

TO BE PUBLISHED

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF IOWA
WESTERN DIVISION**

WELLS ENTERPRISES, INC.,

Plaintiff,

vs.

OLYMPIC ICE CREAM, d/b/a
MARINO ITALIAN ICES,

Defendant.

No. C11-4109-DEO

ORDER

This case is before me on two motions: (a) plaintiff's motion (Doc. No. 49) for entry of scheduling order and (b) defendant's motion (Doc. No. 50) for stay of proceedings pending appeal. In my order (Doc. No. 51) of January 11, 2013, I requested briefing with regard to defendant's motion for stay of proceedings and indicated that I would reserve ruling on plaintiff's motion for entry of scheduling order pending resolution of the motion to stay. The parties have now briefed the issues raised by the motion to stay and that motion is fully submitted. Neither party requested oral argument and, in any event, I find that oral argument is not necessary. *See* Local Rule 7(c). For the reasons set forth in detail below, I will stay these proceedings while defendant's appeal is pending.

PROCEDURAL HISTORY

On December 16, 2011, plaintiff Wells Enterprises, Inc. ("Wells") filed a complaint (Doc. No. 2) against Olympic Ice Cream ("Olympic").¹ Wells alleges

¹ Wells sued Olympic as "Olympic Ice Cream" but Olympic states that its legal name is "Olympic Ice Cream, Inc." *See* Doc. No. 2 at 1 and Doc. No. 28-1 at 1.

trademark infringement in violation of 15 U.S.C. § 1114, false designation of origin in violation of 15 U.S.C. § 1125(a), common law trademark infringement and unfair competition. In general, Wells alleges that the name and trade dress utilized by Olympic with regard to its “FROZEN FRUIT” bar improperly infringes on Wells’ established rights concerning its “FROZFRUIT” bar.

Olympic responded to Wells’ complaint by filing a motion to dismiss (Doc. No. 7) for lack of personal jurisdiction and improper venue. The Honorable Donald E. O’Brien denied the motion by order (Doc. No. 16) filed June 29, 2012. On September 5, 2012, Olympic and a sister company, Marina Ice Cream Corp. (“Marina”) commenced an arbitration proceeding against Wells. Olympic then filed a motion (Doc. No. 28) to stay this case in favor of arbitration. Wells resisted that motion and filed a separate motion (Doc. No. 30) for an order staying the arbitration.

On October 22, 2012, I entered an order (Doc. No. 36) denying both motions. I held that Olympic is not entitled to compel Wells to arbitrate its claims in this case and that there is no basis for this court to stay the arbitration filed by Olympic and Marina. Olympic appealed my denial of its motion to Judge O’Brien. On December 27, 2012, Judge O’Brien entered an order (Doc. No. 44) denying Olympic’s appeal, holding that Olympic, as a nonsignatory to the agreements it relies upon, is not entitled to stay this case in favor of arbitration. Doc. No. 44 at 10.

On January 7, 2013, Olympic filed a timely notice of appeal (Doc. No. 46) to the United States Court of Appeals for the Eighth Circuit.² Wells then filed its motion for entry of a scheduling order, seeking to proceed with discovery in this case while Olympic’s appeal is pending. Olympic responded on the same day by filing its motion to stay this case during the appeal.

² Because this court denied a motion to stay this case in favor of arbitration, Olympic was entitled to an immediate appeal. *See* Section 16(a)(1)(A) of the Federal Arbitration Act (FAA), 9 U.S.C. § 16(a)(1)(A).

ANALYSIS

Olympic's motion gives rise to two issues. First, does Olympic's appeal divest this court of jurisdiction to proceed with this case while the appeal is pending? Second, even if this court retains jurisdiction, should I enter a discretionary stay for the sake of judiciary efficiency? As I will explain below, I find that the answer to the first question, while not settled in this circuit, is "yes." Moreover, and even if the answer is "no," I find that a stay is nonetheless appropriate.

A. Does Olympic's Appeal Divest This Court Of Jurisdiction?

The Eighth Circuit has not yet ruled on the question of whether an appeal from a district court's denial of a motion to stay in favor of arbitration automatically stays the district court's proceedings. However, most circuit courts that have addressed the issue have held that a notice of appeal pursuant to Section 16 of the FAA divests the district court of jurisdiction to proceed with the case while the appeal is pending. The Third, Fourth, Seventh, Tenth and Eleventh Circuit Courts of Appeals have reached this conclusion. *See Ehleiter v. Grapetree Shores, Inc.*, 482 F.3d 207, 214 (3d Cir. 2007); *Levin v. Alms & Assocs.*, 634 F.3d 260, 263 (4th Cir. 2011); *Bradford-Scott Data Corp. v. Physician Computer Network, Inc.*, 128 F.3d 504, 506 (7th Cir. 1997); *McCauley v. Halliburton Energy Servs., Inc.*, 413 F.3d 1158, 1160 (10th Cir. 2005); *Blinco v. Green Tree Servicing, LLC*, 366 F.3d 1249, 1251-52 (11th Cir. 2004). By contrast, the Second and Ninth Circuits have held that an appeal does *not* divest the district court of jurisdiction. *See Motorola Credit Corp. v. Uzan*, 388 F.3d 39, 54 (2d Cir. 2004); *Britton v. Co-Op Banking Group*, 916 F.2d 1405, 1412 (9th Cir. 1990).

The primary disagreement among the circuit courts arises from application of the "jurisdictional transfer" rule. The Supreme Court has explained this rule (in an entirely different procedural context) as follows:

[A] federal district court and a federal court of appeals should not attempt to assert jurisdiction over a case simultaneously. The filing of a notice of appeal is an event of jurisdictional significance-it confers jurisdiction on the court of appeals and divests the district court of its control over those aspects of the case involved in the appeal.

Griggs v. Provident Consumer Discount Co., 459 U.S. 56, 58 (1982) (holding that a notice of appeal filed prematurely is a nullity). The Second and Ninth Circuits have held that the district court's continued proceedings are not "aspects of the case involved in the appeal" and, thus, are not precluded by the jurisdictional transfer rule. The Ninth Circuit characterized the arbitrability question as a collateral matter and held that the district court retains jurisdiction to proceed on the merits while arbitrability is being resolved on appeal. *Britton*, 916 F.2d at 1412. The Second Circuit agreed, holding that further district court proceedings are not "involved in" the appeal of an order denying arbitration and, therefore, are not automatically stayed. *Motorola Credit Corp.*, 388 F.3d at 54.

By contrast, other circuits have found that the federal policy favoring arbitration, as expressed in the FAA, prevents severing the issue of arbitrability from the merits of the case. The Seventh Circuit concluded that the underlying claims before the district court are necessarily "involved in the appeal" because "[w]hether the case should be litigated in the district court is not an issue collateral to the question presented by an appeal under § 16(a)(1)(A) ... [I]t is the mirror image of the question presented on appeal." *Bradford-Scott*, 128 F.3d at 505. The court also noted that "[c]ontinuation of proceedings in the district court largely defeats the point of the appeal and creates a risk of inconsistent handling of the case by two tribunals." *Id.* Finally, the court stated:

Arbitration clauses reflect the parties' preference for non-judicial dispute resolution, which may be faster and cheaper. These benefits are eroded, and may be lost or even turned into net losses, if it is necessary to proceed in both judicial and arbitral forums, or to do this sequentially.... Immediate appeal under § 16(a) helps to cut the loss from duplication. Yet combining the costs of litigation and arbitration is what lies in store if a district court continues with the case while an appeal under § 16(a) is

pending. Cases of this kind are therefore poor candidates for exceptions to the principle that a notice of appeal divests the district court of power to proceed with the aspects of the case that have been transferred to the court of appeals.

Id. at 506.

In agreeing with this rationale, the Eleventh Circuit stated:

Section 16 of the Federal Arbitration Act grants a party the right to file an interlocutory appeal from the denial of a motion to compel arbitration. *See* 9 U.S.C. § 16(a)(1)(A). By providing a party who seeks arbitration with swift access to appellate review, Congress acknowledged that one of the principal benefits of arbitration, avoiding the high costs and time involved in judicial dispute resolution, is lost if the case proceeds in both judicial and arbitral forums. If the court of appeals reverses and orders the dispute arbitrated, then the costs of the litigation in the district court incurred during appellate review have been wasted and the parties must begin again in arbitration. . . . Thus, the underlying reasons for allowing immediate appeal of a denial of a motion to compel arbitration are inconsistent with continuation of proceedings in the district court, and a non-frivolous appeal warrants a stay of those proceedings.

Blinco, 366 F.3d at 1251-52.

I agree with the majority view that continued proceedings in the district court are inconsistent with the purpose of the FAA. Allowing the case to continue in the district court while the court of appeals resolves the arbitrability issue creates the risk of unnecessary expense and pointless proceedings. Neither the parties nor the district court should waste time and resources on an action while the court of appeals is considering whether the dispute should, instead, be submitted to arbitration. I hold that all district court proceedings are “involved in the appeal” under these circumstances because the appeal will determine whether it is appropriate for those proceedings to take place. As such, and pursuant to the jurisdictional transfer rule, this court has no jurisdiction to proceed with this case while Olympic’s appeal is pending.

As Wells notes, and as is suggested in the above-quoted passage from *Blinco*, many courts adopting the majority view recognize an exception if the appeal is

frivolous. *See, e.g., Blinco*, 366 F.3d at 1252; *Bradford-Scott*, 128 F.3d at 506; *Ehleiter*, 482 F.3d at 214. While I agree that this exception is appropriate, at least conceptually, it is difficult to apply. There is something incongruous about asking a district court to hold that its own analysis of arbitrability is so sound and obviously-correct that any request for appellate review is beyond the pale. Perhaps, hypothetically, the district court could find an appeal to be frivolous if the party seeking to compel arbitration did not even allege the existence of an agreement to arbitrate. That is not the case here. Olympic, while not a signatory, does rely on written agreements and asserts that it has the legal right to enforce those agreements and compel Wells, as a signatory, to arbitrate. While I believe (of course) that this court's rejection of Olympic's position is correct, I cannot say that Olympic's exercise of its statutory right to immediate review by the court of appeals is frivolous. As such, and while I am sympathetic to Wells' concern about delay, the appeal divests this court of jurisdiction to proceed.³

B. If This Court Still Has Jurisdiction, Should These Proceedings Be Stayed On A Discretionary Basis?

Even if this court retains jurisdiction to proceed on the merits while Olympic's appeal is pending, I would stay the case on a discretionary basis in the interests of justice and judicial economy. A stay under these circumstances will prevent waste of resources, avoid inconsistent rulings, and reduce uncertainty. *See, e.g., Express Scripts, Inc. v. Aegon Direct Marketing Servs., Inc.*, No. 4:06-CV-1410 CAS, 2007 WL 1040938 (E.D. Mo. Apr. 3, 2007) (noting that a discretionary stay would be appropriate even if the appeal did not divest the district court of jurisdiction). There is

³ If Olympic's appeal is frivolous, the court of appeals will dismiss it summarily, thus returning jurisdiction to this court and reducing the length of the delay. *See* Eighth Circuit Local Rule 47A(a). Wells would then have the right to seek sanctions. *See* Federal Rule of Appellate Procedure 38.

simply no reason for this court, and the parties, to devote further resources to this case while the court of appeals is considering the question of whether this is the appropriate forum.

CONCLUSION

For the reasons set forth herein, defendant's motion (Doc. No. 50) to stay proceedings pending appeal is **granted**. This case is hereby stayed pending issuance of the mandate by the Eighth Circuit Court of Appeals. Plaintiff's motion (Doc. No. 49) for entry of scheduling order is **denied without prejudice**.

IT IS SO ORDERED.

DATED this 31st day of January, 2013.



LEONARD T. STRAND
UNITED STATES MAGISTRATE JUDGE
NORTHERN DISTRICT OF IOWA