

Keywords: arbitration clause; survivorship

General: The CAFC had jurisdiction to review a refusal to compel arbitration. The right of survivorship under a license agreement calling for arbitration must be established before the district court could compel arbitration.

Microchip Technology Inc. v. U.S. Philips Corp.
70 U.S.P.Q.2d 1847 (Fed. Cir., 2004)
May 13, 2004

I. Facts

Philips owns and licenses certain patents related to electronic circuits used in communications, computers and other devices. Microchip is a spin-off of a wholly-owned subsidiary of a company that had established a license for the patents in 1983 (“the 1983 agreement”). Philips sued other parties for infringement in the Southern District of New York. Microchip sued in the District of Arizona for declaratory judgment of non-infringement, contending that it benefited from the 1983 agreement. Philips counterclaimed for patent infringement.

Philips initiated an arbitration under the agreement, and contended that Microchip was not a successor to the agreement, and that the issue, and the existence and scope of any license were subject to an arbitration clause in the agreement. The International Court of Arbitration agreed to stay, and Philips asked the Arizona court to compel arbitration. The district court denied, and Philips appealed.

II. Issues

- A. Whether the Federal Circuit has jurisdiction to review the district court’s denial of the motion to compel arbitration?
- B. Whether the district court was obligated to refer any questions relating to the existence of an arbitration agreement to arbitration (or whether the district court should decide this “threshold issue”)?
- C. Whether the arbitration provision of the 1983 agreement expired by operation of the agreement?

III. Discussion

- A. Yes. The court likened the denial of a motion to compel arbitration to a denial of a mandatory injunction. Such decisions are appealable under 28 U.S.C. 1292(a)(1). Moreover, Section 16 of the Federal Arbitration Act was enacted in 1988 to make denial of an injunctive order (i.e., motions to compel arbitration) appealable.
- B. No. The court began by observing that any obligation to arbitrate, if it exists, must arise from the 1983 agreement. The issue of whether Microchip is a successor to the 1983 agreement, then, becomes a threshold issue that must be determined to establish whether an obligation to arbitrate is imposed on the parties.

The court looked to both Ninth Circuit and Supreme Court precedent. In *Teledyne, Inc. v. Kone Corp.*, the Ninth Circuit held that whether an agreement to arbitrate exists is arbitratable if there is no “independent challenge” to the arbitration provision. This court found no need to base its decision on *Teledyne*, however, due to Supreme Court decisions on the issue. Specifically, in *John Wiley & Sons, Inc. v. Livingston*, the Supreme Court held that the question of whether a party is bound by an agreement containing an arbitration provision is a “threshold question” for the court to decide. Moreover, in *First Options of Chicago Inc. v. Kaplan*, the Supreme Court stated that courts should not assume that parties agreed to arbitrate arbitrability unless there is clear and unmistakable evidence that they did so.

This court distinguished *Teledyne* from the Supreme Court precedent, because the decision of the gateway issue of whether an agreement to arbitrate exists is not limited to situations in which there is an independent challenge to the arbitration clause.

- C. No. Interestingly, this fundamental question was answered by simply interpreting the agreement. Because the survival clause of the agreement clearly listed the license provision as one that would survive, but did not list the arbitration clause, Microchip asserted that the arbitration clause did not survive, and therefore expired in 1987, as provided by the expiration provisions. However, the arbitration provision itself stated that “all disputes arising out of or in connection with the interpretation or execution of this Agreement *during its life or thereafter*” are subject to arbitration.

Although the provisions of the agreement appeared in contradiction, then, the clear language of the arbitration provision compelled the finding that the obligation to arbitrate did not expire. The court thus remanded the case for a determination of whether Microchip actually was a successor party to the 1983 agreement (in which case arbitration would apparently be required).

PSY
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