. This means that Harmony's activities associated with ACR sales are royalty bearing, except for insignificant incidentals.

74. WasteCare relied on this agreement to its detriment, which Harmony is fully aware of.

75. Furthermore, Section 3.2 of the Licensing Agreement states that Harmony must provide WasteCare a monthly report of its business activities that are pertinent to an accounting of royalties. The reporting must include the date, name, and location of each purchaser, the sale amount, and the serial number assigned to each unit on each invoice.

76. WasteCare relied on this reporting to its detriment as its only protection in the agreement, which Harmony is fully aware of. However, when WasteCare pressed Harmony on large discrepancies between the reporting and quarterly reports, Harmony called the contractual duty to accurately report insignificant.

77. To date, Harmony has, and continues to, engage in bad faith attempts to deny WasteCare its royalties and comply with the reporting requirements.

78. Such bad faith dealings constitute a material breach of the Licensing Agreement because WasteCare would not have entered into the agreement knowing it would not receive the benefit of the bargain.

79. Under Illinois law, when a contract is rescinded, restitution follows. Restitution measures not the plaintiff's losses, but rather the defendant's gains which are unjust for it keep. As such, Harmony must return all benefits conferred to it which are unjust for it to keep—namely, royalties kept outside the letter and spirit of the Licensing Agreement.

80. Therefore, WasteCare is entitled to a ruling that the contract is rescinded and void *ab initio*.

COUNT II
(Accounting of Royalties Owed by Harmony to WasteCare)

81. WasteCare realleges all prior paragraphs of the Complaint as if set forth herein.

82. Harmony has failed to provide an accurate accounting of royalties owed to WasteCare during the Licensing Agreement period pursuant to section 3.2.

83. Under Illinois law, to receive an accounting, a party must plead there is an inadequate remedy at law and that, *inter alia*, there is fraud.

84. Under Illinois law, equity jurisdiction does not hinge on labels, rather it hinges on allegations of fact set forth in the complaint. Likewise, the existence of a legal remedy alone does not preclude equitable jurisdiction. There is no categorical rule for "adequateness," instead, it depends on the circumstances of the case. For instance, even if the primary rights and relief sought are purely legal, a court of equity may assume jurisdiction if the methods of the procedure and the means available to carry its decrees into execution make the remedies more adequate, complete, and prompt.

85. In the instant case, there is an inadequate remedy at law. Though it is true that this claim could be brought through a breach of contract, the breach of contract remedy

is inadequate. The standard measure of damages for breach of contract claims is expectation damages, restoring the plaintiff to where he would have been but for a breach. However, here, that position cannot be gauged due to the lack of reporting and fraudulent activity from Harmony. As such, the circumstances of this case indicate the breach of contract remedy is inadequate, and that an Accounting of Royalties is needed because it is more complete and prompt.

86. Additionally, Harmony has been fraudulent in its execution of the Licensing Agreement. In addition to hiding Harmony's activity on other versions, models, partial assemblies, and the like, Harmony has not reported its wireless monitoring systems sales for purposes of determining royalties, nor other optional equipment provided by Harmony.

87. Throughout the Licensing Agreement period, Harmony has provided incomplete accounting reports that are often late and contain discrepancies.

88. Furthermore, Harmony has engaged in intentional and deceptive conduct in material breach of its contractual obligations to WasteCare, as detailed in this Complaint's factual summary and further described in Count I above.

89. Therefore, WasteCare requests an order requiring Harmony to provide a full accounting of royalties owed to WasteCare pursuant to the terms of the Licensing Agreement. WasteCare requests that the accounting be in a form that would allow WasteCare to reconcile the reported ACR activities against raw materials, work-in-process, and finished goods and in accordance with generally accepted guidelines and methods.

COUNT III
(Injunctive Relief Barring Harmony from Competing for 10 Years)

90. WasteCare realleges all prior paragraphs of the Complaint as if set forth herein.

91. Section 8.2(e) of the Licensing Agreement states that if the Agreement is terminated pursuant to 8.1(b), Harmony agrees "not to exercise, directly, or indirectly, any Exploitation rights in the Territory" for a period of 10

years. The "Territory" is defined as the United States of America.

92. As described above, Harmony has violated Licensing Agreement section 8.1(b) by repeatedly making material misrepresentations, and by systematically breaching the Licensing Agreement's covenants. As such, pursuant to Licensing Agreement section 8.1(b), the Licensing Agreement must be terminated, and Harmony must refrain from directly or indirectly selling ACRs within the United States for 10 years.

93. Therefore, WasteCare requests that this Court enjoin Harmony from directly or indirectly competing in the ACR industry in the United States for a period of 10 years.

Dated: [to be inserted at time of filing].

/s/ Archie I. Grubb, II

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