

Keywords: arbitration; license agreement; clear and unmistakable intent; wholly groundless; Federal Arbitration Act

General: The Federal Circuit held that the district court should not determine the arbitrability of an issue asserted for arbitration if the parties had evidenced clear and unmistakable intent for arbitration by incorporating the American Association of Arbitration rules which gave such power to the arbitrator. The Federal Circuit also held that the district court must, after determining that the arbitrator had jurisdiction to determine arbitrability, determine whether the assertion of issues for arbitration was “wholly groundless” wherein the district court could refuse to submit the issues to arbitration and deny a motion to stay for arbitration.

Qualcomm Inc. v. Nokia Corp.
No. 06-1317 (Fed. Cir. 2006)
Decided October 20, 2006

I. Facts

In July 2001, Qualcomm and Nokia, two major players in wireless telecommunications, entered into a non-exclusive license (“2001 Agreement”) allowing Nokia to make and sell products involving Qualcomm’s patented Code Division Multiple Access (“CDMA”) standard. This technology and the Global System for Mobile Communications (“GSM”) standard are among the primary mobile telecommunications standards. Along with the rights to use the CDMA technology, the agreement included an arbitration clause covering issues that “aris[e] out of or relat[e] to” the agreement. The arbitration clause also incorporated the arbitration rules of the American Arbitration Association (“AAA”). In addition, the agreement stipulated a California choice of law.

Approximately four years later, on November 4, 2005, Qualcomm initiated a patent infringement action against Nokia in the Southern District of California. Qualcomm complained of infringement of twelve of its patents. In response, Nokia, according to the 2001 Agreement terms, initiated an arbitration proceeding on December 20, 2005. Nokia submitted two issues to the arbitrator that were “relevant to this appeal:” (1) Qualcomm engaged in misleading conduct during the 2001 Agreement negotiations by causing Nokia to believe that Qualcomm did not hold issued or pending patents that Qualcomm planned to assert against Nokia’s GSM products which Nokia asserted as an affirmative estoppel defense to such assertion and (2) that the “valid and enforceable” 2001 Agreement barred Qualcomm’s claims of infringement by products incorporating CDMA technology. In addition, Nokia filed two motions in the district court, requesting [1] a stay of the district court action under Section 3 of the Federal Arbitration Act (“FAA”) and [2] a dismissal or, in the alternative, a more definite statement. The district court denied both the motion to stay and dismiss, but did grant, in part, Nokia’s alternative request for a more definite statement. The court, in response to Nokia’s motion to stay, held that their estoppel defense had not been introduced in the instant case and that the alleged infringement dealt with non-CDMA products. As a consequence, the court was not “satisfied” under FAA § 3 that the issues were arbitrable.

In response to the court’s order for a more definite statement, Qualcomm limited its infringement claims to Nokia’s GSM-only products. In addition, Qualcomm excluded all products licensed under the 2001 Agreement. However, this limitation did not satisfy Nokia who still maintained that the claims were unclear and that a dispute remained as to which Nokia products were and were not licensed under the 2001 Agreement. Nokia subsequently filed a second motion to stay

for purposes of appealing to the Federal Circuit which was granted and which appeal forms the basis of this opinion.

II. Issues

- A. Whether the district court used the appropriate inquiry to be “satisfied” under the FAA § 3?
- B. Whether the agreement demonstrated clear and unmistakable intent by the parties to delegate issues to arbitration?
- C. Whether Nokia’s assertions of arbitrability are “wholly groundless” and therefore the court is not satisfied under the FAA § 3 to refer the issue to arbitration?

III. Discussion

- A. No. Section 3 of the Federal Arbitration Act, 9 U.S.C. § 3 requires, *inter alia*, that a district court grant a stay of trial upon satisfaction that the issue involved in the suit is referable to arbitration under an agreement in writing for such arbitration. Because this act represents a national policy advocating arbitration, the court is required to grant such a stay once convinced that arbitration was the intent of all parties involved for the issue in question.

In this case, the Federal Circuit addressed the question of “how to reconcile” the conflict between an agreement that necessitates arbitration with the federal requirement that the court must be satisfied as to the arbitrability of the issue prior to issuing a stay to allow such arbitration. In other words, can a court overrule a valid and intentional arbitration clause if it finds itself unsatisfied with the arbitrability of the issue? As such, the Federal Circuit held here that it must determine “what inquiry the district court should perform in order to be ‘satisfied’ under section 3.” The court held that, to achieve satisfaction, the district court must first “inquire as to who has the primary power to decide arbitrability under the parties’ agreement.” In order to escape judicial determination of the arbitrability of an issue, the parties must have clearly and unmistakably intended to “delegate arbitrability decisions to an arbitrator.” However, while necessary, this intent is not, on its own, sufficient. If clear and unmistakable intent can be demonstrated, the court must *then* inquire if the assertion is “wholly groundless.” See *Dream Theater, Inc. v. Dream Theater*, 21 Cal. Rptr 3d 322, 326 (Cal. Ct. App. 2004). This requirement seems logical as to preclude an unworthy delay in litigation by sending inappropriate issues to arbitration. As such, if the district court finds that the arbitration assertion is wholly groundless, the motion to stay for arbitration may be denied.

- B. Yes. The United States Supreme Court in *First Options of Chicago Inc. v. Kaplan* established that the parties themselves determine the fate of the issue at hand. 514 U.S. 938, 943 (1995). The intent of the parties regarding who has the power to decide arbitrability must be demonstrated via clear and unmistakable evidence. In this case, the agreement stipulated to the governance of California law over any disputes. California law is consistent with federal law on this issue and therefore the court looked to the 2001 Agreement to determine the parties’ intent with respect to arbitration.

The 2001 Agreement explicitly incorporated the rules of the AAA in its arbitration resolution clause. Article 15 of the AAA rules reserve to itself the power to determine arbitrability of

issues as to the “existence, scope or validity of the arbitration agreement.” The court held, in accord with a Second Circuit decision, *Contec Corp. v. Remote Solution Co.*, that the incorporation of the AAA rules represented sufficiently clear and unmistakable intent by the parties to reserve to the arbitrator the determination of the arbitrability of any issues under the 2001 Agreement. 398 F.3d 205, 208 (2d Cir. 2005).

- C. Remanded to district court. The court held that because the district court had previously not addressed the nature of Nokia’s assertion of arbitrability, i.e., whether these assertions were “wholly groundless,” it would not decide this issue. Rather, the issue was remanded to the district court for consideration. Accompanying this remand, the district court received several instructions to assist in their consideration of this issue. Namely, the district court should look to the scope of the arbitration clause and the precise issues that Nokia is attempting to subject to arbitration. The district court should also refrain from analyzing these issues for their arbitrable nature, *per se*. To act otherwise would necessarily require trespass on the arbitrator’s jurisdiction as the 2001 Agreement evidenced the parties’ intent to arbitrate.

IV. Conclusion

Section 3 of the Federal Arbitration Act requires that a court be satisfied as to the arbitrable nature of an issue before it is required to submit such issue to arbitration. However, this requirement does not always agree with contractual terms requiring arbitration to resolve issues. The Federal Circuit, here, determined that courts are to first determine who has the power to determine the arbitrable nature of issues to prevent this discord. If an agreement evidences clear and unmistakable intent by all parties to submit any relevant issues to arbitration, the district court is to give way to the arbitrator who will then determine whether the issues are arbitrable. If there is no clear and unmistakable evidence of the intent of the parties, the court retains jurisdiction to hold a full arbitrability hearing before being satisfied under § 3. However, merely because clear and unmistakable intent to arbitrate has been demonstrated, the courts are not released from responsibility. The courts hold an additional role in determining whether the issues asserted for arbitration are “wholly groundless” to prevent inappropriate issues from being directed to arbitration.