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No. 69769-2-1

**IN THE COURT OF APPEALS
OF THE STATE OF WASHINGTON
DIVISION I**

MAGNADRIVE CORPORATION,

Petitioner-Respondent,

v.

**MAGNA FORCE, INC. and SYNERGY GREENTECH
CORPORATION,**

Respondents-Appellant.

Appeal From The Superior Court For King County
Case No. 12-2-20455-1 SEA

REPLY BRIEF OF APPELLANT MAGNA FORCE, INC.

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2012 JUN 27 PM 11:53
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TABLE OF CONTENTS

I. INTRODUCTION AND NATURE OF APPEAL 1

II. SUMMARY OF MAGNA FORCE’S UNREBUTTED LEGAL AUTHORITY AND ITS REPLY TO MDC’S ARGUMENTS..... 2

III. ARGUMENT 6

 A. In determining whether an arbitration award should be vacated under RCW 7.04A.230(d), this Court reviews the superior court’s judgment de novo..... 6

 B. The Court should reverse the judgment confirming the arbitration award because the arbitrator exceeded his authority by voiding the entire Patent Assignment Agreement..... 7

 1. The parties’ agreement limits the arbitrator’s authority to License Agreement disputes.....7

 2. The arbitrator’s award cannot expand his own authority.9

 3. The arbitrator’s remedy exceeded his powers.11

 4. A “presumption” of arbitrability cannot rewrite the Arbitration Provision.15

 5. Magna Force did not waive its objection to arbitrability.....17

 6. The superior court’s order compelling arbitration did not expand the arbitrator’s jurisdiction.18

 C. The Court should reverse the judgment confirming the arbitration award on the independent alternative ground that the arbitrator exceeded his authority by refusing to consider Magna Force’s counterclaim. 19

 D. The arbitrator’s errors appear on the face of the award. 21

 E. The Court should direct that a new arbitrator consider the parties’ claims. 23

IV. CONCLUSION..... 25

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Ace Capital Re Overseas v. Cent. United Life Ins. Co.</i> , 307 F.3d 24 (2d Cir. 2002).....	14
<i>ACF Prop. Mgmt., Inc. v. Chaussee</i> , 69 Wn. App. 913, 850 P.2d 1387 (1993).....	7, 8, 16, 18
<i>Agnew v. Lacey Co-Ply</i> , 33 Wn. App. 283, 654 P.2d 712 (1982).....	24
<i>Badgett v. Sec. State Bank</i> , 116 Wn.2d 563, 807 P.2d 356 (1991).....	20
<i>Barnett v. Hicks</i> , 119 Wn.2d 151, 829 P.2d 1087 (1992).....	7
<i>Beroth v. Apollo Coll., Inc.</i> , 135 Wn. App. 551, 557, 145 P.3d 386 (2006).....	11
<i>City of Yakima v. Yakima Police Patrolmans Ass'n</i> , 148 Wn. App. 186, 199 P.3d 484 (2009).....	1, 5, 8, 11
<i>Cummings v. Budget Tank Removal & Env'tl. Servs., LLC</i> , 163 Wn. App. 379, 260 P.3d 220 (2011).....	23
<i>Davidson v. Hensen</i> , 135 Wn.2d 112, 954 P.2d 1327 (1998).....	21
<i>Davis v. General Dynamics Land Systems</i> , 152 Wn. App. 715, 719, 217 P.3d 1191 (2009).....	11, 12
<i>Equity Grp., Inc. v. Hidden</i> , 88 Wn. App. 148, 943 P.2d 1167 (1997).....	21
<i>Federated Servs. Ins. Co. v. Norberg</i> , 101 Wn. App. 119, 4 P.3d 844 (2000).....	23
<i>Granite Rock Co. v. Int'l Bhd. Teamsters</i> , 130 S. Ct. 2847 (2010).....	5, 17

<i>Harris v. Grange Ins. Ass'n</i> , 73 Wn. App. 195, 868 P.2d 201 (1994).....	24
<i>Hill v. Garda CL Nw. Inc.</i> , 169 Wn. App. 685, 281 P.3d 334 (2012).....	5, 19
<i>Kelly v. Powell</i> , 55 Wn. App. 143, 776 P.2d 996 (1989).....	20, 21
<i>KPMG LLP v. Cocchi</i> , 132 S. Ct. 23 (2011).....	15
<i>Lindon Commodities, Inc. v. Bambino Bean Co.</i> , 57 Wn. App. 813, 790 P.2d 228 (1990).....	23
<i>Malted Mousse, Inc. v. Steinmetz</i> , 150 Wn.2d 518, 79 P.3d 1154 (2003).....	7
<i>McClatchy Newspapers v. Cent. Valley Typogr. Union No. 46</i> , 686 F.2d 731 (9th Cir. 1982)	25
<i>McClure v. Davis Wright Tremaine</i> , 77 Wn. App. 312, 890 P.2d 466 (1995).....	12, 14
<i>ML Park Place Corp. v. Hedreen</i> , 71 Wn. App. 727, 862 P.2d 602 (1993).....	5, 11, 18, 21
<i>Nelson v. Westport Shipyard, Inc.</i> , 140 Wn. App. 102, 163 P.3d 807 (2007).....	14, 15
<i>Nolde Bros., Inc. v. Local No. 358 Bakery & Confectionery Workers Union</i> , 430 U.S. 243 (1977).....	12
<i>North Coast Electric Co. v. Selig</i> , 136 Wn. App. 636, 151 P.3d 211 (2007).....	21
<i>Tacoma Narrows Constr. v. Nippon Steel-Kawada Bridge, Inc.</i> , 138 Wn. App. 203, 156 P.3d 293 (2007).....	4, 10, 11, 17
<i>Todd v. Venwest Yachts, Inc.</i> , 127 Wn. App. 393, 111 P.3d 282 (2005).....	15

<i>W.A. Botting Plumbing & Heating Co. v. Constructors-Pamco,</i> 47 Wn. App. 681, 736 P.2d 1100 (1987).....	18
<i>Wash. State Dep't of Transp., Ferries Div. v. Marine Emps.</i> <i>Comm'n,</i> 167 Wn. App. 827, 274 P.3d 1094 (2012).....	6
<i>Weiss v. Lonquist,</i> 153 Wn. App. 502, 224 P.3d 787 (2009).....	13

STATUTES

RCW 7.04	21
RCW 7.04.160	24
RCW 7.04A.....	7
RCW 7.04A.220.....	7
RCW 7.04A.230.....	7
RCW 7.04A.230(3).....	22, 24
RCW 7.04A.230(d).....	6
RCW 7.04A.260(d).....	19
RCW 7.06	7

I. INTRODUCTION AND NATURE OF APPEAL

Arbitrators enjoy largely unconstrained authority to resolve the merits of disputes submitted to them by the parties. Because the source of that great power is the parties' voluntary agreement to arbitrate, courts are responsible for ensuring that arbitrators adjudicate only claims that fall within their agreed-upon jurisdiction. Washington courts vacate awards where the arbitrators purport to grant relief that exceeded their contractual and legal authority. *See, e.g., City of Yakima v. Yakima Police Patrolmans Ass'n*, 148 Wn. App. 186, 199 P.3d 484 (2009). In this case, the arbitrator exceeded his powers under the License Agreement by invalidating the separate Patent Assignment Agreement in its entirety.

Respondent MagnaDrive Corporation ("MDC" or "MagnaDrive") erroneously accuses Magna Force of seeking "to retry the case the Arbitrator decided against it." Resp. Br. at 1. To the contrary, this appeal does not involve the merits of the factual and legal questions – regarding the assignment parties' intent and Synergy's location – that were vigorously disputed by the parties in their arbitration briefing and at the arbitration hearing. *See, e.g.,* CP 255-358 (briefs); CP 366-72 (arbitrator's summary of hearing). Magna Force vehemently disagrees with the arbitrator's determination that Synergy was located outside the United States for purposes of the License Agreement's advance consent provision;

but it does not rely on that ruling as a basis for vacating the arbitration award. Perhaps MDC's indignant tone might be justified if Magna Force had in fact asked this Court to second-guess the merits of the arbitrator's location determination – because it is undisputed that the arbitrator had the authority to decide this issue. Likewise, the arbitrator undisputedly had the authority to determine whether the License Agreement assignment to Synergy was valid under the alternative contractual ground that MDC unreasonably withheld its consent – yet the arbitrator refused to reach Magna Force's counterclaim.

Magna Force is not attempting to re-hash the merits of the parties' contract dispute. Rather, this appeal involves two purely legal, jurisdictional questions that are emphatically the province of the judiciary and are central to the respective roles of courts and arbitrators: whether the arbitrator had the authority to grant the specific relief identified in his award, and whether he actually determined one of the arbitrable claims submitted to him.

II. SUMMARY OF MAGNA FORCE'S UNREBUTTED LEGAL AUTHORITY AND ITS REPLY TO MDC'S ARGUMENTS

MDC ignores most of the arguments and legal authorities forth in Magna Force's opening brief, including the following:

- When a claim is not arbitrable under the parties' agreement, an

arbitrator has no power to adjudicate that claim. App. Br. 17-18¹ (citing *ACF Prop. Mgmt., Inc. v. Chaussee*, 69 Wn. App. 913, 920, 850 P.2d 1387 (1993), etc.).

- Courts vacate arbitration awards when the arbitrator lacked authority to provide the particular relief set forth in the award. App. Br. 18-9, 29 (citing *Price v. Farmers Ins. Co. of Wash.*, 133 Wn.2d 490, 500, 946 P.2d 388 (1997), etc.).
- The 1999 License Agreement and the 2010 Patent Assignment Agreement are *not* interconnected collateral contracts related to a single transaction and covered by the same arbitration clause.

The award should be vacated because it purports to void:

- Terms of a separate contract between different parties. App. Br. 20-21 (citing *Capitol Life Ins. Co. v. Gallagher*, 839 F. Supp. 767, 769 (D. Colo 1993)).
- Executed years apart in time. *Id.* at 21 (citing *Int'l Ambassador Programs v. Archexpo*, 68 F.3d 337, 339-40 (9th Cir. 1995), etc.).
- Involving different legal rights. App. Br. 22-23 (citing *Boehringer Ingelheim Vetmedica, Inc. v. Merial, Ltd.*, No. 3:09-CV-212, 2010 U.S. Dist. LEXIS 6819 (D. Conn. Jan. 14, 2010) (rights licensed by patent holder are separate from patent ownership rights), etc.).

¹ Rather than repeat these arguments and un rebutted authorities, Magna Force refers the Court to the cited pages of Appellants' Brief.

- And parties who did not agree to arbitration in their contract. App. Br. 8.

Instead of responding to these authorities, MDC proposes an alternative characterization of Washington law regarding arbitrability. *See* Resp. Br. 3-7 (summary of argument). As detailed below in this reply brief, each of MDC's contentions is incorrect:

- MDC argues that the arbitrator “interpreted the Arbitration Provision to be a ‘broad grant of authority for dispute resolution’” extending to the assignment to Synergy of the patents and other licenses, and “the Court may not substitute its own contract interpretation for the Arbitrators.” Resp. Br. 3. But “whether and what the parties have agreed to arbitrate is an issue for the courts to decide unless otherwise stipulated by the parties.” *Tacoma Narrows Constructors v. Nippon Steel-Kawada Bridge, Inc.*, 138 Wn. App. 203, 214-15, 156 P.3d 293 (2007) (arbitration provision covering “all disputes” is “not an express delegation of the issue of arbitrability to the arbitrator”).
- In the alternative, MDC asks this Court to construe the License Agreement arbitration clause as authorizing the arbitrator to void the entire Patent Assignment Agreement, including its assignment to Synergy of separate intellectual property rights

not covered by the License Agreement, Resp. Br. 3, for four

reasons:

- MDC claims that even if the License Agreement parties limited arbitration provision to disputes “relating to” the consent requirements of “*this* Agreement,” the arbitrator still may fashion relief that invalidates a *separate* agreement involving different rights and counterparties. *Id.* at 4. But an arbitrator lacks authority to provide relief beyond the scope of the agreement to arbitrate, and “does not sit to dispense his own brand of industrial justice.” *City of Yakima*, 148 Wn. App. at 192.
- MDC claims that the policy favoring enforcement of private arbitration agreement means that disputes are presumptively arbitrable. Resp. Br. 4. But a presumption of arbitrability in close cases cannot change the specific allocation of arbitral and non-arbitral claims in the parties’ actual agreements. *Granite Rock Co. v. Int’l Bhd. Teamsters*, 130 S. Ct. 2847, 2850-51 (2010).
- MDC claims Magna Force waived its objection to arbitrability. Resp. Br. 5. But Magna Force’s objection in the arbitration, CP 380, preserved the issue for subsequent judicial review. *ML Park Place Corp. v. Hedreen*, 71 Wn. App. 727, 734, 862 P.2d 602 (1993).
- MDC contends that the order compelling the parties to arbitrate whether Magna Force had validly “assigned the License Agreement to Synergy,” CP 129, provides an “independent basis for jurisdiction” by the arbitrator. Resp. Br. 5. But the trial court did not and could not compel MDC to arbitrate disputes over separate legal rights not within the scope of the arbitration provision. *Hill v. Garda CL Nw. Inc.*, 169 Wn. App. 685, 699, 281 P.3d 334 (2012) (reversing order compelling arbitration of nonarbitrable class claims).

- Finally, MDC argues that the arbitrator “considered MFI’s counterclaim to establish the validity of the Assignment Agreement before dismissing it with prejudice.” Resp. Br. 7. To the contrary, when Magna Force alerted the arbitrator to his failure to reach the alternative contractual mechanism for assigning the License Agreement, together with additional evidence regarding MDC’s own connections to China, he erroneously assumed that this counterclaim was subsumed by his ruling on the separate advance consent procedure. CP 251-52.

III. ARGUMENT

A. In determining whether an arbitration award should be vacated under RCW 7.04A.230(d), this Court reviews the superior court’s judgment de novo.

This Court reviews de novo the superior court’s judgment confirming the award, with no deference to the lower court. *See, e.g., Wash. State Dep’t of Transp., Ferries Div. v. Marine Emps. Comm’n*, 167 Wn. App. 827, 835, 274 P.3d 1094 (2012) (“Whether the arbitrator acted outside his authority involves addressing a question of law and, as such, our review is de novo”). Nevertheless, MDC argues that the de novo standard “applies only to appeal of motions to compel or deny arbitration, not to appeal of orders to confirm or vacate arbitration awards.” Resp. Br. 22. But as MDC ultimately acknowledges, “the appellate court’s review of

an arbitrator's award is confined to the same scope as the trial court's review." Resp. Br. 24 (citing *Kenneth W. Brooks Trust v. Pac. Media LLC*, 111 Wn. App. 393, 397, 44 P.3d 938 (2002)).² That of course *is* the "de novo" standard.

B. The Court should reverse the judgment confirming the arbitration award because the arbitrator exceeded his authority by voiding the entire Patent Assignment Agreement.

1. The parties' agreement limits the arbitrator's authority to License Agreement disputes.

An arbitrator's power is governed by the parties' agreement to arbitrate. *Barnett v. Hicks*, 119 Wn.2d 151, 155, 829 P.2d 1087 (1992). "The authority of the arbitrator is wholly dependent upon the terms of the agreement of submission." *ACF Prop. Mgmt.*, 69 Wn. App. at 919 (emphasis in original). The ensuing award must not exceed the authority established in the agreement. "The arbitration award must concern only those matters included within the agreement for submission and must not exceed the powers established by the submission." *Id.* (emphasis in

² MDC confuses judicial review of private arbitration under the arbitration statute, RCW 7.04A, with appeals from awards under the mandatory arbitration statute, RCW 7.06, which permit trial *de novo* by the superior court of the *merits* of the dispute before the arbitrator. See, e.g., *Malted Mousse, Inc. v. Steinmetz*, 150 Wn.2d 518, 79 P.3d 1154 (2003) (contrasting standards and procedures for appellate review). Specific legal standards apply whenever a court is charged with determining if an arbitration award should be confirmed or vacated under RCW 7.04A.220 and 230, including this appeal. See App. Br. 17-18.

original). If the arbitrator exceeds her authority under the agreement, the award is deemed void and the court has no jurisdiction to confirm it. *Id.* at 920-21. Even if well intended, an arbitrator lacks authority to provide relief beyond the scope of the agreement for submission. *City of Yakima*, 148 Wn. App. at 192 (an arbitrator “does not sit to dispense his own brand of industrial justice”) (citation omitted).

The parties agree that the arbitrator “had the power to invalidate an assignment of the License Agreement.” Resp. Br. 36 (citing App. Br. 20). But they also recognize that there is a difference between the “assignment of the License Agreement” and “the instrument that effected that assignment.” *Id.* at 5. *See also id.* at 9 (“The Assignment Agreement also transferred MFI Patents”). Magna Force and MDC’s contract defined – and limited – the scope of the arbitrator’s authority to disputes “relating to the interpretation, construction, application or requirements of *this* Agreement.” CP 99 (emphasis added). The License Agreement underscores this limited grant of authority by requiring the explicit “agreement of the Parties” in order to “submit[] to arbitration” any “other dispute *between the Parties* under *this* Agreement.” CP 100 (emphasis added).

Nevertheless, MDC erroneously conflates the licensor/licensee rights Magna Force exchanged with MDC in the License Agreement with

the patentee rights conveyed to Synergy by the Patent Assignment Agreement. MDC asserts – without any citation – that Magna Force’s “rights *under the License Agreement* include the patent rights that were the subject of *the Assignment Agreement*.” Resp. Br. 9 (emphasis added). According to MDC, because the License Agreement permitted MDC to practice Magna Force’s patented technology, Magna Force’s ownership of the patents themselves and its other existing licenses were among the “rights, title, and interests [the License Agreement] covered.” Resp. Br. 3. MDC offers no authority for this proposition, *id.*, because it misstates black-letter intellectual property law. *See* App. Br. 22-23.³ The Arbitration Provision limits its scope to the License Agreement, and does not authorize arbitration as to any other disputes, parties, or agreements.

2. The arbitrator’s award cannot expand his own authority.

MDC’s primary argument relies on the mistaken assumption that the arbitrator had the authority to determine his own jurisdiction, Resp. Br.

³ MDC’s position is equivalent to arguing that if Magna Force had deeded its Port Angeles headquarters to Synergy, the Arbitration Provision would authorize the arbitrator to rescind this real property transfer and quiet title in Magna Force, on the grounds that the conveyance was memorialized by provisions appearing in the same document that also effected the assignment of the intellectual property rights actually covered by the License Agreement. But Section 14.5 of the License Agreement only “limited MFI’s ability to assign the License Agreement and the rights, title, and interests it covered,” Resp. Br. 3, not its ability to transfer other legal rights already held by Magna Force.

26 (“deciding the validity of the [Patent] Assignment Agreement was within the Arbitrator’s power”), and that his improper decision to assert jurisdiction is now insulated from judicial review. *Id.* at 27 (“No further inquiry by this Court is required, or permitted”). Unsurprisingly, MDC identifies no legal authority to substantiate either assertion.

“The general rule is that whether and what the parties have agreed to arbitrate is an issue for the courts to decide unless otherwise stipulated by the parties.” *Tacoma Narrows Constructors*, 138 Wn. App. at 213-14 (citing *John Wiley & Sons v. Livingston*, 376 U.S. 543, 546-47 (1964)). The party claiming that arbitrability is for the arbitrator to decide, i.e., MDC, bears the burden of proof and must show that the contract clearly manifests such an intention. *Id.* at 214. In *Tacoma Narrows*, for example, the court rejected the argument that the phrase “all disputes” in the arbitration provision authorized the arbitrator to determine his own jurisdiction because although broadly drafted, it was “not an express delegation of the issue of arbitrability to the arbitrator.” *Id.* 214-15. Similarly, in this case the Arbitration Provision does not expressly delegate

the issue of arbitrability to the arbitrator.⁴ The arbitrator's determination of his own jurisdiction was improper on its face, and cannot be rubberstamped by the courts to convey authority the parties never consented to.

3. The arbitrator's remedy exceeded his powers.

To determine the validity of an arbitration award, Washington courts examine the scope of authority established in the parties' agreement. *See, e.g., ML Park Place Corp.*, 71 Wn. App. at 739 (in determining whether claim was arbitrable, this court reviews "the arbitration clause, the contentions of the parties, **and** the face of the award itself") (emphasis added); *City of Yakima*, 148 Wn. App. at 192 (remedy exceeded arbitrator's authority).

For example, in *Davis v. General Dynamics Land Systems*, an employee had agreed to an arbitration provision that covered all claims "related to" his "employment." 152 Wn. App. 715, 719, 217 P.3d 1191 (2009). The court held that Mr. Davis' race discrimination claims against General Dynamics were **not** subject to arbitration because his legal status at the time that his claim accrued was that of a contractor and he only later

⁴ In contrast with both the License Agreement and the parties' contract at issue in *Tacoma Narrows*, in the case that MDC primarily relies upon, *Beroth v. Apollo Coll., Inc.* (cited at Resp. Br. 23, 27), the parties "specifically submitted the issue of the enforceability of the two arbitration agreements to the arbitrator." 135 Wn. App. 551, 557, 145 P.3d 386 (2006).

became an official employee. “Thus we cannot fairly say that the Arbitration Agreement covers his claims as they do not relate to his employment with General Dynamics.” *Id.* MDC sidesteps the court’s analysis of the scope of the *Davis* arbitration provision and argues that the case merely stands for the “unextraordinary proposition that if parties ***terminate a contract***, then the arbitration clause in that contract can ***no longer be involved***.” Resp. Br. 36-37 (emphasis added).⁵ As the case involved the legal question as to the *scope* of the arbitration provision in Mr. Davis’s *existing* employment agreement, MDC’s characterization does not fairly describe either the issue of law or the facts of the case. Just as the subtle distinction in Mr. Davis’ employment status was sufficient to place the dispute outside the scope of the parties’ arbitration provision, the more substantial differences between the particular legal rights transferred in the two agreements at issue here places these provisions of the Patent Assignment Agreement outside the scope of the License Agreement Arbitration Provision.

MDC advances the same erroneous timing argument in an effort to

⁵ Actually, the arbitration provision in a contract generally survives termination of the contract unless there is clear evidence that the parties intended to override such a presumption. *Nolde Bros., Inc. v. Local No. 358 Bakery & Confectionery Workers Union*, 430 U.S. 243, 255 (1977). *See also* CP 99 (Arbitration Provision survives termination of License Agreement).

distinguish *Weiss v. Lonquist*, 153 Wn. App. 502, 224 P.3d 787 (2009). In that case Ms. Weiss entered into an employment agreement with the Lonquist law firm that permitted termination without cause and contained an arbitration provision. After nine months, the agreement terminated and Ms. Weiss's status changed to "at will." As a matter of employment law, because Ms. Weiss continued to render the same services, earned the same salary and benefits and was subject to the same billable hour targets, she presumptively was "serving under a new contract having the same terms and conditions." *Id.* at 512. Nonetheless, this Court held that Ms. Weiss could not be compelled to arbitrate her claim. "As arbitration is a matter of contract, parties cannot be compelled to arbitrate unless they agreed to do so." *Id.* at 510. Contrary to MDC's suggestion, Resp. Br. 37, even when the contractual relationship is almost *identical*, this Court does not presume that parties to a separate agreement lacking an arbitration clause have agreed to subject themselves to the arbitrator's jurisdiction. Here the two contracts involve *different* legal rights and different counterparties.

In disregard of Washington law, MDC suggests that instead of identifying the matter actually subject to arbitration (such as the validity of consent to an assignment of the rights under the License Agreement), the arbitrator's authority should be expanded to encompass non-arbitral issues (such as voiding the entire Patent Assignment Agreement). Resp. Br. 36,

38. MDC refers to a federal decision involving a dispute over the legal effect of a settlement proposal. *See Ace Capital Re Overseas v. Cent. United Life Ins. Co.*, 307 F.3d 24 (2d Cir. 2002). But the settlement proposal at issue in *Ace Capital* stated that the terms would be “substantially similar” to the underlying reinsurance agreements, which contained arbitration provisions. *Id.* at 27. Unlike the License Agreement, where the parties limited the scope of the arbitration provision to certain matters involving “*this* Agreement,” the Second Circuit ruled the parties had drafted the reinsurance arbitration provisions to cover “*any transaction involved.*” *Id.* at 35 (emphasis added).⁶

Finally, MDC argues that the arbitration provision in *Nelson v. Westport Shipyard, Inc.*, 140 Wn. App. 102, 163 P.3d 807 (2007), was so “narrow” that “it did not apply to the plaintiff’s claims.” Resp. Br. 38. Again, MDC’s careless reading of the case causes it to overlook this Court’s actual holding. In fact, the court examined the arbitration provision

⁶ MDC’s reliance on *McClure v. Davis Wright Tremaine*, 77 Wn. App. 312, 890 P.2d 466 (1995), is similarly misplaced. *McClure* involved the question of whether a non-signatory law firm qualified as “any party involved” for purposes of adjudicating a claim against the firm. *Id.* at 315. The court therefore permitted the law firm to voluntarily add itself to a pending arbitration. This Court observed “[i]t is important to note, however, that in reaching this decision this court has not had to address the more difficult question of whether an arbitration clause allows a signatory to compel a nonsignatory to arbitrate.” *Id.* at n.1.

and distinguished between the arbitral and non-arbitral elements of Mr. Nelson's claim. The court required arbitration to the "extent this [fourth] cause of action includes the price that Westport must pay Nelson to buy back his shares," but rejected arbitration as to any other aspect of this claim because the "arbitration clause does not generally encompass Nelson's fourth cause of action." 140 Wn. App. at 118-19. *See also KPMG LLP v. Cocchi*, 132 S. Ct. 23, 24 (2011) (court must segregate arbitral and non-arbitral claims even if doing so will lead to "piecemeal litigation"); *Todd v. Venwest Yachts, Inc.*, 127 Wn. App. 393, 400, 111 P.3d 282 (2005) ("no evidence that either" party "intended" that an outside "arbitration clause would play a role in their employment relationship"). The superior court erred as a matter of law by confirming the award.

4. A "presumption" of arbitrability cannot rewrite the Arbitration Provision.

MDC next tries to apply a "presumption in favor of arbitrability" to effectively redraft the scope of the parties' arbitration provision. According to MDC, the presumption suffices to rewrite the parties' actual language, which specifically limits the arbitrator's authority to disputes related to the requirements of the *License Agreement* ("this Agreement"), and extends the arbitrator's jurisdiction over disputes related to the requirements of the *Patent Assignment Agreement*. Resp. Br. 27-32.

MDC misapprehends the nature of the presumption in favor of arbitrability under Washington law and federal law (from which Washington law derives the presumption). As this Court has explained:

Although **public policy** strongly favors arbitration as a remedy for settling dispute, arbitration should not be invoked to resolve disputes that the **parties have not agreed to arbitrate**. To the **contrary**, an agreement for the submission of a dispute to the arbitration **defines and limits** the issues to be decided.

ACF Prop. Mgmt, 69 Wn. App. at 919 (emphasis added) (citations and internal quotation marks omitted). Recently, the U.S. Supreme Court similarly clarified that the presumption favoring arbitration cannot be used to “cure” the scope of the arbitration provision:

Local is thus **wrong** to suggest that the presumption of arbitrability we sometimes apply takes courts **outside** our settled framework for deciding arbitrability. The presumption simply **assists** in resolving arbitrability disputes **within** that **framework**. **Confining** the presumption to this role reflects its foundation in the federal policy favoring arbitration. As we have explained, this ‘policy’ is merely an acknowledgment of the FAA's commitment to overrule the judiciary's longstanding refusal to enforce agreements to arbitrate and to place such agreements upon the **same footing** as other contracts. Accordingly, we have never held that this policy **overrides the principle** that a court may submit to arbitration **only those disputes** that the parties have **agreed to submit**. Nor have we held that courts may use **policy considerations** as a **substitute** for **party agreement**.

Granite Rock Co., 130 S. Ct. 2859 (emphasis added) (citations and internal quotation marks omitted).

Courts may rely on the presumption as a rule of construction to resolve **doubts** concerning the scope of the arbitration provision. *See, e.g.*,

Resp. Br. 28 (quoting *Kamaya Co. v. Am. Prop. Consultants*, 91 Wn. App. 703, 714, 959 P.2d 1140 (1998)). But because the Arbitration Provision is expressly limited to disputes over the License Agreement, this Court can act with positive assurance that the parties did not intend to arbitrate the status of the *other* rights referred to in the separate Patent Assignment Agreement. See *Tacoma Narrows*, 138 Wn. App. at 215-16 (rejecting the argument that the presumption of arbitrability should change the allocation of arbitral and non-arbitral claims in the parties' agreements).

5. Magna Force did not waive its objection to arbitrability.

The parties agree that the arbitrator “had the power to invalidate an assignment of the License Agreement.” Resp. Br. 36 (citing App. Br. 20). Provisions of the Patent Assignment Agreement are of course relevant to the parties' dispute over whether the assignment to Synergy satisfied each requirement of the advance consent provision. Magna Force and Synergy therefore agreed that the arbitrator should consider all relevant evidence, including the components of the Patent Assignment Agreement and the circumstances of its execution, in determining whether Magna Force and Synergy intended to assign *all* of MFI's rights and obligations as Licensor under the License Agreement. CP 369, 372, 300-01. In considering evidence relevant to MDC's claim, Magna Force did not authorize the

arbitrator to fashion a remedy beyond the power granted by the Arbitration Provision.

When issues adjudicated in arbitration are not properly subject to arbitration under the parties' agreement, the party objecting to their arbitrability may subsequently challenge the validity of the award in court when the other party moves to have the award confirmed. *See, e.g., ACF Prop. Mgmt.*, 69 Wn. App. at 922 (citing *Teufel Constr. Co. v. Am. Arbitration Ass'n*, 3 Wn. App. 24, 27, 472 P.2d 572 (1970)); *ML Park Place Corp.*, 71 Wn. App. at 736-37 (objecting party not required to seek interlocutory relief).⁷ Magna Force did not waive its objection to arbitrating MDC's demand that the entire Patent Assignment Agreement be voided.

6. The superior court's order compelling arbitration did not expand the arbitrator's jurisdiction.

Finally, MDC contends that the order compelling the parties to arbitrate whether Magna Force had validly "assigned the License Agreement to Synergy," CP 129, provides a "separate and independent basis" for the arbitrator to also adjudicate whether Magna Force or Synergy

⁷ MDC erroneously relies, Resp. Br. 33, on discredited "dicta." *ML Park Place*, 71 Wn. App. at 734 (distinguishing *W.A. Botting Plumbing & Heating Co. v. Constructors-Pamco*, 47 Wn. App. 681, 736 P.2d 1100 (1987)). In any event, Magna Force timely objected to MDC's demand that the arbitrator void the entire Patent Assignment Agreement. CP 380.

owns the patents and the non-MDC licenses conveyed by the Patent Assignment Agreement. Resp. Br. 5. Tellingly, MDC cites no authority for this assertion. *See id.* at 5-7, 34-35.

The order speaks for itself, and is limited to the assignment of the License Agreement. CP 129. In any event, the superior court could only compel arbitration of claims covered by the parties' agreement to arbitrate. *See, e.g., Hill*, 169 Wn. App. at 699 (reversing order compelling arbitration of nonarbitrable class claims). Pursuant to RCW 7.04A.260(d), this Court should reverse the judgment below and vacate the arbitration award.

C. The Court should reverse the judgment confirming the arbitration award on the independent alternative ground that the arbitrator exceeded his authority by refusing to consider Magna Force's counterclaim.

Throughout the arbitration, Magna Force opposed MDC's claim that the License Agreement assignment to Synergy should be voided for failing to meet the advance consent requirement of the Agreement. *See, e.g., CP 271*, 367. In addition, Magna Force also asserted a counterclaim contending that regardless of Synergy's location, MDC had no reasonable basis for withholding its consent to the assignment. CP 113. As MDC observes, the arbitrator dismissed this counterclaim "because MagnaDrive had prevailed." Resp. Br. 39 (citing CP 377, 381). But what MDC had prevailed on was whether "*the blanket consent applied since Synergy had a*

principal place of business in the United States.” Resp. Br. 40-41 (emphasis in original) (citing CP 252). That was the sole subject of the arbitrator’s findings and conclusions. CP 407-17 (interim award); CP 366-75 (final award). Nothing in the award addressed the reasonableness of MDC’s refusal. *Id.* To the contrary, the arbitrator apparently believed – erroneously – that the “issues of individualized consent and the reasonableness of withholding consent were not presented in the arbitration and were not part of the dispute resolution procedures.” Resp. Br. 41 (citing CP 251).

The sole authority cited by MDC, *Kelly v. Powell*, 55 Wn. App. 143, 776 P.2d 996 (1989), is inapposite. *Kelly* involved an unlawful detainer action, a statutory procedure which generally does not allow “other claims, including counterclaims,” unless they are “necessary to determine the right of possession.” *Id.* at 150. This court held that the defendant tenant’s specific performance counterclaim was such a necessary claim: if the tenants prevailed on their counterclaim then the landlord’s eviction claim would fail as a matter of law, and vice versa. *Id.* See also *Badgett v. Sec. State Bank*, 116 Wn.2d 563, 574-75, 807 P.2d 356 (1991) (“dismissal of their damages claims necessarily leads to the granting of the Bank’s counterclaims”). In contrast with *Kelly*, however, Magna Force’s reasonable consent counterclaim was *separate and independent* from the

advance consent claim the arbitrator actually adjudicated. *See, e.g., North Coast Electric Co. v. Selig*, 136 Wn. App. 636, 648, 151 P.3d 211 (2007) (“legal theories raised and defended in the counterclaim action were different than those presented in the action on the contract claim”).

D. The arbitrator’s errors appear on the face of the award.

The parties agree that courts may not “delve into the merits of the claims” before the arbitrator. Resp. Br. 18 (citing *Kenneth W. Brooks Trust*, 111 Wn. App. at 397). Court refer to the “face of the award” as “a shorthand description” for the policy of giving “substantial finality to arbitrator decisions *rendered in accordance with the parties’ contract and RCW 7.04.*” *Davidson v. Hensen*, 135 Wn.2d 112, 118, 954 P.2d 1327 (1998) (emphasis added).

MDC’s extraordinarily cramped characterization of the courts’ role, Resp. Br. 19, would effectively insulate arbitrators from any judicial scrutiny. But whenever the issue before a court is whether an arbitrator granted relief on a claim that was not validly submitted to arbitration, the court must examine the parties’ contracts, their claims, and the award. *ML Park Place Corp.*, 71 Wn. App. at 739. *See also Equity Grp., Inc. v. Hidden*, 88 Wn. App. 148, 156-58, 943 P.2d 1167 (1997) (examining circumstances of parties’ submission to arbitration, in contrast with more limited “face of award” examination for determining whether arbitrator

erred in decision). If the remedy fashioned by an arbitrator was not authorized by the parties' contract and the arbitration statute, courts vacate the award under the statutory provision now codified at RCW 7.04A.230(3). As discussed above and in Magna Force's opening brief, the Court should reverse because the award voiding the Patent Assignment Agreement in its entirety, CP 377, exceeded on its face the arbitrator's authority under the separate License Agreement.

This Court should also vacate the award on the separate and independent ground that the arbitrator failed to determine Magna Force's counterclaim, which contended that the assignment of the License Agreement to Synergy is valid under the alternative contractual ground that MDC unreasonably withheld its consent to any assignment. This error likewise appears on the face of the award. It is undisputed that courts applying the arbitration statute must consider the arbitrator's "statement of the outcome." Resp. Br. 20 (citing *Westmark Props., Inc. v. McGuire*, 53 Wn. App. 400, 403, 766 P.2d 1146 (1989)). Here the award states that "The *Assignment Agreement was declared void* and Respondents' counterclaims are *therefore dismissed* with prejudice." CP 377 (emphasis added). Even though the License Agreement's advance consent provision is irrelevant to Magna Force's counterclaim, the arbitrator nevertheless ruled that "the purported assignment reflected in the Assignment

Agreement is void” – *solely* because “the principal place of business of Synergy is not located in the United States, Canada, or Europe” for purposes of advance consent. CP 376. The arbitrator’s stated outcome is defective on its face.

Moreover, when as here the parties have agreed that the arbitrator is to provide a basis for his decision, the “face of the award” to be examined also includes the arbitrator’s reasoning. *See Cummings v. Budget Tank Removal & Envtl. Servs., LLC*, 163 Wn. App. 379, 389, 260 P.3d 220 (2011); *Federated Servs. Ins. Co. v. Norberg*, 101 Wn. App. 119, 125, 4 P.3d 844 (2000). Nothing in the award, CP 366-77, refers to the separate, alternative contractual mechanism for effecting a License Agreement assignment with MDC’s consent, which “shall not be unreasonably withheld.” CP 104. Because the award is not “substantially sufficient on its face to settle the dispute on its merits,” it should not have been confirmed. *Lindon Commodities, Inc. v. Bambino Bean Co.*, 57 Wn. App. 813, 816, 790 P.2d 228 (1990) (award vacated where court unable to determine arbitrator’s intended resolution of submitted claim).

E. The Court should direct that a new arbitrator consider the parties’ claims.

MDC erroneously argues that there is a “presumption” that “any rehearing would take place before” the original arbitrator, on the grounds

that the *second* sentence of RCW 7.04A.230(3) states that “the court may order a rehearing before the arbitrator who made the award.” Resp. Br. 42 (emphasis omitted). Of course, the *first* sentence of the statute would create the opposite presumption:

In vacating an award on a ground other than that set forth in subsection (1)(e) of this section [which applies when *none* of the parties’ claims is arbitrable], the court may order a rehearing before a new arbitrator. If the award is vacated on a ground stated in subsection (1)(c), (d), or (f) of this section [i.e., other than the grounds involving arbitrator malfeasance], the court may order a rehearing before the arbitrator who made the award or the arbitrator's successor.

RCW 7.04A.230(3).⁸

This Court has directed rehearing before new arbitrators in cases of serious errors. *See, e.g., Agnew v. Lacey Co-Ply*, 33 Wn. App. 283, 290, 654 P.2d 712 (1982)).⁹ Other courts recognize a general policy of assigning cases new arbitrators when they involve resolution of the *same claim*. As the Ninth Circuit has observed,

Arbitrators are not and never were intended to be amenable to the ‘remand’ of a case for ‘retrial’ in the same way as a trial judge.... The policy which lies behind this is an unwillingness to permit one

⁸ The statute formerly provided that when “an award is vacated, the court may, in its discretion, direct a rehearing either before the same arbitrators or before new arbitrators.” Former RCW 7.04.160.

⁹ In contrast, this Court determined that there was no “serious” error in *Harris*, which involved a procedural irregularity not anticipated by the arbitration rules or case law. *Harris v. Grange Ins. Ass’n*, 73 Wn. App. 195, 868 P.2d 201 (1994).

who is not a judicial officer and who acts informally and sporadically, to re-examine a final decision which he has already rendered, because of the potential evil of outside communication and unilateral influence which might affect a new conclusion. The continuity of judicial office and the tradition which surrounds judicial conduct is lacking in the isolated activity of an arbitrator...

McClatchy Newspapers v. Cent. Valley Typographical Union No. 46, 686 F.2d 731, 733-34 (9th Cir. 1982) (citations omitted). Both policies apply here, where the new arbitrator will be required to reexamine the validity of the License Agreement assignment, and where the prior arbitrator committed the fundamental error of departing from his authorized role.

IV. CONCLUSION

For the reasons set forth above and in Magna Force's opening brief, this Court should reverse the judgment below, remand for rehearing before a new arbitrator, and award Magna Force its contractual attorney fees and expenses incurred in the confirmation proceedings and on appeal.

DATED this 24th day of July, 2013.

Respectfully Submitted By:

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CERTIFICATE OF SERVICE

I hereby certify that on July 24, 2013, I caused the document to which this certificate is attached to be filed with the Clerk of the above-entitled Court and served upon counsel of record in the manner as indicated below:

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Declared under penalty of perjury under the laws of the State of Washington dated at Seattle, Washington this 24th day of July, 2013.


Crystal Moore