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APPROVAL OF THE APPELLATE DIVISION

SUPERIOR COURT OF NEW JERSEY
APPELLATE DIVISION
DOCKET NO. A-3834-12T3

SAE POWER INCORPORATED and SAE POWER COMPANY,

Plaintiffs-Respondents,

v.

AVAYA INCORPORATED,

Defendant-Appellant,

and

DELTA PRODUCTS CORPORATION,

Defendant-Respondent.

Submitted February 10, 2014 - Decided March 14, 2014

Before Judges Parrillo and Harris.

On appeal from the Superior Court of New Jersey, Law Division, Essex County, Docket No. L-1136-11.

Lowenstein Sandler LLP, attorneys for appellant Avaya Incorporated (Robert D. Towey, of counsel and on the brief; Aurora F. Parrilla, of counsel and on the brief).

Goetz Fitzpatrick LLP, and Joel G. MacMull (Goetz Fitzpatrick LLP) of the New York bar, admitted pro hac vice, attorneys for respondent SAE Power Incorporated and SAE Power Company (Mr. MacMull of counsel;

Ronald D. Coleman, of counsel and on the brief.).

Eleanor M. Yost (Goodwin Procter LLP), attorney for respondent.

PER CURIAM

Defendant Avaya Incorporated (Avaya) appeals an order of the Law Division denying its motion to compel arbitration of two counts of a ten-count complaint filed against it by plaintiff SAE Power Incorporated and SAE Power Company (SAE). For the following reasons, we affirm.

Plaintiff SAE is a privately-held manufacturer of electronic components and power supplies based in California. Avaya is a privately-held company and a leading global provider of business communications systems and solutions. Delta Products Corporation (Delta) is a subsidiary of the Delta Group, which is one of the world's largest manufacturers of switching power supplies and a leading provider of power management solutions.

For a number of years, Avaya purchased backup power supply units for some of its telephone systems from SAE as well as from other suppliers, including Delta. Avaya required that its power supply companies comply with its written specifications and that

the power supply units be compatible with that provided by other manufacturers.

According to SAE, the initial stages of SAE and Avaya's contractual relationship, commencing around 2001, were governed solely by a non-disclosure agreement (NDA). Two more NDAs were executed in 2002 and 2008. The August 2002 NDA contains a mandatory arbitration provision that provides:

> If a dispute arises with respect to this Agreement which cannot be resolved by negotiation, it shall be referred to a neutral arbitrator selected in accordance with the commercial arbitration rules of the American Arbitration Association ("AAA"). The arbitration shall be governed by the United States Arbitration Act and the rules of the AAA.

The final NDA, executed in 2008 toward the end of the parties' relationship, contained identical language regarding mandatory arbitration. SAE claims that the NDAs were critical to its working relationship with Avaya and its agreement to supply power to Avaya because of SAE's interest in not forfeiting its proprietary trade secrets.

Prior to March 31, 2008,[1] Avaya notified SAE, Delta, and its other suppliers that it was issuing a Request for Quotation (RFQ) for certain of its power supply needs pursuant to which,

[1] A draft comprehensive agreement in 2005, although never formally executed by the parties, governed their relationship and was set to expire on March 31, 2008.

it would select its power supply unit distributor. SAE participated in this process, but was ultimately not selected. When notified of Avaya's decision, SAE demanded that Avaya pay for "stranded" materials consisting of inventory that it asserted could only be utilized for batteries previously purchased by Avaya. Although the parties attempted to settle this dispute, Avaya and SAE were unable to agree as to how many power supply units would have to be built to consume the "stranded" materials.

Consequently, on January 18, 2010, SAE filed a complaint against Avaya in the federal court district. This complaint was later amended on October 1, 2010, and consisted of ten counts, including breach of contract, unjust enrichment, promissory estoppel, breach of the covenant of good faith and fair dealing, fraud, negligent misrepresentation, tortious interference with contractual relations, tortious interference with prospective economic advantage, misappropriation of trade secrets and civil conspiracy.[2] The essence of SAE's NDA claims against Avaya and Delta are predicated upon the assertion that Avaya misappropriated SAE's proprietary information protected by the NDAs and gave this information to Delta.

[2] This amended complaint also named Delta as an additional defendant.

Thereafter, the federal lawsuit was dismissed on jurisdictional grounds and SAE re-filed the matter in the Law Division on January 26, 2011. SAE's state court complaint contained the same causes of action as the federal court complaint. Its breach of contract claim (Count I) alleged that Avaya disclosed to Delta, in violation of the NDAs, proprietary information regarding its power supply unit, which Delta copied in its power supply unit design that it supplied to Avaya. The misappropriation of trade secrets claim, Count IX, alleged that

> [t]he use and protection of SAE's trade secrets by Avaya were governed by SAE's NDAs with Avaya and other communications between them . . . . [Avaya] wrongfully and through improper means attempted to, and did, misappropriate and use the confidential trade secrets of SAE for [its] benefit [and Avaya's] misappropriation was accomplished both by a breach of the NDAs between Avaya and SAE and included acts taken to circumvent measures put in place by SAE to maintain the confidentiality of its trade secret information . . . .

On March 17, 2011, Avaya served its Answer, which included cross-claims against Delta. Also, on this same date, Avaya served ninety-one interrogatories and 179 document production demands on SAE.[3] On April 22, 2011, SAE served its first set of

[3] Delta served its Answer with cross-claims against Avaya on March 22, 2011.

interrogatories and first request for the production of documents to Avaya and Delta.

After the trial court entered a Stipulated Protective Order on May 23, 2012, SAE initially served over 50,000 documents responsive to Avaya's discovery requests on July 3, 2012, along with written responses. Dissatisfied with SAE's responses, Avaya and Delta moved to compel SAE to specifically identify the trade secrets it claimed had been misappropriated and challenged SAE's blanket confidentiality designations in its discovery responses. In addition, Avaya and Delta moved for a protective order to limit the time and scope of SAE's first discovery demands.

After a hearing on October 26, 2012, the motion court granted Avaya and Delta partial relief, ordering SAE to provide supplemental discovery responses specifically identifying the trade secrets at issue. The court also entered additional relief requiring SAE to re-designate some of its discovery responses. The judge, however, denied the request for a protective order.

On December 19, 2012, almost three years after SAE filed its federal court complaint, Avaya, through counsel and for the first time, notified SAE of its intention to arbitrate two counts of the complaint alleging breach of contract and

misappropriation of trade secrets. Specifically, the letter to SAE's counsel asserted:

> Pursuant to the Non-Disclosure Agreements that you have produced in discovery, and which form the basis of Plaintiffs' contract claims in Count One and misappropriation of trade secrets claims in Count Nine, all such claims must be submitted to mandatory arbitration before the American Arbitration Association ("AAA"). Accordingly, on behalf of Avaya, we request that Plaintiffs immediately dismiss these improperly filed claims in this action.

On January 14, 2013, Avaya advised SAE that if it did not dismiss the claims that are subject to arbitration it would file a motion to compel arbitration. On the same date, SAE sent a letter to Avaya rejecting the notion that it was required to dismiss Count I and Count IX based on Avaya's recent arbitration defense.

As a result, Avaya moved to dismiss Counts I and IX of SAE's complaint and to compel arbitration, as mandated by the NDAs. SAE countered that Avaya waived its right to compel arbitration because it: (1) certified its Answer under Rule 4:5-1(b) and did not amend its certification; (2) failed to assert arbitration as an affirmative defense; (3) demanded and was served with substantial disclosures by SAE; and (4) later filed its motion to compel additional discovery from SAE in August 2012. Further, SAE argued that arbitration of only some of its

claims and involving only one of the defendants would violate the entire controversy doctrine.

Following argument, the court denied Avaya's motion to compel arbitration. Rejecting Avaya's claim that it could not have raised the arbitration defense because it had not received the NDAs until SAE served its discovery,[4] and finding that Delta, as a non-signatory to the NDAs, would be prejudiced from not participating in the arbitration, and further that SAE would be at a disadvantage because "[SAE] didn't get to see [Avaya's] cards yet and [it] may never get to see [Avaya's] cards . . .[,]" the court concluded:

> [Arbitration is] favored because it's safe [sic] judicial economy and it's ordinarily fair to both sides. But with Cole[v. Jersey City Medical Center, 425 N.J. Super. 48 (App. Div. 2012), aff'd as modified by, 215 N.J. 265 (2013),] one of the considerations that Cole is talking about is you don't start arbitrating after one side gets to do extensive discovery. And while there's more

[4] In this regard, the court specifically found:

> I find I'm hard-pressed to believe that your client doesn't have it someplace, that they didn't turn it over to you. It's the whole basis of the relationship. I can't believe that they didn't have it someplace . . . . but I find it hard-pressed that in this type of relationship that Avaya, on whose stationary this agreement appears, doesn't have a copy.

discovery to be done here, document production and interrogatories that produce hundreds of thousands of pages of documents is substantial. I don't know whether [SAE is] ever going to get the same opportunity and I have no control over it, the court has no control over it, because the American Arbitration Association operates under a different set of rules than the court does. I find that there is or would be extreme prejudice, the potential of extreme prejudice to one side here, namely SAE, and arbitration is not designed to give one side or the other an advantage. The purpose of arbitration, like the purpose of trial, is to treat everybody the same. And I have no reason to know that they're going to be treated the same as far as discovery goes. And while Delta isn't here, I have the same problem with Delta being stuck with a decision that they don't get to participate because they're not part of the arbitration.

So I find by both the facts as they exist and the actions, even though you didn't do it intentionally, put SAE in a position where they won't be treated fairly and it's not going to have the desired effect. And so I find by actions there is a waiver of the arbitration provision and I'm not going to order it to be arbitrated.

On appeal, Avaya raises the following issues:

I. THE TRIAL COURT'S RULING THAT AVAYA WAIVED ARBITRATION OF THE NDA CLAIMS WAS WRONG AS A MATTER OF LAW.

A. THE TRIAL COURT'S DENIAL OF AVAYA'S MOTION TO COMPEL ARBITRATION IS SUBJECT TO DE NOVO REVIEW.

B. SAE SPECIFICALLY AGREED TO BINDING ARBITRATION OF ALL DISPUTES

ARISING OUT OF THE 2002 AND 2008 NDAs.

C. IT WAS REVERSIBLE ERROR TO PREDICATE A FINDING OF WAIVER ON THE PRODUCTION OF DISCOVERY BY SAE.

II. THE TRIAL COURT ERRED AS A MATTER OF LAW BY RELYING UPON DELTA'S STATUS AS A NON-SIGNATORY TO THE ARBITRATION AGREEMENT AS A BASIS FOR DENYING ARBITRATION.

"The issue of whether a party waived its arbitration right is a legal determination subject to de novo review." Cole v. Jersey City Med. Ctr., 215 N.J. 265, 275 (2013); see Manalapan Realty, L.P. v. Twp. Comm., 140 N.J. 366, 378 (1995). The findings of fact underlying the waiver determination, however, "are entitled to deference and are subject to review for clear error." Ibid.; see Rova Farms Resort, Inc. v. Investors Ins. Co. of Am., 65 N.J. 474, 483-84 (1974).

"In New Jersey, arbitration . . . is a favored means of dispute resolution." Hojnowski v. Vans Skate Park, 187 N.J. 323, 342 (2006); see also Martindale v. Sandvik, Inc., 173 N.J. 76, 84 (2002); Garfinkel v. Morristown Obstetrics & Gynecology Assocs., 168 N.J. 124, 131 (2001); Marchak v. Claridge Commons, Inc., 134 N.J. 275, 281 (1993). Thus, pursuant to "the Uniform Arbitration Act, N.J.S.A. 2A:23B-1 to -32, an arbitration 'agreement is . . . valid, enforceable, and irrevocable except

upon a ground that exists at law or in equity for the revocation of a contract.'" Cole, supra, 215 N.J. at 276 (quoting N.J.S.A. 2A:23B-6); see also N.J.S.A. 2A:23A-2.

"'An arbitration agreement is a contract and is subject, in general, to the legal rules governing the construction of contracts.'" Ibid. (quoting McKeeby v. Arthur, 7 N.J. 174, 181 (1951)). "'[A]n arbitration clause may be modified or superseded.'" Ibid. (quoting Wein v. Morris, 194 N.J. 364, 376 (2008)). Accordingly, "parties may waive their right to arbitrate in certain circumstances." Ibid.; see Wein, supra, 194 N.J. at 376. Waiver, however, "is never presumed . . . [and] [a]n agreement to arbitrate a dispute 'can only be overcome by clear and convincing evidence that the party asserting it chose to seek relief in a different forum.'" Ibid. (quoting Spaeth v. Srinivasan, 403 N.J. Super. 508, 514 (App. Div. 2008)).

"The same principles govern waiver of a right to arbitrate as waiver of any other right." Ibid. "Waiver is the voluntary and intentional relinquishment of a known right." Cole, supra, 215 N.J. at 276 (quoting Knorr v. Smeal, 178 N.J. 169, 177 (2003)). A party alleged to have waived its right "must 'have full knowledge of [its] legal rights and intent to surrender those rights.'" Ibid. (quoting Knorr, supra, 178 N.J. at 177).

Waiver does not have to be expressed, but rather "can occur implicitly if 'the circumstances clearly show that the party knew of the right and then abandoned it, either by design or indifference.'" Id. at 276-77 (quoting Knorr, supra, 178 N.J. at 177). This "must be done 'clearly, unequivocally, and decisively.'" Id. at 277 (quoting Knorr, supra, 178 N.J. at 177). "Determining whether a party waived a right is a fact-sensitive analysis." Ibid.; see Knorr, supra, 178 N.J. at 177.

In determining whether a party has waived its right to arbitration, the court "must focus on the totality of the circumstances . . .[, which involves] a fact-sensitive analysis." Id. at 280. In making this assessment, "we concentrate on the party's litigation conduct to determine if it is consistent with its reserved right to arbitrate the dispute." Cole, supra, 215 N.J. at 280. Among other factors, we should evaluate:

> (1) the delay in making the arbitration request; (2) the filing of any motions, particularly dispositive motions, and their outcomes; (3) whether the delay in seeking arbitration was part of the party's litigation strategy; (4) the extent of discovery conducted; (5) whether the party raised the arbitration issue in its pleadings, particularly as an affirmative defense, or provided other notification of its intent to seek arbitration; (6) the proximity of the date on which the party sought arbitration to the date of trial; and (7) the resulting prejudice suffered by the

> other party, if any. No one factor is dispositive.
>
> [Id. at 280-81.]

The first factor requires an evaluation of "the delay in making the arbitration request . . . ." Id. at 280. And, although a party's failure to assert "arbitration as an affirmative defense is not dispositive" on the issue of waiver, it does inform the analysis. Id. at 281. Thus, the Cole Court found, under the circumstances of that case, that "[a] twenty-one month delay is substantial, particularly in light of the fact that [defendant] otherwise failed to provide notice of its intent to seek arbitration." Ibid.

Federal authority is to the same effect.[5] Thus, the Third Circuit, in Hoxworth v. Blinder, Robinson & Co., 980 F.2d 912, (3d Cir. 1992), has found that defendants waived their right to arbitration when litigation had been active for over eleven months prior to the motion to compel arbitration, the parties had participated in extensive motion practice and engaged in comprehensive discovery. Compare Id. at 925-27, with Painewebber Inc. v. Faragalli, 61 F.3d 1063, 1069 (3d Cir. 1995) (the court determined that the defendant had not waived its

[5] "Federal decisions [can] also provide guidance because the Uniform Arbitration Act mirrors the Federal Arbitration Act, 9 U.S.C.A. §§ 1-16." Cole, supra, 215 N.J. at 278; see Spaeth, supra, 403 N.J. Super. at 513 n.1.

right to arbitration when the motion to compel arbitration was filed within two months of the complaint, the parties did not provide briefs on the merits, no discovery ensued, and the plaintiff failed to show prejudice).

In applying Cole's these seven factors to the present matter, we are persuaded that Avaya "engaged in litigation conduct that was inconsistent with its right to arbitrate the dispute with [SAE]." Cole, supra, 215 N.J. at 281. As to the first factor, SAE initiated this action in federal court on January 18, 2010, yet Avaya only first notified SAE of its intention to compel arbitration nearly three years later, on December 19, 2012, and then did not serve its motion to compel arbitration until January 22, 2013. Moreover, and pertinent to the fifth factor, Avaya never raised the issue of arbitration in its pleadings as an affirmative defense or otherwise notified SAE of its intent to seek arbitration until three years after commencement of SAE's federal action.

We consider the lapse between the commencement of plaintiff's lawsuit and defendant's motion to compel arbitration clearly substantial. On this score, we find Avaya's proffered excuse for the long delay – not being in possession of the NDAs until SAE provided them in discovery – highly implausible, as did the motion judge, since these agreements were "the whole

basis of the relationship" with SAE and were printed on Avaya's stationary. But even if we accept Avaya's claim, defendant did have possession of the NDAs, through discovery, for nearly six months prior to notifying SAE of its intention to seek arbitration. Thus, although not dispositive, Avaya's long delay in demanding arbitration informs the waiver analysis and heavily weighs in favor of SAE.

As to the second factor, Avaya actively engaged in motion practice. Specifically, defendants filed a joint discovery motion, requesting supplemental discovery from SAE and a protective order as to its own discovery obligations. Indeed, after SAE produced over 50,000 documents and written responses pursuant to Avaya's discovery requests, Avaya and Delta filed a joint motion to compel SAE to produce additional discovery that specifically identified the trade secrets that it alleged were misappropriated and to re-designate some of its blanket responses of attorney confidentiality. This motion also requested a broad protective order that would limit the time and scope of SAE's initial discovery demands. After a hearing, the motion judge ordered SAE to amend some of its responses that asserted general confidentiality designations and to specify the trade secrets at issue, but he denied defendants' motion for a broad protective order. Thus, we find Avaya's active engagement

in motion practice, seeking both affirmative and defensive judicial relief, is inconsistent with its intention to preserve its right to arbitration.

As to the third factor, namely whether the delay in filing the motion to compel arbitration was part of Avaya's litigation strategy, suffice it to say, Avaya did not assert its right to arbitration until after receiving extensive discovery from SAE and before its own discovery obligations were satisfied. And in the meantime, Avaya resorted to the court to obtain additional discovery and to adjudicate its right to a protective order, thereby delaying its own discovery response. It is therefore reasonable to assume Avaya's delay in filing its motion to compel arbitration was both deliberate and strategic.

Relatedly, the fourth factor, calling for a review of "the extent of discovery conducted[,]" also strongly favors SAE. Cole, supra, 215 N.J. at 281. We have held that waiver may occur where a party to the arbitration agreement participates "in prolonged litigation, without a demand for arbitration or an assertion of a right to arbitrate . . . ." Hudik-Ross, Inc. v. 1530 Palisade Ave. Corp., 131 N.J. Super. 159, 167 (App. Div. 1974). Further, in Lucier v. Williams, 366 N.J. Super. 485 (App. Div. 2004), we found that:

> Parties waive the right to arbitration where they commence litigation or use the

> litigation process improperly, such as to gain pretrial disclosure not generally available in arbitration.
>
> [Id. at 500.]

And in Cole, supra, we found that the defendant waived the right to arbitrate because, prior to filing its motion to arbitrate three days before trial, it had been actively engaged in discovery and prepared the case for trial for over twenty months. 425 N.J. Super. at 51.

Here, undeniably, considerable time, legal fees and judicial resources have been expended to resolve the parties' discovery disputes. As the motion court noted, the most important factor in its decision to deny Avaya's motion to compel arbitration was "the size and the amount of discovery that's already been done and already been produced." We agree. As noted, pursuant to Avaya's extensive discovery requests, SAE spent over a year collecting and reviewing hundreds of thousands of documents in an effort to respond appropriately. After receiving SAE's production of over 50,000 documents and written responses, Avaya and Delta filed a motion to compel further discovery and for a limiting order on their own discovery obligations.

In fact, it is both the extent and unilateral nature of the discovery to date that convinced the motion court of the

potential for "extreme prejudice" to SAE from an order compelling arbitration. As the court noted, as a result of its delay in filing its motion to compel arbitration, Avaya was given "the opportunity to get multi-hundreds of thousands of pages of discovery from [SAE,]" and thus was able to review a substantial amount of SAE's "cards," while it produced nothing in return. Once again, we concur in this finding.

Lastly, we note that the interest of judicial economy and efficiency counsel against arbitration in this matter as that forum would not resolve the "entire controversy," namely all issues as to all parties. Indeed, Avaya's motion pertains only to two counts of SAE's ten-count complaint and would not encompass defendant Delta, a non-signatory to the NDAs.

To be sure, here, unlike Cole, supra, where the defendant's motion to compel arbitration was filed "three days before the scheduled trial date[,]" 251 N.J. at 281, no trial date had been set. The lone consideration (factor six), thus weighs in favor of Avaya. Nevertheless, the balance of all other factors persuade us that Avaya has affirmatively waived its right to arbitration. Indeed, (1) the substantial delay in making the arbitration demand, both from the initial complaint and when Avaya received discovery from SAE; (2) Avaya's active participation in motion practice; (3) the likely strategic

considerations from delaying its motion to compel arbitration; (4) the extensive discovery produced by SAE; (5) Avaya's failure to raise its right to arbitration in the pleadings; and (6) the potential for "extreme prejudice" to SAE from arbitration, all support the trial court's determination that Avaya waived its right to arbitration. Cole, supra, 215 N.J. at 280-81.

Affirmed.